

General Purpose Standing Committee No. 6

Local Government in New South Wales

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How to contact the committee

Members of the General Purpose Standing Committee No. 6 can be contacted through the Committee Secretariat. Written correspondence and enquiries should be directed to:

The Director

General Purpose Standing Committee No. 6

Legislative Council

Parliament House, Macquarie Street

Sydney New South Wales 2000

Internet www.parliament.nsw.gov.au

Email gpsc6@parliament.nsw.gov.au

Telephone 02 9230 2898

Facsimile 02 9230 2981

Terms of reference

1. That General Purpose Standing Committee No. 6 inquire into and report on local government in New South Wales and in particular:
 - (a) the New South Wales Government's 'Fit for the Future' reform agenda,
 - (b) the financial sustainability of the local government sector in New South Wales, including the measures used to benchmark local government as against the measures used to benchmark State and Federal Government in Australia,
 - (c) the performance criteria and associated benchmark values used to assess local authorities in New South Wales,
 - (d) the scale of local councils in New South Wales,
 - (e) the role of the Independent Pricing and Regulatory Tribunal (IPART) in reviewing the future of local government in New South Wales, assisted by a South Australian commercial consultant,
 - (f) the appropriateness of the deadline for 'Fit for the Future' proposals,
 - (g) costs and benefits of amalgamations for local residents and businesses,
 - (h) evidence of the impact of forced mergers on council rates drawing from the recent Queensland experience and other forced amalgamation episodes,
 - (i) evidence of the impact of forced mergers on local infrastructure investment and maintenance,
 - (j) evidence of the impact of forced mergers on municipal employment, including aggregate redundancy costs,
 - (k) the known and or likely costs and benefits of amalgamations for local communities,
 - (l) the role of co-operative models for local government including the 'Fit for the Futures' own Joint Organisations, Strategic Alliances, Regional Organisations of Councils, and other shared service models, such as the Common Service Model,
 - (m) how forced amalgamation will affect the specific needs of regional and rural councils and communities, especially in terms of its impact on local economies,
 - (n) protecting and delivering democratic structures for local government that ensure it remains close to the people it serves,
 - (o) the impact of the 'Fit for the Future' benchmarks and the subsequent IPART performance criteria on councils' current and future rate increases or levels, and

- (p) any other related matter.
2. That with the agreement of the committee participating members' travel costs be covered by the committee.
 3. That the committee report by Monday 17 August 2015, unless the committee resolves to table at a later date.*

These terms of reference were referred to the Committee by the Legislative Council on 27 May 2015.

*The reporting date was extended to Friday 30 October 2015, as per resolution of the committee on 10 August 2015.¹

¹ General Purpose Standing Committee No. 6, Legislative Council, Minutes 6, 10 August 2015, Item no. 5.7.

Committee membership

The Hon Paul Green MLC	Christian Democratic Party	<i>Chair</i>
The Hon Lou Amato MLC	Liberal Party	<i>Deputy Chair</i>
The Hon Catherine Cusack MLC	Liberal Party	
The Hon Ben Franklin MLC *	National Party	
The Hon Peter Primrose MLC *	Australian Labor Party	
Mr David Shoebridge MLC	The Greens	
The Hon Ernest Wong MLC	Australian Labor Party	

*Mr Ben Franklin has replaced Mr Scott Farlow as a member of the committee for the duration of the inquiry.

*Mr Peter Primrose has replaced Mr Daniel Mookhey as a member of the committee for the duration of the inquiry.

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Chair's foreword

The first local councils in New South Wales were established in 1842 and by 1858 there were 327 local councils in the state. Over time there have been many reforms to local government. In the 20th century there were numerous amendments to the Acts governing councils prior to the passage of the current *Local Government Act 1993*. There have also been a series of reviews of council boundaries and rounds of amalgamations, the most recent of which, in 2004, reduced the number of councils from 172 to the present total of 152. This short history makes clear that reform of the local government sector is not new.

There is widespread agreement that reform of the sector is needed and this consensus has been building for some years. It was highlighted during the *Destination 2036* conference in 2011 and was heard throughout our inquiry. However, it is vital that the right reforms are applied at the right time and in the right order, as any nurse will tell you, it's not wise to put a band aid on a haemorrhaging wound.

The NSW Government's plans for reform were set out in its Fit for the Future program in September 2014. Fit for the Future was developed in direct response to the report of the Independent Local Government Review Panel. However, the Government did not accept all of the panel's recommendations. Instead it appears to have deliberately chosen to focus on the structural and boundary changes suggested by the panel.

This inquiry provided an opportunity for people around New South Wales, and particularly the state's local councils, to express their views on the Government's proposed reforms. There were some positive aspects of Fit for the Future and local councils appreciated the opportunity to take a stocktake of where they're up to and where they're going. However, the committee considered that the deadlines for submitting council proposals and the assessment of those proposals were too short. We were also concerned that up until very late in the process the goalposts were moving and we felt that many of the criteria suffered from significant uncertainty. This undermined the validity of IPART's findings.

The committee was troubled by the apparent failure of the NSW Government to build on the consultative approach that had been established during *Destination 2036*. A key principle for successful reform is building partnerships and bringing people with you on the road to change. Many of this inquiry's participants would argue that the Fit for the Future program did not do this.

An alternative and simpler approach to addressing the challenges facing local government could be to 'fix the funding first'. Fixing the sector's major funding shortfalls, such as billion dollar infrastructure backlogs, would strengthen the financial sustainability of councils and get the sector on the right track. However, attempting to fix all of the sector's funding issues at once would be folly; it'd be like trying to take a drink from a firehose.

Another key issue for local councils is cost shifting. Tackling cost shifting is like fixing a rust spot on the family car – you can patch it, paint it, cut it out or replace the car, but if it is not addressed it may endanger your family's safety. Councils told us that cost shifting is hurting their bottom line and that the state government needs to bring an end to this practice which is corroding council finances.

One of our aims during the inquiry was to hear from a wide range of councils, including councils in rural and regional areas, as well as those in the Sydney metro area. We received submissions from 68

councils and witnesses from 35 councils spoke with us at hearings. We also travelled to Cobar, Wagga Wagga and Armidale and held public hearings at each of those venues.

I would like to thank all stakeholders, and in particular the many councils that took their valuable time to make a submission or appear before the committee at a public hearing. I would also like to thank the minister and his department for taking part and engaging with the inquiry.

Lessons from a previous era have taught us that local government is not one size fits all – every community sees itself as unique and its needs have to be addressed through this filter. History has shown that when the State Government doesn't acknowledge the unique needs of communities or listen to its local government counterparts its days in government are numbered.

It is my hope that the NSW Government considers the findings and recommendations of this report before pressing ahead with any further structural reforms to the local government sector in New South Wales.



The Hon Paul Green MLC
Chair

Executive summary

The catalyst for this inquiry was the NSW Government's Fit for the Future reform program for local government, which was announced in September 2014. The Fit for the Future program was a direct response to the final reports of the Independent Local Government Review Panel (ILGRP) and the Local Government Acts Taskforce, as well as the findings of Treasury Corporation's review of the financial sustainability of NSW Local Government, and the Local Government Infrastructure Audit.

Calls for reform of the local government sector have been building for some time and inquiry participants expressed widespread support for reform, including support from the sector itself. However, the committee questions whether the Fit for the Future program is the best way to achieve reform.

The Fit for the Future process (Chapter 3)

A major component of the Fit for the Future program was a requirement for local councils to prepare proposals, by 30 June 2015, demonstrating how they intended to become 'fit for the future'. The Independent Pricing and Regulatory Tribunal (IPART) was appointed on 22 April 2015 to assess councils' Fit for the Future proposals. IPART provided its assessment to the NSW Government on 16 October 2015, and the Government subsequently released the report on 20 October 2015. IPART found 71 per cent of Sydney metropolitan councils and 56 per cent of regional councils to be 'not fit'. The committee believes it is unfair and misleading for the Government and IPART to label these councils as 'unfit' and calls on the Premier and the NSW Government to withdraw such statements.

Inquiry participants raised concerns regarding the appointment of IPART and the deadlines for providing and assessing council proposals. These included questions about IPART's expertise in local government and its ability to assess some elements of the criteria. While IPART has significant capacity to analyse the finances of local government, the committee finds that it does not have the demonstrated skills or capacity to assess the overall 'fitness' of councils as democratically responsible local bodies. In relation to time frames, the committee finds that IPART's appointment occurred too late in the Fit for the Future process and that the 30 June 2015 deadline for councils to submit proposals was too short.

A recurring criticism from inquiry participants was that the Government's reform package was too focused on amalgamations and structural reform, rather than addressing the entire set of recommendations made by the ILGRP. The committee considers that a more constructive approach to the Government's reform program would have been to implement other recommendations of the ILGRP prior to embarking on any structural reforms to the local government sector.

Nonetheless, there are a number of positive outcomes resulting from the Fit for the Future reforms. Chief among these is the fact that it has encouraged local councils across the state to review their long term financial sustainability and consider ways to improve their performance, even though the process was too rushed for councils to take full advantage of it.

The financial sustainability of councils (Chapter 4)

The financial sustainability of local councils in New South Wales has been of significant concern for some time. Both Government and independent reviews have highlighted concerns over infrastructure backlogs, underspending on asset maintenance and operating deficits of numerous councils.

There is significant variability in the financial position of councils throughout the state. Factors affecting this include the population size and density, incomes of rate payers and number of businesses in the council area.

In addition to the variability between councils, there are a number of factors which have affected financial sustainability of all councils over an extended period of time. These include rate pegging, rate exemptions, regulated charges and cost shifting by state and federal governments. The freezing of Financial Assistance Grants will also have a significant immediate impact as well as a significant cumulative impact in coming years.

Numerous inquiry participants called for removal of rate pegging because they said it adversely impacts on the sound financial management of local councils. The committee considers that communities should be able to decide the level of services provided by their local council and the rates they are willing to pay for such services. We therefore recommend that the government evaluate the option of removing rate pegging and allowing rates to be set by local councils in consultation with their community.

In relation to Financial Assistance Grants, the committee is concerned about the decision to freeze the grants at their current level and calls on the Minister for Local Government to work cooperatively with the local government sector to petition the Australian Government to seek a reversal of the decision. In addition, the committee supports the redistribution of the grants according to need, so that the councils in the most need of financial assistance receive the bulk of the federal funding.

Cost shifting by state and federal governments is an issue that is having a significant impact on the financial sustainability of local councils. The committee believes that where the NSW Government devolves responsibility for providing services, assets (such as regional roads), concessions, or other regulatory functions to local government, it should provide full cost recovery.

Another issue raised by inquiry participants was the contribution that water utilities operated by local councils make to the financial sustainability of those councils. The committee therefore recommends that those water utilities that are currently operated by local councils remain under councils' control.

Merits of the Fit for the Future criteria (Chapter 5)

The four criteria used by IPART to assess whether councils are 'fit for the future' were scale and capacity, sustainability, infrastructure and service management, and efficiency. Each of the criteria, except scale and capacity, had a number of associated performance measures and benchmarks.

Scale and capacity was the threshold criterion for Fit for the Future proposals and, in the committee's view, it was also the most problematic. The key problems with this criterion were that it was ill-defined and difficult to objectively measure. The committee is of the view that any criteria for making assessments about the future of local councils should be clearly defined, objective, measurable and verifiable, particularly if those assessments may lead to widespread structural reforms. It is the committee's opinion that the scale and capacity criterion does not satisfy those parameters. Accordingly, it was not an appropriate criterion to include in the Fit for the Future assessment criteria.

Of the three performance measures associated with the sustainability criterion, the committee considers that the operating performance ratio is the most useful indicator of a council's financial position and long term sustainability. However, a drawback of this measure, along with a number of the other Fit for the Future measures, is its reliance on depreciation data.

The committee heard that there is a lack of consistency between councils in how depreciation is determined. The committee considers there is scope to implement a more uniform approach and therefore proposes that the Office of Local Government make use of the Auditor-General's expertise and, in consultation with the local government sector, develop guidelines to ensure greater consistency across councils in the treatment of assets.

Many of the other performance measures for the Fit for the Future criteria were criticised by stakeholders. The committee finds it troubling that the future of some local councils in New South

Wales could be influenced by such measures. Accordingly, the committee concludes that there is significant uncertainty about the reliability of many of the Fit for the Future performance measures, which undermines the validity of the assessments on whether councils are ‘fit’ or ‘unfit’.

Amalgamations (Chapter 6 & 7)

The amalgamation of local councils was a core issue raised throughout the inquiry. This issue was brought into sharp focus by the ILGRP’s 2014 report *Revitalising Local Government*, which outlined a number of preferred merger options for local councils in New South Wales.

Process for considering amalgamations

Currently, the *Local Government Act 1993* requires amalgamation proposals to be examined by the Boundaries Commission or the Director-General. In its report, the ILGRP recommended strengthening the independence of the Boundaries Commission and the process for examining amalgamation proposals. We support the ILGRP’s recommendation to ensure a robust and consultative process is in place before any further steps are taken by the Government in relation to council amalgamations. Further, the committee finds that a strengthened and more independent commission may make up for some of the flaws in the Fit for the Future process to date.

Costs and benefits of amalgamations

The committee notes there are mixed views about the costs and benefits of amalgamations of local councils. While many stakeholders opposed ‘forced’ amalgamations, some inquiry participants took a firm position of support for amalgamations.

According to those who support amalgamations, one of the key benefits is the potential for increased strategic capacity. Other benefits suggested by inquiry participants included streamlined administrative processes, reduced operating expenses, improved service delivery and simpler planning systems.

On the other hand, those who opposed amalgamations suggested that the costs of mergers included high transitional costs related to the integration of systems, staff, premises and governance structures, disruption to service provision, and potential losses in staff expertise and experience. The impact on a council’s budget position may also be a concern, especially if the residents of one council are expected to take on the debt and infrastructure backlog of a neighbouring council through a merger.

The potential costs for rural and regional communities, particularly small rural townships that would no longer be the business centre of a local council, were raised by some inquiry participants. The committee heard that these smaller centres can suffer the most from council amalgamations.

The employment protections in the *Local Government Act 1993*, which apply to the majority of council employees across the state, do not apply to senior staff such as general managers. The committee is of the view that special consideration needs to be given to ensure there is adequate support and assistance for such staff in the event that their positions are lost in an amalgamation. Of particular concern are senior staff located in rural areas, who may need to relocate to another area to seek new employment. We therefore recommend that the NSW Government put in place a program to support senior staff affected by amalgamations.

In regard to the impact of amalgamations on rates, the evidence was mixed. Some stakeholders suggested that rates would decrease as a result of mergers, while other said they would increase. The committee notes that there are likely to be some winners and some losers following any amalgamation as disparate rating systems are aligned.

Although questions were raised about the rigour and robustness of empirical research on the impacts of amalgamations, much of the available evidence appears not to support claims of cost savings and efficiency. The committee finds that the projected economic benefits of council amalgamations have

been consistently overstated by the proponents of forced amalgamations and the costs and extensive diseconomies of scale caused by amalgamations have not been adequately explained by those same proponents.

Given the numerous concerns raised by stakeholders about the costs of amalgamations the committee is of the view that the case for amalgamations, and in particular, forced amalgamations, has not been made. The apparent lack of empirical evidence to demonstrate the benefits of amalgamations lends further weight to these concerns. The committee therefore calls on the NSW Government to commit to a policy of no forced amalgamations of local councils. The only exception to this policy should be in circumstances where it can be established that a council is severely financially unsustainable to the point of bankruptcy or unable to maintain an acceptable level of service provision.

Factors affecting the outcome of amalgamations

The committee heard that there are a multitude of factors that can affect the success of amalgamations. Such factors include the level of community support for amalgamation, the availability of resources and support to assist councils, the level of planning and communication, the availability of incentives, and whether there is a genuine partnership approach between the State Government and local government sector.

The committee considers that there appear to be better outcomes for amalgamations that occur in a voluntary way and are supported by the community. However, the committee acknowledges that there is some contention over the distinction between ‘voluntary’ and ‘forced’ amalgamations.

The committee was troubled by the fact that there was no disclosure of what the next steps in the Fit for the Future process would be after IPART provided its final report to the Government. The committee is concerned that this reflects either a lack of transparency or a lack of a clear road map or plan for the future of the local government sector in the state. The committee considers that at the outset of any program to transform the local government sector, it should be vital to have a clear understanding of the entire process and to be able to inform and explain to the community how this process will work.

There have been fears of amalgamation throughout the entire Fit for the Future process. This has been very disruptive and has undermined the sector’s trust from the outset. The committee considers that a better approach would have been to start a discussion on the role and functions of local government, rather than focusing on reducing the number of councils.

We found that the NSW Government failed to build on the consultative approach established during *Destination 2036* to develop a road map for the future of the local government sector, and appears to have neglected to adequately consult with the community, or effectively partner with the sector, to continue those reforms.

The committee considers that for any amalgamations that may arise out of the Fit for the Future process there is merit in ensuring that the transitions to new councils are well-managed. To this end, the committee recommends that the NSW Government consider allowing for a period of transition to ensure effective planning, consultation, implementation and ongoing service delivery to communities. Such changes, however, should not preclude use of the Boundaries Commission, and should not be inconsistent with the committee’s recommendation to strengthen the Boundaries Commission process.

Protecting and delivering democratic structures for local government (Chapter 8)

Councils play an important role within the local community, especially in regional areas. We note inquiry participants’ fears that amalgamation of local councils could mean a loss of local identity, community uniqueness and local decision making. The committee acknowledges the importance of keeping the ‘local’ in local government to ensure it remains close to the people it serves.

In relation to the election of mayors, the committee makes recommendations to encourage referendums on whether mayors should be popularly elected by voters or elected by councillors, and to increase to two years the period a mayor elected by the councillors is to hold office. We also recommend that the NSW Government consider amending the electoral legislation to introduce donation and spending caps for candidates at local government elections.

Cooperative models for local governance (Chapter 9)

The committee examined a number of cooperative models for local governance in New South Wales, including Regional Organisations of Councils (ROCs), the Joint Organisations Pilot Program and the Joint Regional Authority Model.

The committee notes the promising signs shown by the Joint Organisation Pilot Program operating in five regional areas and recommends that the Joint Organisations model be offered to all councils in New South Wales.

The committee is also impressed by the presentation of the joint regional authority model from the Hunters Hill, Ryde and Lane Cove Councils and sees very real merit in this style of joint organisation being given statutory support in preference to forced amalgamations.

Recommendations

- Recommendation 1** **44**
That the Premier and NSW Government withdraw the statements that 71 per cent of councils in metropolitan Sydney and 56 per cent of regional councils are ‘unfit’.
- Recommendation 2** **45**
That the NSW Government provide all local councils in New South Wales access to the proposed Fit for the Future incentives, regardless of the Independent Pricing and Regulatory Tribunal’s assessment of whether a council is ‘fit’ or ‘unfit’.
- Recommendation 3** **65**
That, as part of its planned review of the rating system, the NSW Government evaluate the option of the removal of rate pegging and allow councils to determine their own rates conditional on the delivery of a local works plan outlining the expenditure associate with any proposed rate increases and demonstrated community support.
- Recommendation 4** **65**
That the Minister for Local Government work cooperatively with the NSW local government sector to petition the Australian Government to reverse its decision to freeze the indexation of Financial Assistance Grants.
- Recommendation 5** **66**
That the Minister for Local Government work cooperatively with the local government sector to petition the Australian Government to seek to redistribute Financial Assistance Grants in order to direct additional funding to councils with the greatest needs, provided councils with the capacity to raise additional local revenue are able to do so.
- Recommendation 6** **66**
That the NSW Government eschews future cost shifting and commits to providing adequate funding to local government for any new services, assets or regulatory functions that it devolves to local councils.
- Recommendation 7** **67**
That the NSW Government ensure that those water utilities that are currently operated by local councils remain under the control of those councils.
- Recommendation 8** **91**
That the Office of Local Government, in consultation with the Audit Office of New South Wales and local government representatives, develop guidelines to ensure greater consistency across councils in the treatment of assets, including:
- a depreciation methodology that more closely correlates with the actual condition of deterioration and considers the councils’ priorities for the condition of the infrastructure
 - quantifying the useful life of an asset
 - determining the realistic residual values of assets
 - the componentisation of assets.

- Recommendation 9** **118**
 That the NSW Government implement the Independent Local Government Review Panel's recommendations to strengthen the independence of the Boundaries Commission and ensure a robust and consultative process is in place to consider council amalgamation proposals before any further steps are taken by the government in relation to council amalgamations.
- Recommendation 10** **119**
 That the NSW Government implement a program to assist and support senior staff affected by amalgamations, particularly those staff in regional areas who may need to relocate if their position is lost through an amalgamation.
- Recommendation 11** **120**
 That the NSW Government commit to a policy of no forced amalgamations of local councils, except in circumstances where it can be established that a council is severely financially unsustainable to the point of bankruptcy or unable to maintain an acceptable level of service provision.
- Recommendation 12** **137**
 That the NSW Government consider amending the *Local Government Act 1993* to allow for a period of transition between a decision to merge councils and the creation of the new council, to ensure effective planning, consultation, implementation and ongoing service delivery to communities.
- Recommendation 13** **150**
 That the Minister for Local Government encourage local councils with council-elected mayors to initiate a referendum on whether the mayor should be popularly elected or elected by councillors.
- Recommendation 14** **151**
 That the NSW Government seek to amend the *Local Government Act 1993* to increase to two years the period a mayor elected by the councillors is to hold office.
- Recommendation 15** **151**
 That the NSW Government consider amending the electoral legislation to introduce donation and spending caps for candidates at local government elections.
- Recommendation 16** **167**
 That the NSW Government make Joint Organisations available to all councils in New South Wales.
- Recommendation 17** **167**
 That the NSW Government work with local government on a statutory model for Joint Organisations based on the Hunters Hill, Ryde and Lane Cove Council model as a cooperative and consensus model for local council reform in Metropolitan Sydney.

Findings

- Finding 1** 43
While the Independent Pricing and Regulatory Tribunal has significant capacity to analyse the finances of local government it does not have the demonstrated skills or capacity to assess the overall ‘fitness’ of councils as democratically responsible local bodies.
- Finding 2** 43
That the Independent Pricing and Regulatory Tribunal’s appointment to the role of Independent Advisory Panel occurred too late in the Fit for the Future process and that the 30 June 2015 deadline for council proposals was too short.
- Finding 3** 44
That the recommendations of the Independent Local Government Review Panel that were unrelated to structural reform should have been implemented before considering amalgamations.
- Finding 4** 44
That the Fit for the Future reforms provided a positive impetus for local councils to review their long term financial sustainability and improve their performance, but the methodology prescribed by the government was too restrictive and rushed for councils to take full advantage of the process.
- Finding 5** 90
That the scale and capacity criterion was a flawed criterion and it should not have been included in the Fit for the Future assessment criteria and accordingly assessments of councils’ fitness based on this threshold criterion are not well-founded.
- Finding 6** 92
That there is significant uncertainty about the reliability of many of the Fit for the Future performance measures, which undermines the validity of the Fit for the Future assessment outcomes.
- Finding 7** 118
That the Boundaries Commission process was strongly supported by many organisations including Local Government NSW, and a strengthened and more independent Commission may make up for some of the flaws in the Fit for the Future process to date.
- Finding 8** 137
That the NSW Government failed to build on the consultative approach established during *Destination 2036* to develop a road map for the future of the local government sector, and appears to have neglected to adequately consult with the community, or effectively partner with the sector, to continue those reforms.
- Finding 9** 137
That the projected economic benefits of council amalgamations have been consistently overstated by the proponents of forced amalgamations and the costs and extensive diseconomies of scale caused by amalgamations have not been adequately explained by those same proponents.

Chapter 1 Introduction

This chapter provides an overview of the establishment of the inquiry into local government in New South Wales. It describes the way in which the inquiry was conducted and provides an outline of the structure of this report.

Conduct of the inquiry

Submissions

- 1.1 The inquiry's terms of reference were referred by the House on 27 May 2015.
- 1.2 The full terms of reference are set out on page iv.
- 1.3 The committee announced the inquiry and invited submissions by advertising on the committee's website, distributing a media release to New South Wales media outlets, and writing to key stakeholders, including all local councils in New South Wales.
- 1.4 The closing date for submissions was 7 July 2015. However, the committee continued to accept submissions after this date.
- 1.5 The committee received a total of 206 submissions to the inquiry. The committee also received eight different types of pro forma responses. The committee published one copy of each pro forma, noting the number of copies that had been received (in total there were 201 pro formas).
- 1.6 The full list of submissions is set out in Appendix 3.

Online questionnaire

- 1.7 A key focus of the inquiry was to consult with the community on the Fit for the Future reforms. To this end, the committee trialled an innovative method for seeking feedback from individuals through an online questionnaire.
- 1.8 The online questionnaire did not replace the usual submission process, which was still available for those individuals and organisations who wished to make longer and more detailed responses to the inquiry's terms of reference.
- 1.9 The questionnaire consisted of 31 multiple choice and open-ended questions. The questionnaire was open from 24 June 2015 until 19 July 2015 and received 795 responses.
- 1.10 A summary report of responses to the multiple choice questions was published on the committee's website. Respondents were required to provide name and address details and responses that did not meet this requirement were considered invalid and were not included in the summary report.

- 1.11 The committee notes the online questionnaire was not a statistically valid, random poll. Respondents were self-selected, in that they chose to participate, and therefore may not be considered a representative sample of the population.

Public hearings, forums and site visits

- 1.12 The committee held six public hearings throughout the inquiry. Hearings were held at Parliament House on 27 July, 10 August and 24 August 2015. Regional hearings were held in Cobar and Wagga Wagga on 17 August and in Armidale on 18 August 2015.
- 1.13 The committee also held two public forums, one in Sydney, following the hearing on 10 August, and the other in Armidale, following the hearing on 18 August 2015.

Figure 1 Public hearing on 24 August 2015



- 1.14 A full list of witnesses who appeared at the hearings is set out in Appendix 5 and the transcripts are available from the committee's website.
- 1.15 The committee wishes to thank all of the stakeholders who provided written submissions, responded to the online questionnaire, or gave evidence at the public hearings and forums.

Report structure

- 1.16 Chapter 2 provides background and historical information about local government in New South Wales, including details about the number and size of councils, rate pegging and the events leading up to the NSW Government's Fit for the Future reform program.

- 1.17** Chapter 3 provides an overview of the Fit for the Future reform process, as well as examining the appointment of the Independent Pricing and Regulatory Tribunal to consider councils' Fit for the Future proposals and the deadlines involved.
- 1.18** Chapter 4 considers a key issue associated with the reform of local government: the financial sustainability of councils. The chapter highlights the variability between councils' finances across the state and considers some of the factors that affect financial sustainability, including rate pegging, Financial Assistance Grants, cost shifting from the state and federal governments, rate exemptions and the rating system for apartments.
- 1.19** Chapter 5 examines the criteria, performance measures and benchmarks used by the Independent Pricing and Regulatory Tribunal to assess whether councils are 'fit'. The merits of each of the four Fit for the Future criteria – scale and capacity, sustainability, infrastructure and service management, and efficiency – are discussed, along with the associated performance measures and benchmarks for each criterion.
- 1.20** Chapter 6 investigates the costs and benefits of amalgamations, including the impacts on rates and on rural and regional communities.
- 1.21** Chapter 7 considers the factors that affect the outcomes of amalgamations and reviews the empirical evidence about amalgamations. The chapter also presents a number of case studies about amalgamations in other jurisdictions.
- 1.22** Chapter 8 is about protecting and delivering democratic structures for local government that ensure it remains close to the people it serves.
- 1.23** Chapter 9 explores cooperative models of local governance, including regional organisations of councils, joint organisations, and joint regional authorities, as well as looking at the Greater Sydney Commission.

Chapter 2 Local government in New South Wales and the history of Fit for the Future

This chapter provides background information about local government in New South Wales. It includes historical information about local government in the state, details about the number and size of councils, a brief history of rate pegging and discussion of the constitutional recognition of local government. The chapter also outlines the history of events leading up to the NSW Government's Fit for the Future reform program.

About local government in New South Wales

- 2.1 There are currently 152 local government authorities in New South Wales.
- 2.2 There is significant variation between local councils, in terms of population, geographic size, number of staff and services provided, as well as significant differences between metropolitan, regional and rural councils. The following section provides a brief snapshot of local government in New South Wales and the variability that exists throughout the state.
- 2.3 The average number of residents per council is approximately 49,000. However, the population of local council areas ranges from 1,157 for Urana Shire Council to 325,000 for Blacktown City Council.²
- 2.4 Geographic sizes of councils also vary considerably. The smallest council is Hunters Hill Council (5.8 square kms). The largest council is Central Darling Shire council (53,510 square kms).³ The total length of roads in local council areas ranges from 65 km for Hunters Hill Council to 3,981 km for Lachlan Shire Council.⁴
- 2.5 Similarly, there are vast differences between councils in terms of the ratio of citizens per councillor. Urana Shire Council, for example, has one councillor per 129 citizens, while for Blacktown City Council the ratio is 1 to 21,679.
- 2.6 Each council has between 6 and 15 councillors, for a total of 1,480 local councillors across New South Wales. The number of staff employed by each council ranges from 31 staff at Urana Shire Council to 1,773 at the City of Sydney Council. Altogether, councils employ over 44,000 staff across the state.⁵

² Office of Local Government, *Your Council Report: Time Series Data 2011/12 – 2013/14*, www.olg.nsw.gov.au/public/my-local-council/yourcouncil-website.

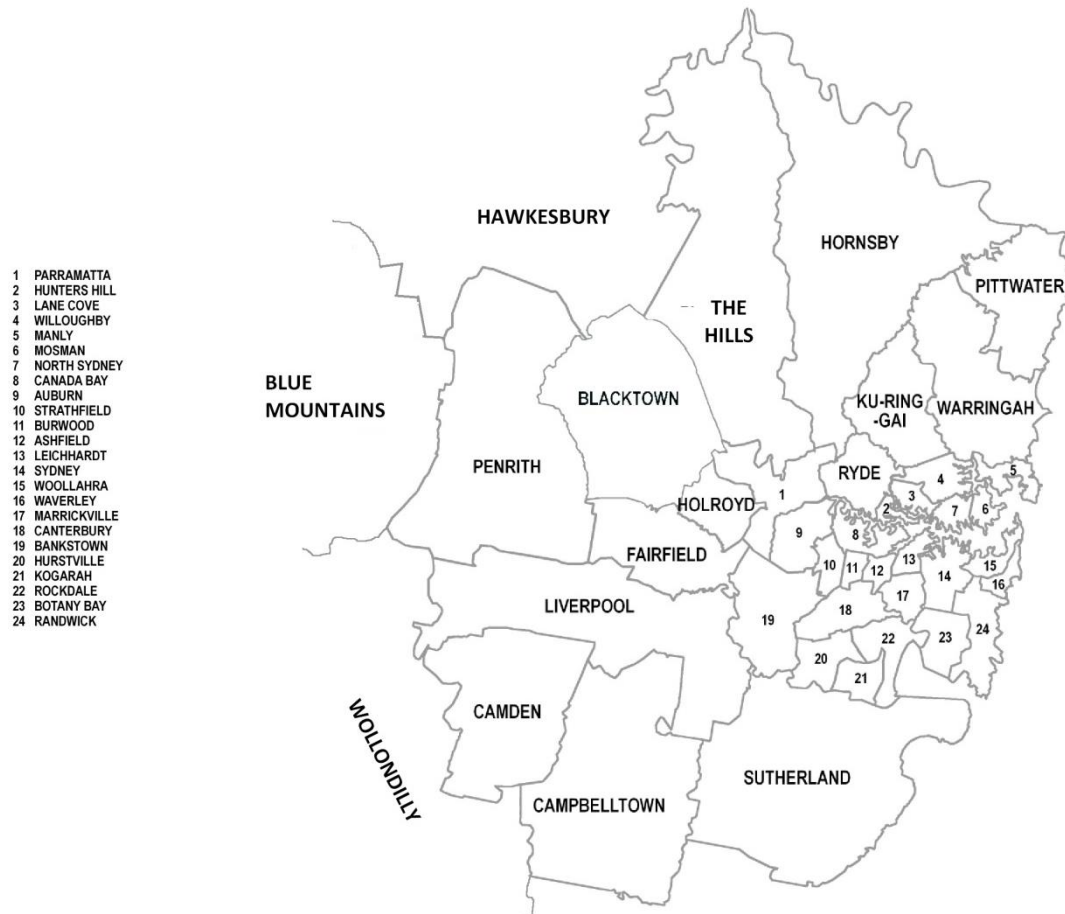
³ NSW Parliamentary Research Service, *Local Government in New South Wales*, Briefing Paper 11/08, 2008, p 2.

⁴ These figures include local, regional and state roads. Source: Office of Local Government, *Your Council Report: Time Series Data 2011/12 – 2013/14*, www.olg.nsw.gov.au/public/my-local-council/yourcouncil-website.

⁵ Office of Local Government, *Your Council Report: Time Series Data 2011/12 – 2013/14*, www.olg.nsw.gov.au/public/my-local-council/yourcouncil-website.

2.8 The following map shows the 41 local government areas in the Sydney region.

Figure 3 Map of Sydney metropolitan local government areas



Source: Correspondence from Office of Local Government, to the committee, 17 July 2015.

A brief history of local government in New South Wales

2.9 The first local councils in New South Wales were established in 1842, though it was not until the *Municipalities Act* of 1858 that councils became widely instituted across the state (with 327 local councils established at that time). Over time there have been a number of reforms to local government in New South Wales, including the introduction of new acts governing the sector and changes to the number of local councils.

2.10 In 1906, the *Local Government Act 1906* replaced the *Municipalities Act 1858*. In 1919, the legislation of 1906 was repealed and new measures were set up in the *Local Government Act 1919*. Throughout the 20th century there were numerous council amalgamations and amendments to the 1919 Act, before it was eventually replaced with the *Local Government Act 1993*.⁶

⁶ NSW Parliamentary Research Service, *Local Government in New South Wales*, Briefing Paper 11/08, 2008, p 2.

2.11 In 1974 a major review of local government boundaries, known as the ‘Barnett Inquiry’ was undertaken. The Barnett report recommended a significant reduction in the number of councils, proposing to merge the then 223 existing local government entities into 97 districts. The NSW Government of the day did not accept the recommendations. However, some years later, in 1980, the Barnett recommendations were the catalyst for the amalgamation of 38 councils into 17 entities.⁷

2.12 A further round of council amalgamations occurred in 2003-04. At the time, the NSW Government’s announcement of a structural reform program for local government led to the establishment of a Legislative Council Inquiry into local government amalgamations. Prior to the 2004 reforms there were a total of 172 councils in New South Wales. There were 22 new councils formed from mergers, which brought the number of councils to its present total of 152.

Rate pegging

2.13 Rate pegging refers to the practice of the Minister for Local Government setting an upper limit on the annual increase in rates levied by local councils. Rate pegging was introduced in New South Wales in 1977. Since 2011-12, the Independent Pricing and Regulatory Tribunal (IPART) have determined the rate peg to apply for each financial year. IPART’s determination is based mainly on the Local Government Cost Index, which measures price changes over the previous year for goods, materials and labour used by an average council.

2.14 Councils that wish to increase rates by more than the rate peg may apply for a special rate variation. There are a range of reasons why a council may apply for a special rate variation, such as:

- to address the financial sustainability of the council
- funding new or enhanced community services to meet growing demand in the community
- funding the development and/or maintenance of essential community infrastructure
- funding projects of regional significance covering special cost pressures that the council faces.⁸

2.15 Rate variations may be for a single year or a number of consecutive years. Applications for special rate variations are assessed by IPART.

Constitutional recognition of local government

2.16 In recent years there has been debate about the recognition of local government in the Australian Constitution. In 2013, the federal Parliament passed the Constitution Alteration

⁷ Ian Tiley and Brian Dollery, ‘Local Government Amalgamation in New South Wales’, (Working Paper, Centre for Local Government, UNE, April 2010).

⁸ Independent Pricing and Regulatory Tribunal, *Frequently Asked Questions*, [www.ipart.nsw.gov.au/Home/About_Us/FAQs?dlv_FAQ List=\(dd_Industries=local govt\)](http://www.ipart.nsw.gov.au/Home/About_Us/FAQs?dlv_FAQ List=(dd_Industries=local govt))

(Local Government) Bill on the financial recognition of local government. However, the constitutional amendment did not proceed to a referendum.

2.17 There have been two previous national referendums about the recognition of local government in the federal constitution – one in 1974 and one in 1988 – both of which were defeated.

2.18 In New South Wales, on the other hand, the state’s constitution does recognise the existence of a system of local government in New South Wales. This recognition was introduced in 1986 via an amendment to the *Constitution Act 1902*. The amendment inserted a new section 51, which provides:

(1) There shall continue to be a system of local government for the State under which duly elected or duly appointed local government bodies are constituted with responsibilities for acting for the better government of those parts of the State that are from time to time subject to that system of local government.

(2) The manner in which local government bodies are constituted and the nature and extent of their powers, authorities, duties and functions shall be as determined by or in accordance with laws of the Legislature.⁹

2.19 The above provisions were inserted by ordinary legislation and can be repealed in the same way.

2.20 The Independent Local Government Review Panel (ILGRP), in its 2013 report *Revitalising Local Government*, proposed that the state’s constitution should be further amended to strengthen the recognition of elected local government, to emphasise that local government bodies are to be democratically elected rather than ‘duly appointed’ and ensure that a referendum would have to be passed before the system of local government could be wound up.¹⁰

2.21 The ILGRP suggested that consideration should be given to including the following amended provisions in the *Constitution Act 1902*:

1. There shall continue to be a system of local government for the State under which democratically elected local government bodies are constituted with responsibilities that the Parliament considers are necessary to ensure the good governance of the areas allocated to those bodies.
2. Parliament may make laws for or with respect to-
 - a. the areas to be allocated to local government bodies; and
 - b. suspension or dismissal of an elected local government body; and
 - c. the administration of a local government body during a period in which it is suspended or after it has been dismissed; and

⁹ *Constitution Act 1902*, s 51.

¹⁰ Independent Local Government Review Panel, ‘Revitalising Local Government’, (Final Report, October 2013) p 126.

d. the re-instatement or re-election of a local government body.

3. A Bill for an Act ending the system of local government may be presented for assent only if a proposal that the system of local government should end has been approved by referendum.
4. Notwithstanding any other provision to the contrary, the Lord Howe Island Board, and an administrator with all or any of the functions of a local government body, shall be deemed to be local government bodies.¹¹

2.22 The NSW Government ‘supported in principle’ the panel’s recommendation, noting that the Government recognised the importance of democratic local government and would seek to embed this principle in a new Local Government Act. The NSW Government further indicated that it would ‘consider strengthening recognition of local government through an amendment to the State Constitution’.¹²

History of the Fit for the Future reforms

2.23 The catalyst for this inquiry was the NSW Government’s Fit for the Future reform program, announced in September 2014. The following section discusses the recent events leading up to the announcement of the reforms, as well as evidence from stakeholders on the need for reform.

Destination 2036 and the Independent Local Government Review Panel

2.24 The NSW Government released its Fit for the Future reform program for local government in September 2014. The Fit for the Future program was a direct response to the final reports of the ILGRP and the Local Government Acts Taskforce. However, the beginnings of the reform process stemmed back to August 2011, with the *Destination 2036* local government conference held in Dubbo.

2.25 *Destination 2036* was a gathering of representatives of local councils in New South Wales and the NSW Government to consider the long term future of local government in the state. *Destination 2036* triggered a series of reviews, including the:

- ILGRP
- Financial Sustainability Review of NSW Local Government by the Treasury Corporation
- NSW Local Government Infrastructure Audit by the Office of Local Government
- Local Government Acts Taskforce.

¹¹ Independent Local Government Review Panel, ‘Revitalising Local Government’, (Final Report, October 2013) p 126.

¹² NSW Government, ‘Fit for the Future: NSW Government response to the Independent Local Government Review Panel & Local Government Acts Taskforce recommendations’, (Government Response, September 2014) p 18.

2.26 The ILGRP was appointed in April 2012. Its role was to ‘explore options for governance, structural arrangements and boundary changes’ for local government in New South Wales.¹³ In addition, it was to follow up various issues set out in the *Destination 2036 Action Plan*. Professor Graham Sansom was appointed Chair of the ILGRP, along with panel members, Ms Jude Munro AO and Mr Glenn Inglis.

2.27 Over 2012 and 2013 the ILGRP conducted extensive research and stakeholder consultation. In his evidence to the committee, Professor Sansom described the consultation undertaken by the ILGRP:

We spent 16 to 17 months poring through all the evidence that we could find and we had three rounds of extensive consultation—roundtables with academics, with public servants, with senior council officials and so on.

... We put out discussion papers and invited submissions, and I think in the end we received more than 1,000 submissions. So that is point one. Point two is that we did two pretty comprehensive tours around the State and held meetings with councils and communities; I have lost count but it was between 15 and 20 different locations around the State. Thirdly, on specific difficult issues, we invited people to attend roundtable discussions.¹⁴

2.28 The ILGRP released its final report, *Revitalising Local Government*, in October 2013. The report made 65 recommendations in the following areas:

- fiscal responsibility
- strengthening revenues
- meeting infrastructure needs
- improvement, productivity and accountability
- political leadership and good governance
- structural reform
- Regional Joint Organisations
- rural councils and community boards
- specific geographic regions - metropolitan Sydney; Hunter, Central Coast and Illawarra; non-metropolitan regions; and the far west
- state-local government relations
- driving and monitoring reform.¹⁵

2.29 The report put forward some proposals on council amalgamations that the panel noted had not adequately been tested or subjected to consultation. The report stated:

¹³ Submission 132, Professor Graham Sansom, p 2.

¹⁴ Evidence, Professor Graham Sansom, former Chair of the ILGRP, 27 July 2015, pp 46 and 53.

¹⁵ The full list of recommendations can be found in the ILGRP’s final report: *Revitalising Local Government* and the *NSW Government Response to the Independent Local Government Review Panel recommendations*.

As far as its own task is concerned, the Panel wishes to emphasise that setting out desirable options for boundary changes is NOT the same as recommending forced amalgamations. Moreover, under the current provisions of the Local Government Act, amalgamations and boundary changes cannot occur without a further process after the Panel completes its work, and would involve the Boundaries Commission... Thus whether and when the Panel's options are pursued is entirely a matter for the State government and the councils and communities involved.¹⁶

2.30 The panel said that the Boundaries Commission process should be further strengthened before any of its tentative proposals are considered. It suggested, among other things, that these additional matters be included in the Boundaries Commission process. It also suggested that if the amalgamation proposal proceeded to the commission, the commission should be required to prepare a public information report setting out the arguments for and against amalgamations. It also proposed retaining the current provisions for inquiries, surveys and polls, but removing the Minister's power to decide whether an inquiry is warranted. In addition, in every case of amalgamation the commission should be required to conduct a survey or polls of all residents and ratepayers in the areas affected unless two or more councils have proposed a voluntary merger and the commission is satisfied that those councils have already undertaken adequate community consultation.¹⁷

2.31 In September 2014, the NSW Government responded to the ILGRP's final report, as part of the announcement of the Fit for the Future reform program. The Government directly supported 27 recommendations, provided in principle support for a further 26 recommendations, and noted partial support for five recommendations.

2.32 The seven recommendations not supported by the NSW Government included recommendations to:

- legislate a revised process for considering potential amalgamations and boundary changes through a re-constituted and more independent Boundaries Commission
- refer possible council mergers of Dungog-Maitland, Newcastle-Lake Macquarie and Gosford-Wyong to the re-constituted Boundaries Commission for further investigation
- refer possible mergers of councils in Groups B-F to the re-constituted Boundaries Commission in accordance with Table 11 of the report and the proposed timeline
- pending any future action on mergers, establish Joint Organisations of councils in Sydney for the purposes of strategic sub-regional planning
- maximise utilisation of the available local government revenue base in order to free-up state resources for support to councils in less advantaged areas
- increase remuneration for councillors and mayors who successfully complete recognised professional development programs
- adopt the ILGRP's proposed timeline for implementing their recommendations¹⁸

¹⁶ Independent Local Government Review Panel, 'Revitalising Local Government', (Final Report, October 2013) p 74.

¹⁷ Independent Local Government Review Panel, 'Revitalising Local Government', (Final Report, October 2013) p 75.

¹⁸ Answers to questions on notice, Office of Local Government, 24 August 2015, pp 1-3.

Announcement of Fit for the Future

- 2.33** The NSW Government announced its Fit for the Future reform program for local government in September 2014. The reforms were based on the Government's response to the ILGRP's final report, as well as the findings of the Local Government Acts Taskforce, Treasury Corporation's (TCorp) review of the financial sustainability of NSW Local Government, and the Local Government Infrastructure Audit.
- 2.34** A major component of Fit for the Future was a requirement for local councils to prepare proposals to the NSW Government by 30 June 2015, demonstrating how they intended to become 'fit for the future'. Other components of the reforms included:
- developing a new Local Government Act
 - establishing a review of the regulatory and compliance burden on councils to identify opportunities to reduce red tape
 - providing the Auditor General with a new role in overseeing local council performance
 - reviewing the rating system and grants
 - establishing pilot Joint Organisations in regional New South Wales.¹⁹
- 2.35** The following table provides a timeline of the events leading up to Fit for the Future reforms.

Table 1 **Timeline of events leading to Fit For The Future**

Date	Event
August 2011	Destination 2036 conference in Dubbo
March 2012	Independent Local Government Review panel appointed
October 2013	Independent Local Government Review Panel publishes final report
September 2014	Fit For The Future reform package announced

The need for reform

- 2.36** The NSW Government gave evidence to the inquiry and argued that the findings of the ILGRP, along with other reviews of local government, showed that many councils were not functioning well and were becoming increasingly unsustainable.²⁰ According to the NSW Government submission:

The Panel found that many councils were not effectively using the planning tools provided through the Integrated Planning and Reporting framework to responsibly manage their finances, consult on appropriate pricing paths with their communities and regularly review their services.

¹⁹ Submission 109, NSW Government, p 9.

²⁰ Submission 109, NSW Government, p 2.

The financial sustainability of many councils – and their capacity to deliver the services communities need – has declined, and a significant number are near crisis point. [ILGRP final report, *Revitalising Local Government*, p 7.]

In addition, Treasury Corporation’s analysis of local government found that approximately one third of councils were in a weak to very weak financial position and that more than half were consistently spending more than they earned, recording increasing deficits. Collectively, councils are falling behind by more than \$1 million a day. Recent figures show that two-thirds of councils are operating at a deficit.

The Infrastructure Audit also found that the majority of councils were currently underspending on maintenance of community assets and that many were facing increasing infrastructure backlogs, some in excess of \$100 million. The total community infrastructure backlog in NSW councils now exceeds \$5.5 billion.

The Infrastructure Audit also found that councils lacked the capabilities they needed to design, construct and adequately maintain community assets, and to effectively manage critical infrastructure that crossed council boundaries, such as important freight routes, or water supply systems.²¹

- 2.37** The NSW Government quoted the ILGRP’s report stating ‘NSW simply cannot sustain 152 councils’ and that taxpayers ‘should not be expected to increase grant funding indefinitely to support councils that are unnecessarily small, lack capacity and build unnecessary costs into the system’.²²
- 2.38** The NSW Government argued that change was long overdue and, compared with states that have modernized local government structures, New South Wales councils were ‘constrained by out-dated council boundaries and out-dated thinking’.²³
- 2.39** Many other inquiry participants agreed there was a need for reform in the local government sector. For example, Cr Steve Russell of Hornsby Shire Council told the committee, ‘it is widely accepted that reform of local government in New South Wales is long overdue’.²⁴ Cr Peter Abelson of Mosman Council expressed a similar sentiment, saying: ‘Everybody around this table is in favour of reforming and improving’.²⁵
- 2.40** Numerous other councils, even those that criticised various aspects of the NSW Government’s Fit for the Future reforms, supported some sort of reform of the local government. Marrickville Council, for example, told the committee that it is ‘supportive of local government reform’,²⁶ while Holroyd City Council explained that they supported reform of the local government sector to ‘ensure the continued delivery of efficient, effective and sustainable services to our communities, and to be a supportive partner of the NSW Government’.²⁷

²¹ Submission 109, NSW Government, p 5.

²² Submission 109, NSW Government, p 2.

²³ Submission 109, NSW Government, p 2.

²⁴ Evidence, Cr Steve Russell, Mayor, Hornsby Shire Council, 10 August 2015, p 43.

²⁵ Evidence, Cr Peter Abelson, Mayor, Mosman Council, 27 July 2015, p 58.

²⁶ Evidence, Ms Simone Schwarz, Director, Community Services, Marrickville Council, 27 July 2015, p 57.

²⁷ Evidence, Cr Greg Cummings, Mayor, Holroyd City Council, 10 August 2015, p 3.

2.41 Mr Barry Smith, President of Local Government Professionals NSW, said that ‘the vast majority of professionals in local government want to do things smarter, simpler and better’.²⁸ However, he noted that there needs to be consensus on the road map for reform if the reforms are to work:

We all agree, whether it is the Government, Local Government Professionals, Local Government NSW or the union. The wonderful thing about all this is that we all agree we need to do things better and we need reform. But we all need to get on the same bus and go in the same direction to make it work.²⁹

2.42 Some inquiry participants did not consider that the need for reform was quite as pressing as has been made out. For example, Mr Max Eastcott, General Manager of Gwydir Shire Council told the committee ‘I am not all that convinced that local government is broken to the extent that we need to undertake the entire Fit for the Future process’.³⁰ Similarly, Cr Peter White of Mosman Council questioned the need for reforms such as amalgamations:

Why are we going to amalgamate? Because we have to make New South Wales number one. I have got news for everybody—New South Wales is number one. We are the strongest economy. Did having small councils hold us back? No, we have achieved it because of that.³¹

Responses to online questionnaire: the need for reform

Many of the respondents to the committee’s online questionnaire expressed support for local government reform, as shown by the following summary of responses to a number of the multiple choice questions:

- 65 per cent of respondents supported local government reform
- 87 per cent of respondents believed councils should have a revenue base to enable the delivery of services, infrastructure, etc
- 74 per cent of respondents believed councils should make a stronger contribution to regional issues, planning, and infrastructure delivery
- 48 per cent of respondents agreed with the statement ‘Given the boundaries that have changed over the last 100 years, do you support further boundary changes that reflect how our communities have changed?’
- 58 per cent of respondents thought that the system of local government should change to reflect changes in technology and expectations of ratepayers

Despite these results, many respondents were satisfied with the functioning and services of their local council, as shown by the following responses:

- 48 per cent of respondents provided a satisfied or highly satisfied rating of their council, 12 per cent were neutral, while 19 per cent were dissatisfied or highly dissatisfied

²⁸ Evidence, Mr Barry Smith, President, Local Government Professionals NSW, 10 August 2015, p 32.

²⁹ Evidence, Mr Barry Smith, President, Local Government Professionals NSW, 10 August 2015, p 36.

³⁰ Evidence, Mr Max Eastcott, General Manager, Gwydir Shire Council, 17 August 2015, p 38.

³¹ Public Forum, Cr Peter White, Councillor, Mosman Council, 10 August 2015, p 16.

- 76 per cent of respondents considered that their local council was financial sustainable moving into the future
- 75 per cent of respondents believed that amalgamation would not improve their council's financial sustainability.³²

Committee comment

- 2.43** The committee agrees that there needs to be reform of the local government sector. Calls for reform have been building for some time, including from within the sector, as well as from the NSW Government and through the findings of a number of independent reviews of local government in the state, in particular the ILGRP. As will be seen from the balance of this report, the primary reform focus of the local government sector was not on boundary changes, but rather on addressing structural funding issues facing local government. This can be summarised by the call to 'fix the funding first'.
- 2.44** Many inquiry participants revealed widespread support for some form of local government reform, including support from the local government sector itself. Stakeholders by and large agreed that improving local government to ensure councils can continue to effectively provide services for their communities was important.
- 2.45** However, whether the NSW Government's Fit for the Future program is the best way to achieve reform, is a separate question. Subsequent chapters of this report will examine the Fit for the Future program and stakeholders' views about it.

³² Responses to online questionnaire.

Chapter 3 The Fit for the Future process

This chapter considers the processes involved in the NSW Government's Fit for the Future reforms. It examines the appointment of Independent Pricing and Regulatory Tribunal (IPART) to consider councils' Fit for the Future proposals and the deadline for councils to complete their proposals. The chapter also outlines the views of inquiry participants about the positive and negative aspects of the reform process. More detailed discussion about Fit for the Future criteria and benchmarks is set out in chapter 5.

Fit for the Future proposals

3.1 As noted earlier, the NSW Government announced its Fit for the Future reform program in September 2014. A major component was a requirement for each local council in New South Wales (except eight far west councils) to prepare a proposal to the NSW Government, by 30 June 2015, demonstrating how they intended to become 'fit for the future'. The NSW Government released three templates for councils to use as a guide for their proposals along with other guidance material. The NSW Government appointed IPART to the role of Expert Advisory Panel to review councils' proposals.

3.2 The NSW Government outlined the key aspects of the proposal process as follows:

The Fit for the Future reforms ask councils to consider their position, assess their performance and prepare a plan to systematically improve their outlook. Most importantly, it encourages councils to rethink their scale and focus so they can deliver the housing, jobs and transport our growing communities need. Councils are to consult with their communities before submitting their proposals to the Independent Pricing and Regulatory Tribunal (IPART) for assessment.³³

3.3 It was the view of the Office of Local Government that:

It is commendable that the NSW Government – unlike its counterparts in other states – has taken Local Government along as a partner on the reform journey. It is equally true that many councils have benefitted from the FFTF [Fit for the Future] process, in that it has necessitated greater scrutiny and understanding of financial factors.³⁴

3.4 The following table provides a timeline of the key dates in the Fit for the Future process.

Table 2 Fit for the Future timeline

Date	Event
10 September 2014	Fit for the Future reform package announced
31 October 2014	Release of Fit for the Future Self-Assessment Tool, Templates and Guidance material
22 April 2015	IPART appointed to role of Fit for the Future Expert Advisory

³³ Submission 109, NSW Government, p 3.

³⁴ Submission 109, NSW Government, p 4.

Date	Event
	Panel
27 April 2015	IPART released consultation paper on Fit for the Future assessment methodology
5 June 2015	IPART released final Fit For the Future assessment methodology
30 June 2015	Local councils Fit For The Future proposals to IPART received
16 October 2015	IPART due to report to NSW Government

3.5 The program offered the following assistance and support to help local councils prepare their Fit for the Future proposals and to facilitate the consideration of amalgamations:

- expert assistance – funding for experts to help councils proposing to merge to explore the options and prepare a sound business case
- one stop shop – access to the Office of Local Government’s One Stop Shop for local government reform, including a regional relationship manager
- facilitators – access to fully-funded professional facilitators to help councils begin discussions about how to merge and the benefits for their community
- technical support – access to a team of technical experts to help prepare Fit for the Future proposals.³⁵

3.6 Eight councils in the far west of New South Wales were exempt from the requirement to submit a Fit for the Future proposal.³⁶ The Minister for Local Government explained that these councils were recognised as having unique characteristics and challenges (such as large geographical areas, declining populations, large Aboriginal communities and high reliance on grant funding), and that the NSW Government had instead established the Far West Initiative to examine a better governance model and a better level of service delivery for communities in the far west.³⁷

3.7 The Fit for the Future program came with a funding package of up to \$1 billion, including the following initiatives:

- \$258 million to help councils who decided to merge to make the transition and provide the services and facilities communities need
- \$13 million to support local transition committees and ensure elected representatives are involved in the merger process
- \$5.3 million to get pilot regional Joint Organisations up and running
- \$4 million to help small councils (less than 10,000 population) develop innovative ways of working.

³⁵ Office of Local Government, ‘Fit for the Future: A blueprint for the future of Local Government’, (Report, September 2014) p 6.

³⁶ The eight councils include Balranald, Bourke, Brewarrina, Broken Hill, Central Darling, Cobar, Walgett and Wentworth, as well as the Unincorporated Area.

³⁷ Evidence, the Hon Paul Toole MP, Minister for Local Government, 17 August 2015, p 46.

- up to \$600 million in potential savings from cheaper finance for councils found by IPART to be ‘fit for the future’ councils to invest in local infrastructure.³⁸

3.8 The program also promised a number of incentives for councils that were assessed to be ‘fit for the future’, on the basis of their proposals. These incentives included:

- access to a state borrowing facility
- access to a streamlined rate variation process
- priority access to state funding and other grants
- eligibility for additional devolved planning powers
- eligibility for small rural councils to access grant funding through the Innovation Fund.³⁹

The Fit for the Future assessment criteria

3.9 Each council’s Fit for the Future proposal was assessed against four criteria. The Office of Local Government explained that the criteria were ‘developed based on the recommendations and work of the NSW Treasury Corporation, the Independent Panel and the Infrastructure Audit, and were reviewed by IPART prior to finalisation’.⁴⁰ The four assessment criteria were:

- sustainability
- scale and capacity
- service and infrastructure management
- efficiency.

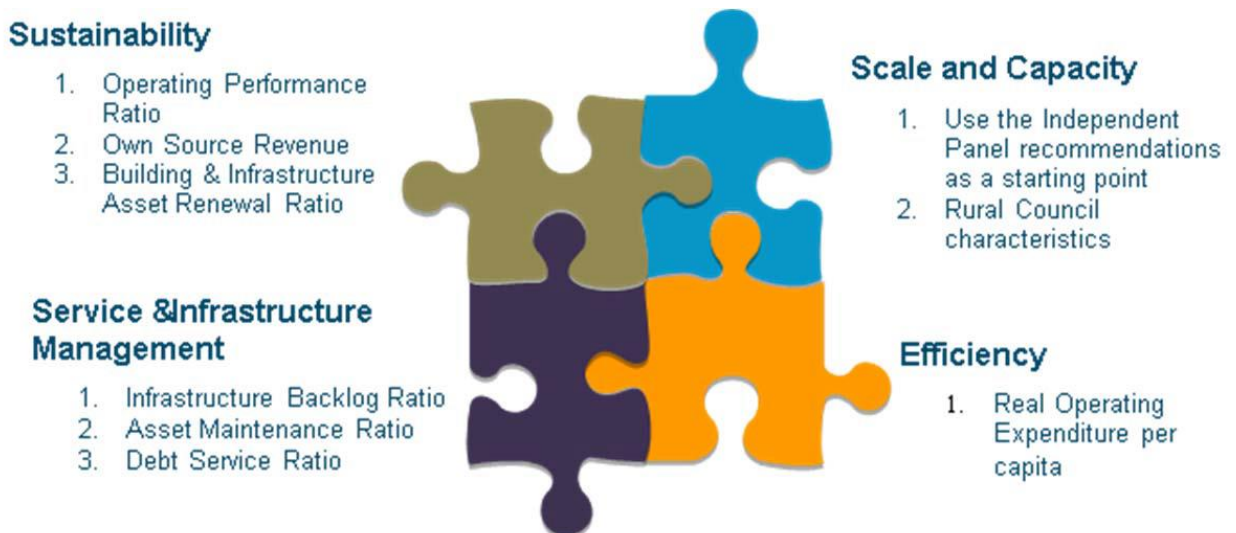
³⁸ Office of Local Government, ‘Fit for the Future: A blueprint for the future of Local Government’, (Report, September 2014) p 6.

³⁹ Answers to supplementary questions, Office of Local Government, 22 August 2015, p 2.

⁴⁰ Answers to supplementary questions, Office of Local Government, p 3.

3.10 Each of these four criteria included a number of measures against which a council would be assessed, as shown in the figure below.

Figure 4 Fit for the Future assessment criteria



Source: Submission 109, NSW Government, p 10.

3.11 Of the four criteria, scale and capacity was presented as the threshold measure that councils were required to address first. For this criterion, each council was expected to use the Independent Local Government Review Panel's (ILGRP) proposals for mergers or structural changes for that particular council as a starting point, and submit one of three types of proposals.

- Council merger proposal – for councils that planned to merge with one or more other councils to achieve sufficient scale and capacity
- Council improvement proposal – for councils that currently have sufficient scale and capacity without any structural change
- Rural council proposal – for councils with 'rural council characteristics' (e.g. small, declining populations spread over a large area) where mergers may not be feasible, but which needed to demonstrate plans and strategies to increase capacity and improve performance against the Fit for the Future criteria.

3.12 The Office of Local Government developed templates for each of the above proposals for councils to use when developing their proposals. Councils were also required to respond to each of the other criteria and demonstrate how they would meet the benchmarks for each measure.

3.13 Councils were required to submit their final proposals to IPART by 30 June 2015. Members of the public were then invited to provide submissions on their council's proposal. The assessment process by IPART occurred over the next three and a half months, before IPART was required to submit its report to the Minister on 16 October 2015. In its *Methodology for assessment of council Fit for the Future proposals*, IPART outlined the following timetable for its assessment process as follows:

Table 3 Timeline for IPART's assessment of council proposals

Date	Milestone
	Council Fit for the Future proposals
30 June 2015	Fit for the Future proposals due from councils
31 July 2015	Close of public submissions on council Fit for the Future proposals
	IPART assessment phase
Until end August 2015	Request additional information or meet with councils as required
16 October 2015	Provide Fit for the Future advice to Minister

Source: Independent Pricing and Regulatory Tribunal, 'Methodology for Assessment of Council Fit for the Future Proposals', (Consultation Paper, April 2015) 14.

3.14 IPART also explained, in the same document, the possible outcomes of its assessment process:

Councils that submit proposals will be rated as either 'fit' or 'not fit', with reasons given for the assessment. Councils that do not submit a proposal during the submission process cannot be properly assessed and will therefore be 'deemed not fit'.⁴¹

3.15 Mr Steven Orr, Deputy Chief Executive, Office of Local Government informed the committee that every council in New South Wales, with the exception of the eight far west councils that were exempt, submitted a proposal to IPART by the 30 June 2015 deadline.⁴²

3.16 Only four proposals for mergers, covering a total of nine councils, were received. The remaining councils proposed to remain as stand-alone councils.⁴³

3.17 Further discussion about the Fit for the Future assessment criteria and measures, including their validity and suitability, are presented in chapter 5 of this report.

IPART's appointment

3.18 This section considers the appointment of IPART to fulfil the role of Expert Advisory Panel to review councils' Fit for the Future proposals, and inquiry participants' views on this appointment.

Rationale for appointing IPART

3.19 IPART was appointed as the Expert Advisory Panel on 22 April 2015.⁴⁴ The Office of Local Government explained the NSW Government's rationale for selecting IPART for the role of the Expert Panel:

⁴¹ Independent Pricing and Regulatory Tribunal, 'Methodology for assessment of council Fit for the Future proposals', (Consultation Paper, April 2015) p 8.

⁴² Evidence, Mr Steven Orr, Deputy Chief Executive, Office of Local Government, 27 July 2015, p 3.

⁴³ Evidence, Ms Marcia Doheny, Chief Executive, Office of Local Government, 27 July 2015, p 3.

The Government ... considered who best might undertake the role of the Expert Panel. IPART was selected, based on its independent status, sound track record of conducting complex reviews and solid working knowledge of the local government sector.⁴⁵

3.20 Mr John Comrie was appointed as a temporary tribunal member for the purposes of the review. The Office of Local Government also advised that Mr Comrie was appointed to provide IPART with additional experience in local government.⁴⁶

3.21 At one of the committee's public hearings, Dr Peter Boxall, Chairman of IPART, spoke to IPART's credentials in regard to its role in assessing the Fit for the Future proposals:

IPART has considerable experience and understanding of local government issues. In recent years IPART has undertaken a number of reviews of local government issues under section 9 of the IPART Act, including local government revenue framework from 2008 to 2009, local government compliance enforcement from 2012 to 2014, benchmarking costs for local infrastructure contributions from 2013 to 2014, review of the Fit for the Future criteria September 2014 and two current reviews—local government regulatory burdens and Fit for the Future review. Following our 2009 work on the revenue framework for local government, in 2010 the then New South Wales Government gave IPART functions in local government relating to the following: Determining the rate peg, that is, council's maximum annual increase in general income; reviewing and determining applications for increases in general income above the rate peg, known as special variations; approving certain increases in council minimum rates; and reviewing councils' development contributions plans that propose contribution levels that exceed caps set by the New South Wales Government.⁴⁷

3.22 Although IPART was not appointed to the role of Expert Advisory Panel until 22 April 2015, its involvement in the Fit for the Future reforms began in August 2014 when the NSW Government requested that IPART review the Fit for the Future criteria. In response to a question about how much notice IPART had to produce its consultation paper on the *Methodology for assessment of council Fit for the Future proposals*, the Office of Local Government responded:

IPART undertook a review of the proposed criteria and measures and published the results of this review on its website in October 2014. IPART was, therefore, well apprised of the process the Government intended to follow for Fit for the Future, and the assessment criteria it intended to use, although it had not been requested to undertake the role of the Expert Panel at this stage.⁴⁸

3.23 The Office of Local Government pointed out that in its October 2014 review of the criteria IPART had noted that it would be well placed to review the Fit for the Future proposals.⁴⁹

⁴⁴ Evidence, Dr Peter Boxall, Chairman, Independent Pricing and Regulatory Tribunal, 10 August 2015, p 27.

⁴⁵ Answers to questions on notice, Office of Local Government, 24 August 2015, p 4.

⁴⁶ Evidence, Ms Marcia Doheny, Chief Executive, Office of Local Government, 24 August 2015, p 59.

⁴⁷ Evidence, Dr Boxall, 10 August 2015, p 27.

⁴⁸ Answers to questions on notice, Office of Local Government, 24 August 2015, p 3.

⁴⁹ Answers to questions on notice, Office of Local Government, 24 August 2015, p 3.

- 3.24** In its submission to the inquiry, IPART stated that it had a sufficient number of experienced staff to complete the Fit for the Future assessments on time:

IPART's agile structure permits us to allocate staff and resources to priority work so we can to deliver a high standard. For the Fit for the Future review, as with all of the reviews the Government directs us to undertake, we have ensured that sufficient, experienced staff are available to complete the task within the required timeframe.⁵⁰

Inquiry participants' views on IPART's appointment

- 3.25** Some inquiry participants expressed support for IPART's appointment, while others questioned its expertise in the area of local government and its independence from the NSW Government.

- 3.26** Maitland City Council was one inquiry participant to support IPART's appointment to review Fit for the Future proposals:

Council supports the appointment of IPART as the independent body tasked to review the proposals presented by councils under the F4F framework. Council considers that the past and current role of IPART in assessing and determining special rate variations for councils in NSW, and in doing so, reviewing the long term financial plans, resourcing strategies and related delivery programs of councils, provides IPART with experience, knowledge and context appropriate to the review of F4F proposals.⁵¹

- 3.27** Numerous other councils offered support for the appointment of IPART, including Lake Macquarie City Council, Willoughby City Council, Holroyd City Council and Wollondilly Shire Council.⁵²

- 3.28** The Warrumbungle Shire Council offered qualified support for IPART's appointment, citing its independence, though it noted that IPART's recommendations would only be whether councils were 'fit or not fit' and raised concerns that the final decision about councils' futures could be political.⁵³

- 3.29** Some inquiry participants were concerned that IPART did not have expertise in the area of local government and that the appointment of Mr Comrie as a temporary tribunal member was insufficient to overcome this deficiency. Concerns were also raised that IPART was not sufficiently independent from the NSW Government, nor was it a neutral assessor, due to its role in assessing special rate variations.

- 3.30** The committee heard that Local Government NSW (LGNSW), the peak body for local councils in the state, advocated for an expert panel that was not solely focused on financial factors and had extensive local government experience:

⁵⁰ Submission 149, Independent Pricing and Regulatory Tribunal, p 2.

⁵¹ Submission 55, Maitland City Council, p 2.

⁵² Submission 65, Lake Macquarie City Council, p 8; Submission 70, Willoughby City Council, p 1; Submission 71, Holroyd City Council, p 7; Submission 136, Wollondilly Shire Council, p 2.

⁵³ Submission 64, Warrumbungle Shire Council, p 3.

LGNSW ... expressed the view that the overall panel composition must demonstrate a capacity to provide a balanced assessment, not only of financial criteria, but of other equally important factors that embody social and community values.

LGNSW therefore recommended at least one panel member to be a community governance expert. There was also a desire to ensure that there was extensive Local Government expertise and experience represented on the panel, the type of expertise and experience that can only be derived from having been a successful Mayor or General Manager.⁵⁴

- 3.31** However, while LGNSW expressed some dissatisfaction with IPART's appointment, it was supportive of Mr Comrie's presence as a temporary tribunal member for the Fit for the Future review process:

I welcomed the inclusion of local government expert John Comrie in the panel...As the former CEO of the South Australian Office of Local Government, and as former CEO of LG [Local Government] South Australia, John brings to the table a unique understanding of the challenges faced by councils. That's precisely why LGNSW put his name forward to the Minister.⁵⁵

- 3.32** Associate Professor Roberta Ryan of the University of Technology Sydney considered IPART to be sufficiently independent from the NSW Government, but noted that IPART's expertise was 'skewed' toward economic considerations, and questioned whether it would be well placed to assess other factors such as strategic capacity:

Assessment of Fit for the Future proposals should be undertaken at arm's length from the government – IPART is one such body. It should however be noted that IPART's expertise – as a pricing and regulatory authority – is skewed towards economic considerations. To be sure, economic considerations are an important consideration in the reform agenda, however they are not the only consideration.

... Whilst IPART would certainly be able to assess some elements listed under this criteria ... as an organisation with largely economic expertise, it is not clear how IPART is placed to assess other aspects of the strategic capacity criteria, such as:

- ability to employ a wider range of skilled staff
- knowledge, creativity and innovation
- advanced skills in strategic planning and policy development
- effective regional collaboration
- credibility for more effective advocacy
- capable partner for State and Federal agencies
- resources to cope with complex and unexpected change
- high quality political and managerial leadership.⁵⁶

- 3.33** In addition, the City of Sydney Council raised concerns that IPART's terms of reference limited its focus to economic and financial matters and suggested that it had little expertise in broader council issues:

⁵⁴ Submission 142, Local Government NSW, p 17.

⁵⁵ Correspondence from Mr Keith Rhoades, President, Local Government NSW, to the committee, 26 August 2015.

⁵⁶ Answers to questions on notice, Associate Professor Roberta Ryan, 21 August 2015, p 269.

Its limited brief is focused on whether Councils are financially sustainable. The brief does not require it to consider the purpose of financial sustainability, namely to ensure that Councils can fill their many obligations – social, environmental, cultural – to their communities.

Of course IPART has no recognised experience or expertise in dealing with these issues. Nor does it have expertise and experience in understanding and responding to community needs and aspirations. Its responsibilities, as set out on its own website, primarily relate to economic and financial matters, in particular the pricing of goods and services.

Given its limited brief and lack of relevant expertise or experience, it is difficult to see how IPART could make a meaningful contribution to achieving local government reform.⁵⁷

3.34 Urana Shire Council noted its respect for IPART's understanding of local government, but questioned whether it fully grasped the issues associated with efficient service provision in smaller rural areas and felt that IPART may have been strengthened by the appointment of some local government professionals from within New South Wales.⁵⁸

3.35 The Riverina and Murray Regional Organisation of Councils (RAMROC) considered that IPART's role in assessing proposals was appropriate, given its past experience, but suggested that it should be assisted by two further individuals with on the ground experience in New South Wales local government:

RAMROC has proposed to both the Minister for Local Government and to IPART that two additional people with significant expertise and high level experience in NSW local government management be co-opted to assist the Panel in its assessment task.

RAMROC's suggestion to the Minister was that it would be beneficial to co-opt two highly regarded local government professionals, one with extensive experience in large metropolitan Sydney councils and one with that same level of experience with regional and rural councils. This would provide additional knowledge and coal-face expertise ...⁵⁹

3.36 IPART's independence from the NSW Government was questioned by some stakeholders. LGNSW, for example, noted that it had pushed for a panel that was more independent from the NSW Government:

LGNSW had advocated that the proposed Independent Expert Assessment Panel not be the IPART, TCorp or OLG [Office of Local Government], or be comprised of representatives of IPART, TCorp or OLG. This was based on the perception that they are NSW Government entities.⁶⁰

3.37 The Palm Beach and Whale Beach Association challenged IPART's independence on the basis of its previous role in setting the rate peg:

⁵⁷ Submission 181, City of Sydney Council, p 6.

⁵⁸ Submission 82, Urana Shire Council, p 4.

⁵⁹ Submission 97, Riverina and Murray Regional Organisation of Councils, p 7.

⁶⁰ Submission 142, Local Government NSW, p 17.

The association challenges the appointment of Independent Pricing and Regulatory Tribunal as the assessing body for council amalgamations. The government promised an independent panel. IPART is not independent in relation to council matters, having spent many years setting rates and levies for councils.⁶¹

3.38 Palerang Council similarly questioned whether IPART's assessment of Fit for the Future proposals, which might include a special rate variation as part of a proposal, could 'be seen as a perversion of the independence of IPART' in its other role as the assessor of special rate variations'.⁶²

3.39 Even stronger criticisms came from Professor Brian Dollery and Dr Joseph Drew of the University of New England, who suggested that IPART was neither expert nor independent:

The next act in the FFTF [Fit for the Future] drama was the appointment of IPART as the 'expert' and 'independent' panel for evaluating council FFTF submissions along with the South Australian commercial consultant - John Comrie - to provide 'first hand local government sector and industry experience' (IPART 2015a, p 5). Firstly, as we have noted earlier the extant evidence suggests that IPART is neither 'expert' nor 'independent'. Secondly, it came as a surprise to many that 'first hand local government experience' was to be provided by what the OLG [Office of Local Government] describes as 'the South Australian local government expert' (OLG 2015).⁶³

3.40 Ms Diane Jogia was another submission author who questioned IPART's credentials. Her submission recommended that the NSW Government should 'reconsider whether IPART is the appropriate body to carry out assessment of the Fit for the Future reports'.⁶⁴

3.41 In addition, LGNSW was critical of the time frame for the appointment of IPART as the Expert Advisory Panel, noting that it was behind schedule from the start, which in turn impacted on other parts of the process:

... LGNSW considers there has been an unrealistic timeframe set for the establishment and deliberations of the Expert Advisory Panel. This is largely because the much-anticipated announcement of the panel was behind schedule, and the proposed assessment methodology was not released until the end of April. There is a widespread view that the schedules have been too tight to allow adequate time for:

- IPART to revise the methodology before releasing it as a final;
- councils to amend proposals in light of the revised methodology; and
- IPART to assess proposals.⁶⁵

⁶¹ Submission 106, The Palm Beach and Whale Beach Association, p 2.

⁶² Submission 115, Palerang Council, p 4.

⁶³ Submission 11, Prof Brian Dollery and Dr Joseph Drew, p 27.

⁶⁴ Submission 165, Ms Diane Jogia, p 1.

⁶⁵ Submission 142, Local Government NSW, p 18.

Time frames for providing and assessing Fit for the Future proposals

- 3.42 The appropriateness of time frames for Fit for the Future, including both the deadlines for councils to submit their proposals and for IPART to assess those proposals, was raised by a significant number of inquiry participants.

Deadline for council proposals

- 3.43 The appointment of IPART in April 2015 and its release of the final *Methodology for assessment of council Fit for the Future proposals* in June 2015 was discussed by a number of councils. For example the City of Sydney Council suggested that the delay in appointing IPART led to a truncated deadline for submissions and noted that the draft methodology differed significantly from the final methodology, therefore compromising councils' ability to completed proposals:

The Government released Release of Fit for the Future Self-Assessment Tool, Templates and Guidance material on 31 October 2014 and final updated Fit for the Future Templates on 14 November 2014. IPART's appointment was not publicly announced until 27 April 2015, more than five months later. On the same day, IPART released its draft methodology for assessing Fit for the Future proposals.

IPART's draft methodology represented a significant departure from the Guidance Material and Fit for the Future templates, particularly in the way it would assess "scale and capacity". This included the requirement that Councils Fit for the Future proposals were "superior" to those recommended in the Revitalising Local Government Report, a requirement that was not stipulated in the Guidance Material and Templates. The draft methodology also contained the suggestion that IPART was planning to set a minimum population for councils, even though this was explicitly rejected in Revitalising Local Government.

Councils and the community were given until 25 May to submit comments on the draft methodology.⁶⁶

- 3.44 Professor Dollery expressed similar criticisms about the time frame, highlighting the sudden release of the final methodology only two months prior to the deadline for council proposals:

The sudden release of Independent Pricing and Regulatory Tribunal's (IPART) (2015) *Methodology for Assessment of Council Fit for the Future Proposals: Local Government Consultation Paper April 2015* on 27 April 2015 came as a shock the NSW local government sector. With a mere two months left to the 30 June 2015 deadline for Fit for the Future council submissions, at a stroke IPART introduced substantial changes to the assessment criteria with which local authorities are to be adjudged.⁶⁷

- 3.45 Ms Amanda Bray of Fairfield City Council also told the committee that the time from the release of IPART's final methodology to the deadline for councils to finalise their proposals was 'an unrealistic time frame'.⁶⁸ Similarly, Ku-ring-gai Council suggested that the timeframes were inadequate:

⁶⁶ Submission 181, City of Sydney Council, p 6.

⁶⁷ Submission 3, Professor Brian Dollery, p 5.

⁶⁸ Evidence, Ms Amanda Bray, Director, Corporate Governance, Fairfield City Council, 27 July 2015, p 59.

The appointment of IPART to assess the Fit for the Future proposals on 22 April 2015 has provided councils with an inadequate timeframe to address all of the submission requirements by the deadline of 30 June 2015. IPART released their final assessment methodology on 5 June 2015, allowing only three weeks to complete the submission and hold a formal council meeting for endorsement. It is regrettable that such an important process has been condensed into such a narrow timeframe.⁶⁹

- 3.46** LGNSW highlighted the delays in releasing the templates for councils' Fit for the Future proposals, and how this affected councils' ability to consult with their communities and hold merger discussions with their neighbouring councils:

Further constraining the timeframe was the additional complication that many councils were unable to begin weighing up their FFTF options until the release of the full set of FFTF templates in late January 2015 ... The result was that many councils had little time to fully review and consider their options and develop their proposals. Working to this tight timeframe, a number of councils, particularly those engaged in potential merger discussions with their neighbours, reported significant challenges in reaching the point of finalising their decisions and having time to adequately consult with their communities before submissions were due.⁷⁰

- 3.47** LGNSW also asserted that one outcome of the short time frames involved in the Fit for the Future process was a lost opportunity for some councils to properly consider and negotiate voluntary mergers:

Tight timeframes have most likely compromised the opportunity for some councils to fully consider and negotiate a merger option with their neighbours. Where councils were voluntarily working towards a merger, the potential to rush the complex analysis, community engagement and negotiation processes to meet the 30 June deadline has cost some councils the opportunity of achieving a favourable outcome from the process. LGNSW is aware of at least one example where the council involved was only in a position to consider and debate the merger business case and make a final decision as late as 29 June.⁷¹

- 3.48** When questioned by the committee about the criticisms, Dr Boxall, responded that councils had been aware of the criteria since September 2014:

The Government adopted the criteria in September 2014, so the criteria have been out there for quite a while. That was adopted at the end of probably a two-year panel exercise...After the Government was returned and we were tasked with doing this, we put out our draft methodology paper. It was two months only, but I can say that it is being managed well by councils and by IPART because we have had a situation where a number of councils and other stakeholders made submissions on that paper. I mentioned 174, and we were able to take those and issue a final report.⁷²

⁶⁹ Submission 112, Ku-ring-gai Council, p 6.

⁷⁰ Submission 142, Local Government NSW, p 18.

⁷¹ Submission 142, Local Government NSW, p 18.

⁷² Evidence, Dr Peter Boxall, Chairman, Independent Pricing and Regulatory Tribunal, 24 August 2015, p 36.

- 3.49** Dr Boxall concluded by noting that: ‘The other important thing is that all councils made the 30 June deadline—all councils that were required to submit apart from the eight in the far west that were not required’.⁷³

Time frame for IPART to assess councils’ proposals

- 3.50** In addition to its reservations about the deadline for councils to submit proposals, LGNSW also raised concerns about the time that IPART was afforded to assess those proposals. In its submission to the inquiry, the peak body wrote:

LGNSW also remains concerned about the timeframe for IPART’s deliberations in its role of assessing councils’ FFTF [Fit for the Future] submissions. IPART is required to receive these critically important and complex proposals, consider public submissions, potentially meet with councils to obtain further information, make a judgement on each against complex criteria, and then advise the Government by 16 October whether or not individual councils are ‘fit for the future’. With IPART having received 144 FFTF submissions, it will have far less than one day per council to make its assessments. This unrealistic and improbable timeframe compromises the rigour that should be applied to each individual assessment and potentially undermines the authenticity of the FFTF assessment process.⁷⁴

- 3.51** LGNSW recommended extending the deadline for IPART to submit its assessments to the Minister:

LGNSW recommends an extension of the submission and assessment deadlines until at least end of November 2015 to enable [IPART] to comprehensively and rigorously review each and every proposal.⁷⁵

- 3.52** These concerns about IPART’s deadline for completing its assessment were reflected in the submissions to the inquiry made by a number of councils. Lake Macquarie City Council, for example, suggested that the time frame imposed on IPART was inadequate:

The timeframe for IPART to assess proposals is grossly inadequate. IPART has just 78 days to form a view about whether 144 councils in NSW (all 152 councils less the 8 councils of the Far West) meet the Fit for the Future criteria. This is an average of half a day per council.⁷⁶

- 3.53** Pittwater City Council also criticised the amount of time available for IPART to assess council proposals, suggesting that the short time frames compromised IPART’s ability to make comprehensive assessments:

The time frames mandated by the Government make it impossible for IPART to demonstrate that a comprehensive assessment was carried out in relation to the release of the ‘Assessment Methodology’. Likewise, the time frame for IPART to review further submissions to council responses by August 2015 and the actual finalisation of all submissions by 16 October 2015 raises concern as to the depth of

⁷³ Evidence, Dr Boxall, 24 August 2015, p 36.

⁷⁴ Submission 142, Local Government NSW, p 19.

⁷⁵ Submission 142, Local Government NSW, p 19.

⁷⁶ Submission 65, Lake Macquarie City Council, p 8.

consideration that will be applied to the council and community submissions to allow balanced detailed recommendations to the Minister. It is feared that the integrity and reputation of the tribunal will be severely compromised.⁷⁷

- 3.54** While many inquiry participants expressed concerns over the time frames for IPART to complete its assessment of council proposals, the NSW Business Chamber put forward an alternative view, suggesting that the time frame was appropriate, given the lengthy consultation preceding the current process:

The current discussion on local government reform commenced in August 2011 with the gathering of all NSW councils at the Destination 2036 event in Dubbo. With this issue having been on the table for more than 5 years we welcome the Government requesting IPART to provide its report within a suitable timeframe.⁷⁸

- 3.55** When the committee questioned IPART about whether they had enough time to assess the 139 council proposals that had been received, Dr Boxall, Ms Lucy Garnier, Executive Director, and Mr John Comrie, Tribunal Member of IPART all responded in the affirmative:

Dr BOXALL: We are able to assess them adequately and to the high standards of IPART and we will have the report ready on 16 October ...

Ms GARNIER: ... We received 139 proposals; we have 17 staff working on the project. That, on average, gives them eight councils each. We have 15 weeks between the closing date of councils and the delivery of our report, which means, on average, there are around two weeks per council to review the proposal.

Mr COMRIE: ... There are 17 staff dedicated to the Fit for the Future project but there is also a range of other staff within IPART—in our legal area and so on—that also support this process.⁷⁹

Release of IPART's final report

- 3.56** Inquiry participants raised concerns about the possibility that IPART's report may not be made public when it was provided to the Government in mid-October.

- 3.57** Dr Boxall advised the committee that IPART's terms of reference required it to provide its report to the NSW Government and that publishing the report would then be a matter for the Government to decide:

According to the terms of reference, we are to submit the report to the Government ... and then the Government decides if, when and where they will make it public.⁸⁰

⁷⁷ Submission 85, Pittwater City Council, p 7.

⁷⁸ Answers to questions on notice, NSW Business Chamber and Sydney Business Chamber, 20 August 2015, p 1.

⁷⁹ Evidence, Dr Boxall, Ms Lucy Garnier, Executive Director, Independent Pricing and Regulatory Tribunal, and Mr John Comrie, temporary Tribunal member, Independent Pricing and Regulatory Tribunal, 24 August 2015, p 36.

⁸⁰ Evidence, Dr Boxall, 24 August 2015, p 27.

3.58 The Minister for Local Government, the Hon Paul Toole MP, confirmed Dr Boxall's advice, noting that IPART's report would be provided to the Minister and Premier and the report would be released after cabinet approval:

The IPART terms of reference make it very clear that they will provide the Minister for Local Government and the Premier with a final report by 16 October identifying whether or not each council is fit for the future and the reasons for this assessment, and it is to be publicly released following Cabinet approval.⁸¹

3.59 Many of the witnesses appearing before the committee were questioned about whether IPART's final report, with its assessment of council proposals and determination of whether each council is 'fit' or 'unfit', should be publicly released in the interests of transparency. The following witnesses all agreed that IPART's report should be made public:

- Mr Mark Dunstan, Legal Special Projects Officer, United Services Union
- Mr Barry Smith, President, Local Government Professionals New South Wales
- Cr Steve Russell, Mayor, Hornsby Shire Council
- Mr Russell Pigg, General Manager, Shoalhaven City Council
- Mr Jim Montague, General Manager, Canterbury City Council
- Cr Richard Quinn, Mayor, Hunter's Hill Council
- Cr Rochelle Porteous, Mayor, Leichhardt Municipal Council
- Cr Lindsay Brown, Mayor, Eurobodalla Shire Council
- Sydney Metropolitan Mayors.⁸²

3.60 When questioned further by the committee about this matter during the 2015-16 Budget Estimates hearing on 4 September 2015, the Minister stressed that it was his intention to ensure IPART's report was released as soon as possible:

... it will be my intention as the Minister to ensure that we can push as quickly as possible for that report to be released so that the communities across New South Wales have an understanding as to how their council is positioned.⁸³

⁸¹ Evidence, the Hon Paul Toole MP, Minister for Local Government, 17 August 2015, p 35.

⁸² Evidence, Mr Mark Dunstan, Legal Special Projects Officer, United Services Union, 10 August 2015, p 23; Evidence, Mr Barry Smith, President, Local Government Professionals New South Wales, 10 August 2015, p 32; Evidence, Cr Steve Russell, Mayor, Hornsby Shire Council, 10 August 2015, p 48; Evidence, Mr Russell Pigg, General Manager, Shoalhaven City Council, 10 August 2015, p 48; Evidence, Mr Jim Montague PSM, General Manager, Canterbury City Council, 10 August 2015, p 43; Evidence, Cr Richard Quinn, Mayor, Hunter's Hill Council, Cr Rochelle Porteous, Mayor, Leichhardt Municipal Council, and Cr Lindsay Brown, Mayor, Eurobodalla Shire Council, 24 August 2015, p 17; Tabled document, Sydney Metropolitan Mayors, *correspondence to Premier Mike Baird MP from Sydney Metropolitan Mayors*, 6 August 2015.

⁸³ Evidence to General Purpose Standing Committee No. 6 at 2015-16 Budget Estimates hearing, the Hon Paul Toole MP, Minister for Local Government, 4 September 2015, p 4.

Summary of IPART's findings

- 3.61** On 16 October 2015, IPART provided its report to the NSW Government, as required under its terms of reference. Four days later, on 20 October, the Government released IPART's report.⁸⁴
- 3.62** IPART's report contained its assessment of 139 proposals from 144 councils, which included four merger proposals (involving nine councils), 115 council improvement proposals and 20 rural council proposals.⁸⁵
- 3.63** IPART found 52 of the 139 proposals (37 per cent) to be 'fit for the future'.⁸⁶ The remaining 87 proposals were deemed 'not fit' and of these:
- 60 failed to meet the scale and capacity criterion, but did meet the financial criteria
 - 18 did not meet the financial criteria, but were assessed as having sufficient scale and capacity
 - nine failed to meet both the scale and capacity and the financial criteria.⁸⁷
- 3.64** There was some variation between Sydney metropolitan councils and regional councils in regards to the proportion of councils found 'not fit' and the reasons for not meeting the criteria. For Sydney metropolitan councils, 30 out of 42 councils (71 per cent) were found to be 'not fit'. All but three failed because they did not meet the scale and capacity criterion.⁸⁸
- 3.65** For regional councils, 58 out of 101 proposals (56 per cent) were found to be 'not fit'. Of these councils, 34 failed to meet the scale and capacity criterion, 15 failed to meet the financial criteria and nine failed to meet either of these criteria.⁸⁹
- 3.66** IPART did not make any merger recommendations, but rather 'assessed each council's proposal as either "fit" or "not fit"'.⁹⁰ Nonetheless, IPART's report did include information about the potential savings that could be achieved if the preferred merger options of the ILGRP were implemented, finding that 'savings of up to \$1.95 billion would be made over the next 20 years if the ILGRP merger recommendations were to be adopted'.⁹¹

⁸⁴ Media release, Independent Pricing and Regulatory Tribunal, 'Fit for the Future assessments complete', 16 October 2015; 'Fit for the Future assessments released', 20 October 2015.

⁸⁵ Independent Pricing and Regulatory Tribunal, *Assessment of Council Fit for the Future Proposals*, October 2015, p 1.

⁸⁶ Independent Pricing and Regulatory Tribunal, *Assessment of Council Fit for the Future Proposals*, October 2015, p 2.

⁸⁷ Independent Pricing and Regulatory Tribunal, *Assessment of Council Fit for the Future Proposals*, October 2015, p 2.

⁸⁸ Independent Pricing and Regulatory Tribunal, *Assessment of Council Fit for the Future Proposals*, October 2015, pp 9-10.

⁸⁹ Independent Pricing and Regulatory Tribunal, *Assessment of Council Fit for the Future Proposals*, October 2015, pp 14-17.

⁹⁰ Media release, Independent Pricing and Regulatory Tribunal, 'Fit for the Future assessments released', 20 October 2015.

⁹¹ Media release, Independent Pricing and Regulatory Tribunal, 'Fit for the Future assessments released', 20 October 2015.

3.67 On the same day that IPART’s report was published, the Office of Local Government released details of the next steps in the Fit for the Future process. Councils were encouraged to review IPART’s assessment and provide their feedback to the NSW Government within 30 days, by 18 November 2015. For those councils that were assessed as being ‘not fit’ due to insufficient scale and capacity, or who neighbour a council that was ‘not fit’ due to scale and capacity, the Office of Local Government stated that the Government ‘would also like to know...the merger preferences of these councils’.⁹²

3.68 The Premier, the Hon Mike Baird MP, also announced that funding would be available for mergers agreed to by councils and the Government:

The NSW Government today also announced a new Stronger Communities Fund, providing each new council up to \$15 million to invest in community infrastructure projects such as sporting fields, libraries, and parks and funding of up to \$10 million for each new council to ensure ratepayers do not pay for the up-front costs of merging. The funding will be available to those mergers agreed to by councils and the NSW Government.⁹³

3.69 The Office of Local Government further advised that by the end of 2015, ‘the Government will consider responses from councils, decide on next steps and inform councils and the community’.⁹⁴ The Premier underscored the Government’s determination to act, when he announced the release of IPART’s report:

Ultimately, what we want in the first instance is for councils to act but we are determined to get on with this, we are determined to do what is right, we are determined to act.⁹⁵

3.70 When addressing the LGNSW annual conference on 13 October 2015, the Minister for Local Government stressed the Government’s intention to complete the process by the end of 2015, telling the assembled councillors, ‘Every council in NSW will know where it stands before the end of the year. That is my commitment to you’.⁹⁶

IPART’s findings in relation to individual councils

3.71 The following tables provide a summary of IPART’s findings for Sydney metropolitan councils and regional councils, showing which councils were found to be ‘fit’ or ‘unfit’ against the financial criteria and the scale and capacity criterion.

⁹² Fit for the Future website, *Fact Sheet – Next Steps*, 20 October 2015, <<http://www.fitforthefuture.nsw.gov.au/sites/default/files/Fact Sheet - next steps.pdf>>

⁹³ Media release, Premier of NSW, ‘Fit for the Future: \$2 billion community windfall by merging unfit councils’, 20 October 2015. See Appendix 2.

⁹⁴ Fit for the Future website, *Fact Sheet – Next Steps*, 20 October 2015, <<http://www.fitforthefuture.nsw.gov.au/sites/default/files/Fact Sheet - next steps.pdf>>

⁹⁵ Adam Bell, ‘Premier Mike Baird gives deadline as IPART report deems majority of Sydney councils not Fit for the Future’, *Daily Telegraph*, 20 October 2015.

⁹⁶ Adam Bell, ‘Minister Paul Toole give councils “one last chance” to volunteer for amalgamation at Local Government Conference’, *Daily Telegraph*, 13 October 2015.

Table 4 Summary of IPART's findings – Sydney metropolitan councils

Council	Population	Financial criteria	Scale and capacity
Ashfield	44,175	Fit	Unfit
Auburn; Burwood; Canada Bay	203,571	Fit	Fit
Bankstown	196,974	Fit	Fit
Blacktown	325,185	Unfit	Fit
Blue Mountains	79,225	Fit	Fit
Botany bay	43,292	Fit	Unfit
Camden	63,248	Fit	Fit
Campbelltown	154,538	Unfit	Fit
Canterbury	148,853	Fit	Unfit
Fairfield	201,427	Fit	Unfit
Hawkesbury	65,114	Unfit	Fit
Holroyd	108,889	Fit	Unfit
Hornsby	166,855	Fit	Unfit
Hunter's Hill	14,491	Fit	Unfit
Hurstville	84,859	Fit	Unfit
Kogarah	60,411	Fit	Unfit
Ku-ring-gai	119,027	Fit	Unfit
Lane cove	33,996	Fit	Unfit
Leichhardt	57,266	Fit	Unfit
Liverpool	195,355	Fit	Unfit
Manly	44,232	Fit	Unfit
Marrickville	82,523	Fit	Unfit
Mosman	29,983	Fit	Unfit
North Sydney	69,248	Fit	Unfit
Parramatta	184,622	Fit	Unfit
Penrith	190,428	Fit	Fit
Pittwater	62,070	Fit	Unfit
Randwick; Waverley	213,016	Fit	Fit
Rockdale	106,712	Fit	Unfit
Ryde	112,545	Fit	Unfit

Council	Population	Financial criteria	Scale and capacity
Strathfield	38,358	Fit	Unfit
Sutherland	223,192	Fit	Fit
Sydney	191,918	Fit	Unfit
The Hills	180,214	Fit	Fit
Warringah	152,636	Fit	Unfit
Willondilly	46,295	Fit	Fit
Willoughby	73,155	Fit	Unfit
Woollahra	57,677	Fit	Unfit

Source: Independent Pricing and Regulatory Tribunal, Assessment of Council Fit for the Future Proposals, October 2015; and Office of Local Government, Time Series Data 2013/14 for Your Council report, <<https://www.olg.nsw.gov.au/public/my-local-council/yourcouncil-website>>.

Table 5 Summary of IPART's findings – regional councils

Council	Population	Financial criteria	Scale and capacity
Albury	50,243	Fit	Fit
Armidale Dumaresq	25,343	Unfit	Unfit
Ballina	41,335	Fit	Fit
Bathurst	41,051	Fit	Fit
Bega valley	33,313	Fit	Fit
Bellingen	12,854	Unfit	Fit
Berrigan	8,365	Fit	Unfit
Bland	6,010	Fit	Unfit
Blayney	7,330	Fit	Unfit
Bogan	3,037	Fit	Fit
Bombala	2,401	Unfit	Fit
Byron	31,612	Fit	Fit
Cabonne	13,695	Fit	Unfit
Carrathool	2,792	Fit	Fit
Cessnock	54,313	Fit	Fit
Clarence valley	51,043	Unfit	Fit
Coffs harbour	71,798	Fit	Fit
Conargo	1,543	Unfit	Fit
Coolamon	4,276	Fit	Fit

Council	Population	Financial criteria	Scale and capacity
Cooma-Monaro	10,073	Unfit	Unfit
Coonamble	4,279	Fit	Fit
Cootamundra; Harden	11,387	Fit	Fit
Corowa	11,410	Fit	Unfit
Cowra	12,551	Fit	Fit
Deniliquin	7,376	Fit	Unfit
Dubbo	40,975	Fit	Fit
Dungog	8,884	Unfit	Unfit
Eurobodalla	37,234	Fit	Fit
Forbes	9,664	Fit	Unfit
Gilgandra	4,488	Fit	Fit
Glen Innes Severn	8,905	Fit	Fit
Gloucester	4,974	Unfit	Unfit
Gosford	170,752	Fit	Unfit
Goulburn Mulwaree	29,230	Unfit	Fit
Great Lakes	36,312	Fit	Fit
Greater Hume	10,176	Fit	Fit
Greater Taree	48,846	Unfit	Fit
Griffith	25,425	Fit	Unfit
Gundagai	3,747	Unfit	Unfit
Gunnedah	12,688	Fit	Fit
Guyra	4,645	Unfit	Unfit
Gwydir	5,104	Unfit	Unfit
Hay	2,962	Fit	Unfit
Inverell	16,727	Fit	Fit
Jerilderie	1,504	Unfit	Unfit
Junee	6,227	Fit	Unfit
Kempsey	29,361	Unfit	Fit
Kiama	21,047	Unfit	Fit
Kyogle	9,538	Unfit	Fit
Lachlan	6,748	Fit	Unfit
Lake Macquarie	200,796	Fit	Unfit

Council	Population	Financial criteria	Scale and capacity
Leeton	11,539	Fit	Fit
Lismore	44,637	Fit	Fit
Lithgow	21,118	Unfit	Fit
Liverpool Plains	7,763	Fit	Unfit
Lockhart	3,021	Fit	Fit
Maitland	73,447	Fit	Unfit
Mid-Western	23,843	Unfit	Fit
Moree Plains	14,250	Fit	Fit
Murray	7,418	Fit	Unfit
Murrumbidgee	2,503	Unfit	Fit
Muswellbrook	16,851	Fit	Fit
Nambucca	19,529	Fit	Fit
Narrabri	13,685	Fit	Fit
Narrandera	6,030	Fit	Unfit
Narromine	6,872	Fit	Unfit
Newcastle	158,553	Fit	Unfit
Oberon	5,270	Fit	Unfit
Orange	40,869	Fit	Unfit
Palerang	15,306	Fit	Unfit
Parkes	15,087	Fit	Fit
Port Macquarie-Hastings	76,563	Fit	Fit
Port Stephens	68,935	Fit	Fit
Queanbeyan	40,568	Fit	Unfit
Richmond Valley	22,749	Fit	Fit
Shellharbour	67,797	Unfit	Fit
Shoalhaven	97,694	Fit	Fit
Singleton	23,751	Fit	Fit
Snowy River	8,087	Unfit	Unfit
Tamworth	59,743	Fit	Fit
Temora	5,995	Fit	Unfit
Tenterfield	6,973	Unfit	Fit
Tumbarumba	3,521	Fit	Fit

Council	Population	Financial criteria	Scale and capacity
Tumut	11,316	Fit	Unfit
Tweed	90,114	Unfit	Fit
Upper Hunter	14,650	Fit	Fit
Upper Lachlan	7,586	Fit	Unfit
Uralla	6,370	Fit	Unfit
Urana	1,157	Unfit	Fit
Wagga wagga	62,149	Fit	Fit
Wakool	3,979	Fit	Fit
Walcha	3,087	Unfit	Fit
Warren	2,910	Fit	Fit
Warrumbungle	9,778	Unfit	Fit
Weddin	3,711	Fit	Unfit
Wellington	8,955	Fit	Unfit
Wingecarribee	47,054	Fit	Fit
Wollongong	205,231	Fit	Fit
Wyong	157,358	Fit	Unfit
Yass Valley	16,270	Unfit	Fit
Young; Boorowa	15,257	Fit	Fit

Source: Independent Pricing and Regulatory Tribunal, Assessment of Council Fit for the Future Proposals, October 2015; and Office of Local Government, Time Series Data 2013/14 for Your Council report, <<https://www.olg.nsw.gov.au/public/my-local-council/yourcouncil-website>>.

Positive and negative aspects of the reform process

3.72 The evidence from inquiry participants highlighted two overarching themes regarding the positive and negative aspects of the Fit for the Future reforms: first, that the reforms were a positive impetus for councils to review their operations, and second, the focus of Fit for the Future on structural reforms and amalgamations, rather than other areas of reform.

Fit for the Future as an impetus to review council operations

3.73 Many inquiry participants pointed out positive outcomes of the NSW Government's Fit for the Future reforms, with even those who were critical of Fit for the Future speaking encouragingly of some parts of the reforms.

3.74 LGNSW opened its evidence to the committee at a public hearing with the following statement outlining its support for some features of the Fit for the Future program:

Local Government NSW supports Fit for the Future as a council improvement program. Like the State Government, we believe the people of New South Wales deserve a strong, financially secure local government sector. We commend the Minister and the Office of Local Government for working to ensure that local government is a partner on this journey to achieving the best possible outcomes for the residents and ratepayers of this State ... We all agree on the destination. Where we may well differ from the Government is on how we actually get there.⁹⁷

3.75 In its submission to the inquiry, LGNSW further noted that many councils have benefited from the process because it had ‘necessitated greater scrutiny and understanding of financial factors’. The submission also suggested that even if Fit for the Future ‘fails to deliver the NSW Government’s amalgamation objectives, it will deliver improved council performance and sustainability’.⁹⁸

3.76 A number of councils also expressed positive sentiments about the Fit for the Future process. Parramatta City Council, for example, told the committee that ‘the Fit for the Future reform process is a once-in-a-generation opportunity to redefine the future of local government in New South Wales. More importantly, under the model we have proposed, it is an opportunity to deliver more and better services in an expanded Parramatta-based local government area’.⁹⁹ Similarly, the Mayor of Eurobodalla Shire Council, Cr Lindsay Brown, described Fit for the Future as ‘a sound process based on independent assessment and advice, which we believe will result in improved performance for councils and outcomes for our community’.¹⁰⁰

3.77 Some councils also commended Fit for the Future for encouraging councils to review their financial positions and operations. Wollongong City Council suggested that Fit for the Future will encourage councils to ‘focus on their financial and asset sustainability in a strategic way’, and the Namoi Councils¹⁰¹ noted that:

While there are still strong areas of concern relating to several of the benchmarks and measures adopted, the Councils are finding that the process has resulted in a serious and careful review of operations and procedures by member Councils.¹⁰²

3.78 Maitland City Council highlighted the fact that it compelled councils to review their long term financial sustainability and to consult with their communities about the services their councils should provide:

It is this Council’s position that responsible local government, and indeed good business, compels all councils to consider their longer term financial sustainability and in doing so, to engage openly and transparently in a conversation with their community about their capacity to maintain the scope and level of services they provide, and how these services will be funded.¹⁰³

⁹⁷ Evidence, Mr Keith Rhoades, President, Local Government NSW, 27 July 2015, p 16.

⁹⁸ Submission 142, Local Government NSW, p 11.

⁹⁹ Evidence, Mr Greg Dyer, Chief Executive Officer, Parramatta City Council, 10 August 2015, p 2.

¹⁰⁰ Evidence, Cr Lindsay Brown, Mayor, Eurobodalla Shire Council, 24 August 2015, p 15.

¹⁰¹ Representing Gwydir Shire Council, Gunnedah Shire Council, Liverpool Plains Shire Council, Moree Plains Shire Council, Narrabri Shire Council, Tamworth Regional Council and Walcha Council.

¹⁰² Submission 87, Namoi Councils, p 2.

¹⁰³ Submission 55, Maitland City Council, p 1.

Responses to the online questionnaire: comments about Fit for the Future

Some of the responses to the committee's online questionnaire commented on the Fit for the Future process, including:

- 'Overall, a good initiative to make councils workable ...'¹⁰⁴
- 'The process is important to get councils to review their future and try to tackle embedded protection of the status quo at the expense of the community and efficiencies'¹⁰⁵
- 'I fully support the program'¹⁰⁶
- 'A heavy focus on amalgamation as a cure-all. I want my Council to fit its actions and policies to the individual and unique nature of our Shire'¹⁰⁷
- 'It has not been conducted in democratic way. Not enough consultation and simplified information for community members to assess'¹⁰⁸
- 'This programme is substantially geared to economic considerations which, without close scrutiny could conflict with the central purpose of local Government which is primarily to serve local community needs which remote bodies, however well intentioned, cannot reasonably be expected so to do'¹⁰⁹

Focus on structural reforms and amalgamations

3.79 One of the key criticisms aimed at the Fit for the Future program was that it was too focused on structural reforms, such as amalgamations, rather than the other recommendations of the ILGRP. Mr Keith Rhoades, President of Local Government NSW, for example, noted his disappointment in the focus on amalgamations:

What has been disappointing throughout this process is the simple fact that, of the 60-odd recommendations from the panel, all the focus has been on one. The Government's focus has been on getting the number of councils down. It has to get the number down to a level that appeases the three major metropolitan lobby groups that are involved in the development sector. It is not about communities.¹¹⁰

3.80 Mr Barry Smith, President of Local Government Professionals NSW, similarly expressed his concern over the undue focus on structural reforms:

¹⁰⁴ Responses to online questionnaire – respondent from Sutherland.

¹⁰⁵ Responses to online questionnaire – respondent from Orange.

¹⁰⁶ Responses to online questionnaire – respondent from Leichhardt.

¹⁰⁷ Responses to online questionnaire – respondent from Kempsey.

¹⁰⁸ Responses to online questionnaire – respondent from Randwick.

¹⁰⁹ Responses to online questionnaire – respondent from Pittwater.

¹¹⁰ Evidence, Mr Rhoades, 27 July 2015, p 17.

Unfortunately the direction under the Fit for the Future banner means that the wheels may have fallen off the bus, with the concentration on structural reform rather than those things that could bring about real and lasting reform.¹¹¹

- 3.81** Marrickville Council suggested that the many other reform recommendations of the ILGRP should be implemented, rather than just focusing on amalgamations:

Many of the 65 recommendations from the Independent Review Panel have nothing to do with amalgamations ... To rely solely on forced amalgamations and to ignore the many recommendations for improvement is not logical. It will represent a lost opportunity.¹¹²

- 3.82** In her evidence to the committee, Associate Professor Ryan commented on Fit for the Future's focus on boundary and structural changes, which in her opinion deflected attention from some other important reforms. She noted, for example, that more robust council revenues could be achieved by removing rate pegging, but this had not been considered as part of Fit for the Future. Associate Professor Ryan also said that improving the ability to employ a wider range of skilled staff could be achieved by reviewing remuneration and core competencies of employees, but this was not addressed. In regard to the need for high quality political and managerial leadership she wrote:

... the focus of the reform debate on local government structure has deflected attention from this important criteria, it is not clear how this could be achieved when the focus is so intently on where the lines on a map fall, rather than the type of capacity needing to be in built into the system.¹¹³

- 3.83** Professor Graham Sansom, who headed the ILGRP, raised a concern that IPART's assessments were being undertaken prior to many of the ILGRP's recommendations being implemented. He suggested that if the Panel's recommendations were implemented, it was likely that they would have a significant impact on the financial position of councils, and thus the outcome of the Fit for the Future assessments:

The concern that I was raising earlier ... was that IPART is making its assessments in a situation where a lot of the broader contextual reforms that we as a panel proposed have yet to be followed through.

To give a simple example, we proposed and the Government adopted the recommendation that through the Treasury Corporation councils have access to lower interest loans, which will save the sector hundreds of millions of dollars over a period of years. We found councils were paying at least 2 or 3 per cent more, typically, for borrowings than they should be and the Treasury Corporation advice confirmed that to us. That is obviously going to make a big difference to the financial position of a number of councils. The Government, I think, adopted our recommendation in principle, or words to that effect, but we have yet to see that new system come into effect and we do not know precisely how it is going to work. If I were in the position of the Independent Pricing and Regulatory Tribunal I would want answers to those sorts of questions so that I could factor those answers into the judgements I make

¹¹¹ Evidence, Mr Smith, 10 August 2015, p 32.

¹¹² Answers to supplementary questions, Marrickville Council, 21 August 2015, p 2.

¹¹³ Answers to questions on notice, Associate Professor Ryan, p 267.

about how any particular council is going to track. That is the thing that at the moment concerns me about the process.¹¹⁴

- 3.84** Mr Jeff Tate, Director, Jeff Tate Consulting Pty Ltd – a local government expert who conducted a review of the 2004 local government amalgamations in New South Wales for the ILGRP, as well as having managed the amalgamation of the City of Onkaparinga in South Australia in 1997 and the de-amalgamation of Douglas Shire Council from Cairns Regional Council in Far North Queensland in 2013 – advised the committee that before considering whether to amalgamate councils consideration needs to be given to what functions you expect local councils to carry out:

I made the point in my report that form follows function. So you decide what it is that you want of the local government, what is required of the local government. That should be a serious consideration at the start.¹¹⁵

Committee comment

- 3.85** The committee acknowledges the concerns raised by a number of inquiry participants regarding the appointment of IPART to the role of the Expert Advisory Panel for Fit for the Future and the time frames for providing and assessing council proposals.
- 3.86** In regard to the appointment of IPART, the committee notes that IPART has demonstrated its experience with the local government sector, through its work on rate pegging and assessing special rate variations since 2011-12, as well as its work on a number of reviews of local government revenue, compliance, infrastructure and regulatory burdens. The committee is also satisfied that IPART's status as an independent statutory authority is sufficient to secure its independence.
- 3.87** There remain, however, two areas of concern in relation to IPART's appointment. The first is the lack of local government practitioner expertise at IPART. While the tribunal has experience in reviewing aspects of the local government sector, it does not appear to have on board any local government professionals who had worked 'on the ground' at local councils. This concern was addressed, to some extent, by the appointment of Mr John Comrie, a recognised local government expert, as a temporary member to the tribunal, though the committee acknowledges the reservations of some inquiry participants who suggested there was a need for first-hand experience in New South Wales.
- 3.88** The second concern was the question of IPART's ability to assess aspects of the Fit for the Future criteria, which appeared to fall outside IPART's usual financial and economic expertise. The committee considers IPART could use further expert assistance to assess some elements of the criteria, such as knowledge, creativity and innovation; or high quality political and managerial leadership.
- 3.89** IPART clearly has capacity to analyse and assess council finances; indeed this is one of their core skills and competencies. However it is equally clear that IPART was not an appropriate body to assess the overall future of local government or the overall fitness of local councils as

¹¹⁴ Evidence, Professor Graham Sansom, former Chair, Independent Local Government Review Panel, 27 July 2015, p 49.

¹¹⁵ Evidence, Mr Jeff Tate, Director, Jeff Tata Consulting Pty Ltd, 27 July 2015, p 79.

democratically responsible local institutions with a remit that goes well beyond a narrow financial obligation to residents. Chapter 5 of this report will further examine the appropriateness of the assessment criteria and the associated benchmarks and measures.

Finding 1

While the Independent Pricing and Regulatory Tribunal has significant capacity to analyse the finances of local government it does not have the demonstrated skills or capacity to assess the overall 'fitness' of councils as democratically responsible local bodies.

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- 3.90** In regard to the time frames and deadlines for the Fit for the Future process, the committee notes that there had been an extensive consultation process, including through the ILGRP, leading up to the implementation of the Fit for the Future reforms. However, that extensive period of consultation and review appears to have been undermined by the relatively late appointment of IPART to the role of Independent Advisory Panel and IPART's subsequent release of its final *Methodology for assessment of council Fit for the Future proposals* in June 2015, less than a month before councils were required to submit their proposals.
- 3.91** The committee considers that the time frames imposed by the NSW Government were too short and may have impacted on the ability of councils to properly consult with their communities and to negotiate mergers with their neighbours. By setting such short time frames, the NSW Government may have undermined the possibility of voluntary mergers. However, the committee also notes that every council that was required to submit a Fit for the Future proposal did so in time for the 30 June deadline. The committee commends the work of local councils around the state to meet the deadline.

Finding 2

That the Independent Pricing and Regulatory Tribunal's appointment to the role of Independent Advisory Panel occurred too late in the Fit for the Future process and that the 30 June 2015 deadline for council proposals was too short.

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- 3.92** The committee believes it is unfair and misleading for the Government and IPART to label 71 per cent of councils in metropolitan Sydney and 56 per cent of regional councils as 'unfit' and considers the Premier's statement highlighting this finding left an indelible mark on the reputation of those councils. The terms of reference provided to IPART by the NSW Government were designed to achieve a certain outcome and councils were set up to fail.
- 3.93** The committee calls on the Premier and the NSW Government to withdraw the statements that these councils are 'unfit'. The committee considers that many of these councils should not have been found unfit and should not be labelled as such.

Recommendation 1

That the Premier and NSW Government withdraw the statements that 71 per cent of councils in metropolitan Sydney and 56 per cent of regional councils are ‘unfit’.

- 3.94** The committee notes a recurring criticism from inquiry participants was that the NSW Government’s reform package was too focused on amalgamations and structural reform, rather than addressing the entire set of recommendations made by the ILGRP. Of particular concern was the suggestion what the focus on structural reform came at the cost of the implementation of other important recommendations of the ILGRP.
- 3.95** The committee considers that a more constructive approach to the NSW Government’s reform program would have been to implement other recommendations of the ILGRP prior to embarking on any structural reforms to the local government sector.
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Finding 3

That the recommendations of the Independent Local Government Review Panel that were unrelated to structural reform should have been implemented before considering amalgamations.

- 3.96** The committee notes that there are a number of positive outcomes resulting from the NSW Government’s Fit for the Future reforms. Chief among these is the fact that it has encouraged local councils across the state to review their long term sustainability and consider ways to improve their performance and service delivery to the community.
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Finding 4

That the Fit for the Future reforms provided a positive impetus for local councils to review their long term financial sustainability and improve their performance, but the methodology prescribed by the government was too restrictive and rushed for councils to take full advantage of the process.

- 3.97** The committee supports the use of incentives to encourage reform. However, the committee is of the view that, regardless of the outcome of the Fit for the Future assessment process, a number of the NSW Government’s proposed incentives should be offered to all councils. For example, access to the state borrowing facility should be made available to all councils. It would be unfair to punish councils that are struggling financially by denying them access to a lower borrowing rate that could assist in re-stabilising their fiscal position.
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Recommendation 2

That the NSW Government provide all local councils in New South Wales access to the proposed Fit for the Future incentives, regardless of the Independent Pricing and Regulatory Tribunal's assessment of whether a council is 'fit' or 'unfit'.

Chapter 4 Financial sustainability of councils

The financial sustainability of the local councils in New South Wales has been of significant concern for some time. This chapter provides an overview of the financial sustainability of the local government sector in New South Wales, and highlights the variability between councils' financial positions. A number of the factors that affect councils' financial sustainability will be examined, including rate pegging, Financial Assistance Grants, cost shifting from the state and federal governments, rate exemptions and the rating system for apartments.

Financial sustainability of the local government sector in New South Wales

4.1 Over the past decade a number of reviews and reports have considered the financial sustainability of the local government sector in New South Wales. These have included the 2006 Independent Inquiry into the Financial Sustainability of NSW Local Government, commissioned by the Local Government and Shires Association (the Allan inquiry), which 'raised serious concerns for the financial sustainability of NSW councils and highlighted increasing infrastructure backlogs and consistent underspending on asset maintenance'.¹¹⁶

4.2 A more recent review by Treasury Corporation (TCorp) in 2013 found similar results, as noted by Local Government NSW (LGNSW) in its submission to this inquiry:

The TCorp Review of the Financial Sustainability of the NSW Local Government Sector (2013) confirmed what the Local Government sector has been saying for a decade since the Allan inquiry: it found that many NSW councils were financially unsustainable in the long run under current policy settings and structural arrangements. This was characterised by a large sectoral infrastructure renewal backlog of \$7.2 billion, an asset maintenance gap of \$389 million and a net sectoral operating deficit.¹¹⁷

4.3 Another 2013 report, the *Local Government Infrastructure Audit* by the Office of Local Government found a \$7.4 billion infrastructure backlog across all councils in the state. The report also identified consistent underspending on asset maintenance.¹¹⁸

4.4 In his evidence to the committee, the Minister for Local Government commented on the findings of the TCorp report and the worsening trajectory that many councils were on, if they made no changes to improve their fiscal position:

... we saw TCorp go out and do some further analysis of councils financially. As a part of that particular report it indicated back in 2012 that a third of the councils in New South Wales were in a weak or very weak position. They actually indicated that if nothing was to change, then within three years 50 per cent of councils would be in a weak or very weak position.¹¹⁹

¹¹⁶ Office of Local Government, *Briefing: Presentation by the Office of Local Government*, 24 June 2015.

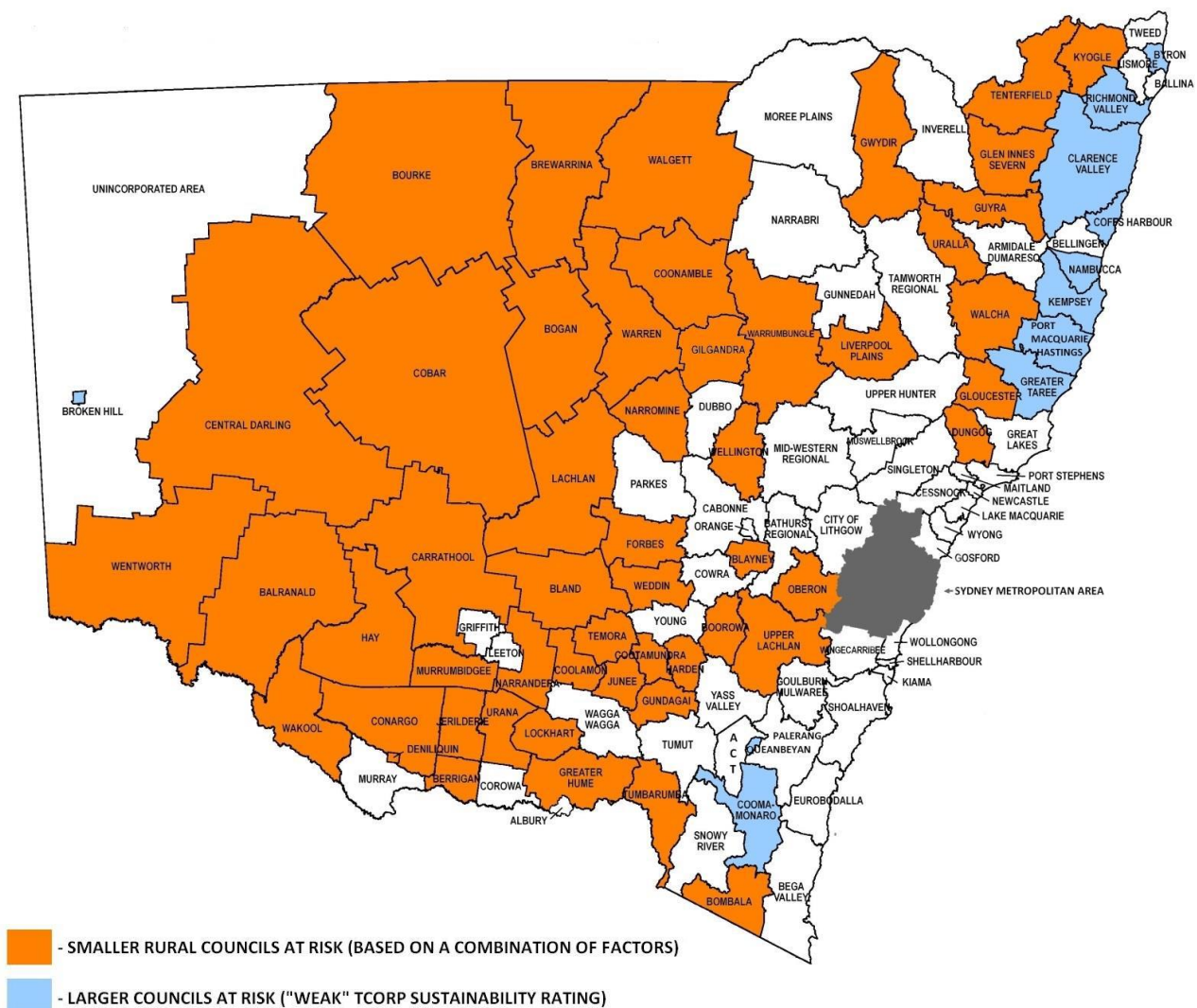
¹¹⁷ Submission 142, Local Government NSW, p 3.

¹¹⁸ Office of Local Government, *Briefing: Presentation by the Office of Local Government*, 24 June 2015.

¹¹⁹ Evidence, the Hon Paul Toole MP, Minister for Local Government, 17 August 2015, p 35.

4.5 The Independent Local Government Review Panel (ILGRP) similarly commented in its 2013 report, *Revitalising Local Government*, that ‘without corrective action the overall position of the sector is likely to deteriorate’. The following maps, from the ILGRP’s report, show the councils in New South Wales that the ILGRP deemed to be ‘at risk’. The ILGRP’s assessment was based on the 2013 TCorp review, the 2013 infrastructure audit, population projections and a ‘state-wide cluster-factor analysis of local government areas’.¹²⁰

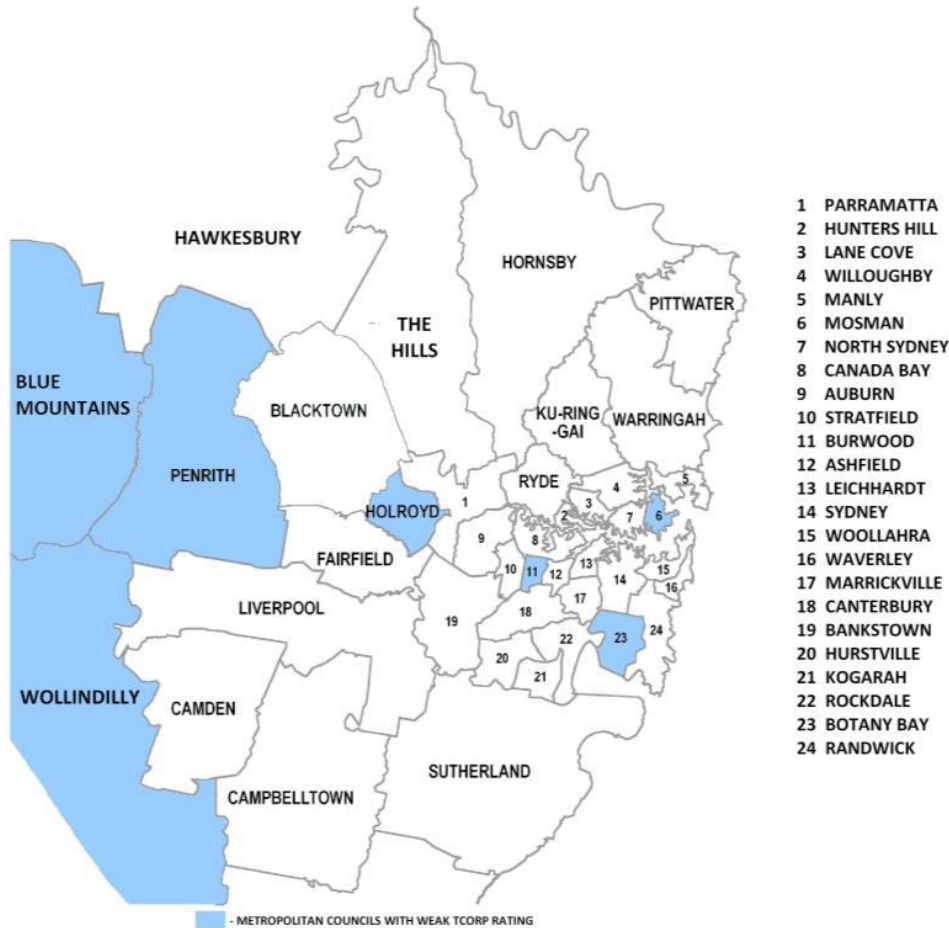
Figure 5 Regional councils at risk



Source: Independent Local Government Review Panel, ‘Revitalising Local Government’, (Final Report, October 2013) p 29.

¹²⁰ Independent Local Government Review Panel, ‘Revitalising Local Government’, (Final Report, October 2013) 28.

Figure 6 Sydney metropolitan councils at risk



Source: Independent Local Government Review Panel, 'Revitalising Local Government', (Final Report, October 2013) p 29.

Claims that councils are 'losing a million dollars a day'

- 4.6 When the NSW Government announced the Fit for the Future reform package the Premier, the Hon Mike Baird MP, issued a media release in which Mr Baird was quoted as saying 'more than one-third of the State's councils are facing financial problems - losing more than \$1 million a day'.¹²¹
- 4.7 The Minister for Local Government, the Hon Paul Toole MP, was reported as making similar comments. The *Newcastle Herald*, for example, quoted Mr Toole as saying 'Councils are losing over \$1 million a day'.¹²²
- 4.8 The Minister's and Premier's comments were raised by numerous inquiry participants and were the subject of some dispute in public debate. LGNSW, for example, suggested the

¹²¹ Media release, Hon Mike Baird MP, Premier, 'Record \$1 billion package to help NSW councils become fit for the future', 10 September 2014.

¹²² Ian Kirkwood, 'NSW council losing \$1m a day', *Newcastle Herald*, 7 September 2014, p 1.

comment that councils were losing a million dollars a day was too simplistic a characterisation of the financial sustainability of councils in New South Wales:

It is totally misleading to say that councils are losing a million dollars a day. While many individual councils are currently reporting operating deficits as indicated by the Operating Performance Ratio (OPR), at the same time a significant proportion are reporting very modest deficits or surpluses. Further, the OPR is but one of many financial indicators of the financial sustainability that need to be considered holistically and in context. For example, operating surpluses can be achieved by allowing infrastructure to deteriorate.

... The OPR needs also analysed as a trend line over time, as annual results are subject to distortion by abnormal items such as the impact of natural disasters and the timing of grant payments.¹²³

- 4.9** Some other local councils similarly raised the ministers comments. Holroyd City Council agreed that the statement was misleading and claimed it did not accurately reflect the long term sustainability of councils:

This statement was misleading in the extreme and led the listener to believe that New South Wales Councils are collectively losing \$1 million dollars every day in cash.

This ongoing statement is factually incorrect. It ignores fundamental reasons, like why councils will sometimes have an operating deficit for valid reasons which in no way reflect on their long term financial sustainability ... If councils were losing a million dollars a day they would have been out of business a long time ago and their assets and services would have ceased to be provided, also a long time ago.¹²⁴

- 4.10** During the inquiry, the committee asked the Office of Local Government to explain the source of the '\$1 million a day' figure quoted by the Minister. The Office of Local Government provided the following response:

In a letter to the Office of Local Government in September 2014, NSW Treasury Corporation stated that the total operating results for councils in deficit in 2012/13 was an aggregated deficit in excess of \$400 million. The 2013/14 audited financial statements of councils show total operating income for all councils in 2013/14 was \$9.715 billion and total expenditure was \$10.075 billion, translating into a net operating deficit for the sector of \$359.442 million: or approximately \$1 million a day. This information is available in the Your Council report on the office of Local Government web site.¹²⁵

- 4.11** In his evidence to the inquiry, the Minister similarly referred to the above-mentioned reports from TCorp, when questioned by the committee about the '\$1 million a day' comment.¹²⁶

¹²³ Submission 142, Local Government NSW, p 6.

¹²⁴ Submission 71, Holroyd City Council, p 5.

¹²⁵ Answers to supplementary questions, Office of Local Government, 22 August 2015, p 15.

¹²⁶ Evidence, the Hon Paul Toole MP, Minister for Local Government, 17 August 2015, p 35.

Variability in councils' financial sustainability

- 4.12** There is significant variation in the financial position of local councils in New South Wales. The size of council budgets, sources of revenue and types of expenditure all vary greatly from one local government area to the next in New South Wales.
- 4.13** This variation is most significant between the metropolitan councils and the smallest rural councils. In terms of revenue, for example, the 2013-14 total revenue from continuing operations for Conargo Shire Council was \$6.7 million. This compared with revenue of \$597 million for the City of Sydney Council. Council expenditure (total expenses from continuing operations) shows similar variation, ranging from \$7 million for Murrumbidgee Shire Council to \$501 million for the City of Sydney Council.¹²⁷
- 4.14** The source of revenue for councils also varies considerably. A number of smaller rural councils receive little income from residential rates, for example, Brewarrina Shire Council, Jerilderie Shire Council and Urana Shire Council all had residential rating income of less than \$100,000 in 2013-14. The Minister for Local Government advised that councils in the far west rely heavily on grant income, telling the committee Central Darling Shire Council, for example, collects just seven per cent of its income from rates.¹²⁸ Larger city councils, however, often earn considerably more from residential rating income. Councils such as Blacktown City Council, Lake Macquarie City Council, Sutherland Shire Council and Wollongong City Council all received more than \$80 million in 2013-14.¹²⁹
- 4.15** The rates that residents pay vary from one council to the next, and again it is often the smaller rural councils that have the lowest rates. In 2013-14, Bogan Shire Council, Brewarrina Shire Council and Urana Shire Council each had average residential rates of less than \$200. The councils with the highest rates were Hunters Hill Council and Pittwater Council, which charged rates of more than \$1400 on average.¹³⁰
- 4.16** The committee heard that rural councils are often not in a position to charge higher rates than they currently do. Cr Andrew Lewis, Mayor of Bourke Shire Council, informed the committee that 'our ratepayers are already paying as much as they can pay. We are probably owed \$1 million in unpaid rates'.¹³¹
- 4.17** Cr Lewis further explained that due to the lower property values in rural areas people are more likely to let the council reclaim land to cover unpaid rates:

... we sell blocks of land for unpaid rates. If your block is worth a million dollars you would make sure you paid the rates because you would not want the shire selling it on

¹²⁷ Office of Local Government, *Your Council Report: Time Series Data 2011/12 – 2013/14*, www.olg.nsw.gov.au/public/my-local-council/yourcouncil-website.

¹²⁸ Evidence, the Hon Paul Toole MP, Minister for Local Government, 17 August 2015, p 46.

¹²⁹ Office of Local Government, *Your Council Report: Time Series Data 2011/12 – 2013/14*, www.olg.nsw.gov.au/public/my-local-council/yourcouncil-website.

¹³⁰ Office of Local Government, *Your Council Report: Time Series Data 2011/12 – 2013/14*, www.olg.nsw.gov.au/public/my-local-council/yourcouncil-website.

¹³¹ Evidence, Cr Andrew Lewis, Mayor, Bourke Shire Council, 17 August 2015, p 8.

you, but if it is only worth \$5,000 quite often it is better to get the shire to sell it for unpaid rates.¹³²

- 4.18** Cr Jim Hampstead of Bogan Shire Council made similar comments to the committee, noting that even if their council reclaims land to cover unpaid rates it struggles to resell the properties to recoup any funds:

You cannot get blood out of a stone; a rural community has not got a lot of money. It is the same thing with the price of land. The shire owns a lot of blocks—the people just do not pay the rates so now we own them—but you can't sell them because no-one wants them.¹³³

Responses to online questionnaire: financial sustainability of local councils

While much of the evidence presented to the inquiry raised concerns about the ongoing financial sustainability of the local government sector, the responses to the committee's online questionnaire were somewhat more positive in their outlook, in regard to the respondents' own local councils at least. 75 per cent of respondents to the questionnaire thought that their local council was financially sustainable, moving into the future.¹³⁴

Factors affecting financial sustainability

- 4.19** The different factors affecting the financial sustainability of councils were discussed by inquiry participants. Among these were attributes specific to individual councils, such as the population size, incomes of rate payers and number of businesses in the council area. Others were the result of historical decisions and policies imposed by state and federal governments, such as cost shifting, freezing Financial Assistance Grants (FAGs), rate pegging and other aspects of the rating system. These are discussed further below.
- 4.20** Mosman Council's submission to the inquiry explained to the committee the three key elements it considered were fundamental to ensuring the financial sustainability of a council:

The financial sustainability of councils depends fundamentally on the size of the business base, the incomes of rate payers and the density of population (see Abelson, 2015, which is submitted separately). Councils with a sizeable business base, average or above average household incomes and medium or high density are fundamentally sustainable. By contrast councils with a weak business base, low income households and low density may need financial support.¹³⁵

- 4.21** The committee heard that at least one of the factors in the apparent deterioration of council finances over recent years was due to changes in the way that councils' budget results were calculated. Cr Peter Abelson, Mayor of Mosman Council provided some background on the history of how rates were set and operating results for councils determined, noting that

¹³² Evidence, Cr Lewis, 17 August 2015, p 8.

¹³³ Evidence, Cr Jim Hampstead OAM, Deputy Mayor, Bogan Shire Council, 17 August 2015, p 23.

¹³⁴ Responses to online questionnaire.

¹³⁵ Submission 44, Mosman Council, p 2.

changes to the accounting treatment of capital grants made a large impact on councils' financial results:

Up until 2012 councils were considered to be quite viable and rate pegging was based on that concept if you had a surplus after including capital grants. That was always the case and that was how the Office of Local Government actually set rates. TCorp pointed out that you should really separate out the operating budget from the capital grant and if you had \$1 million of capital grants they should not be counted. That changed the results for lots of councils, including for Mosman, but I will not go into those details. TCorp was quite right but the convention changed overnight.¹³⁶

Calls to 'fix the funding first'

4.22 In its submission to the inquiry, LGNSW suggested that real and lasting improvement of the financial sustainability of the local government sector will not be achieved 'unless the funding framework for Local Government is reformed'.¹³⁷

4.23 LGNSW argued that the current state of local government finances is 'largely the result of systemic flaws in the funding system for Local Government, both in NSW and at a national level'. They suggested that issues such as the large infrastructure backlog, asset maintenance gap and operating deficits would not be rectified by simply amalgamating councils. LGNSW called for change to the funding system:

There must be an end to rate pegging, fewer rate exemptions, reform of regulated fees and charges, an end to cost shifting, and a fair go in direct funding from the NSW and Commonwealth Governments. LGNSW says Fix the Funding First.¹³⁸

4.24 Three of the key issues raised by LGNSW following its call to 'fix the funding first' were rate pegging, FAGs and cost shifting.¹³⁹ Each of these will be considered in more detail in the following sections, together with concerns about rates exemptions and rates for apartments.

4.25 LGNSW also called on the NSW Government to urgently implement 11 of the recommendations of the ILGRP that related to fixing the funding for the local government sector:

...fixing the funding model would provide the means for substantially addressing the financial sustainability of NSW Local Government. Eleven of the 65 recommendations of the Independent Local Government Review Panel (ILGRP) related to fixing the funding model, and of those 11 recommendations, none have yet been fully implemented. We urge the NSW Government to act on those under its control, as a matter of urgency.¹⁴⁰

¹³⁶ Evidence, Cr Peter Abelson, Mayor, Mosman Council, 27 July 2015, p 62.

¹³⁷ Submission 142, Local Government NSW, p 3.

¹³⁸ Submission 142, Local Government NSW, p 3.

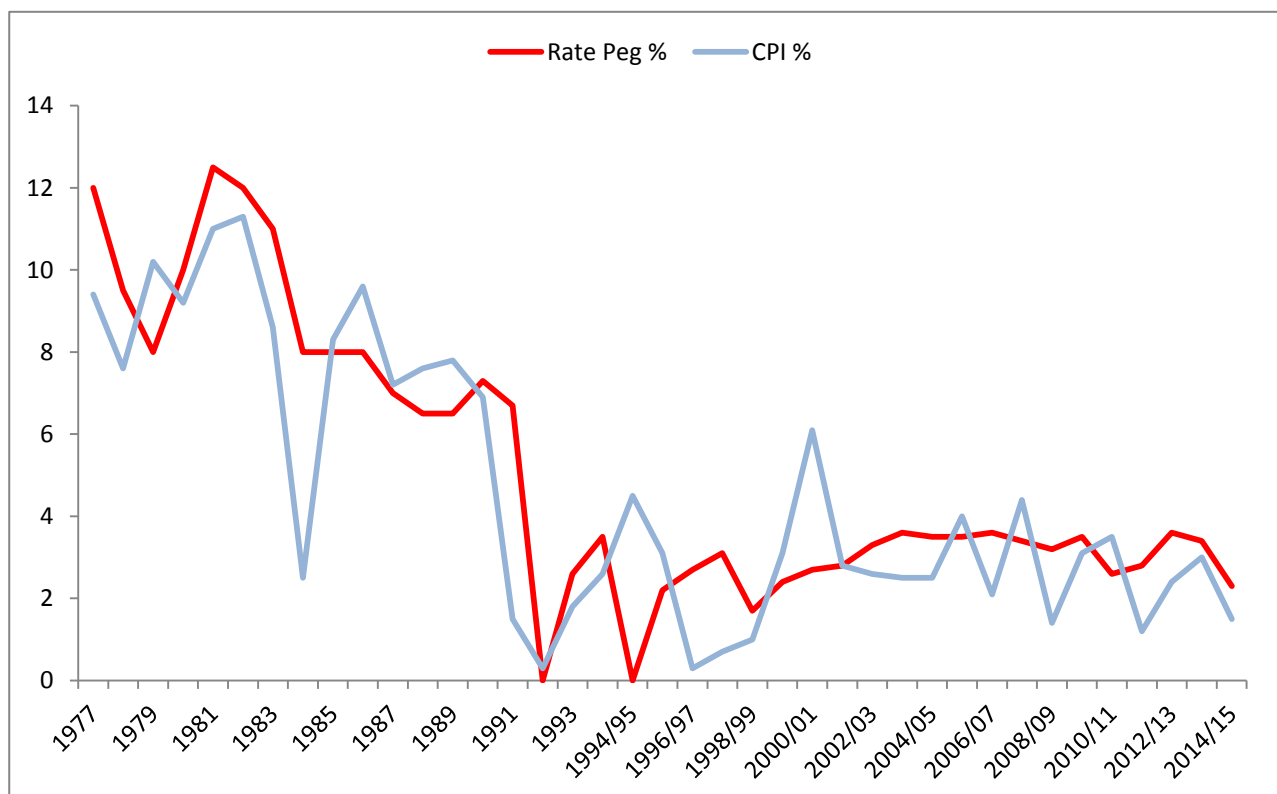
¹³⁹ Submission 142, Local Government NSW, p 3.

¹⁴⁰ Submission 142, Local Government NSW, p 8.

Rate pegging

- 4.26** As noted in chapter 2, rate pegging began in New South Wales in 1977. Since that time, the NSW Government has set the upper limit or ‘rate peg’ for annual rate increases for local councils. The rate peg varies each year and since its inception the rate peg has ranged from 0 to 12 per cent.
- 4.27** In 2011-12, Independent Pricing and Regulatory Tribunal (IPART) was appointed to independently determine the rate peg for the following year and it has continued to do so for the past four years. IPART’s determination is mainly based on the Local Government Cost Index, which measures price changes over the previous year for goods, materials and labour used by an average council; along with a productivity factor which aims to ensure that councils share productivity gains with ratepayers.
- 4.28** During the inquiry the committee sought information from the Office of Local Government about the history of rate increases in New South Wales since the inception of rate pegging. The following graph shows the movements in the rate peg since 1977, along with a comparison between the rate peg and Consumer Price Index over that period.

Figure 7 Comparison between rate peg and Consumer Price Index



Source: Answers to supplementary questions, Office of Local Government, 27 July 2015.

- 4.29** The committee also requested the Office of Local Government provide information about how rate increases in New South Wales compared with those in other states since the inception of rate pegging. The Office of Local Government responded that it did not have comparative information dating back to the 1970s, but provided the following information, relating rate increases over the four years to 2014-15.

Table 6 Rate increases in New South Wales compared with other states

Jurisdiction	Rate increase 2011/12 to 2014/15
New South Wales	17.77 per cent
Queensland	19.87 per cent
Western Australia	23.89 per cent
Victoria	25.00 per cent

Source: Answers to questions on notice, Office of Local Government, 17 September 2015, p 2.

- 4.30** LGNSW contended that rate pegging has disadvantaged councils in New South Wales for almost 40 years and that it has led to the lowest rates in the country, outside of the Northern Territory. It further noted that if New South Wales rates were at the national average it would raise almost \$1 billion extra each year, which would address the financial sustainability issues that councils in the state are facing:

NSW Councils have been disadvantaged by nearly four decades of rate pegging. As a result, NSW has the lowest per capita council rates of any jurisdiction other than the Northern Territory (which relies heavily on Commonwealth funding). Rates per capita in NSW in 2012-13 were \$499 compared to the national average of \$633. If NSW rates were brought up to the national average they would raise an additional \$971 million per annum, sufficient in itself to address deficits and backlogs.¹⁴¹

- 4.31** Ms Jude Munro, a former member of the ILGRP, presented a strong view that rate pegging had undermined the sustainability of local councils in the state:

We had a unanimous view on the issue of rate pegging, but I have to say that that followed some very vigorous debate internally within the panel. I personally believe—and it is a technical term—that New South Wales local government has been knackered by the decisions made back in 1976. The notion of a strong local government system has been really undermined by a rate-pegging decision ...¹⁴²

- 4.32** The Riverina and Murray Regional Organisation of Councils (RAMROC) claimed that rate pegging, along with the cost shifting of services from state and federal governments, were the principal contributors to the financial sustainability and infrastructure backlog problems that confront many councils throughout New South Wales.¹⁴³

- 4.33** Shellharbour City Council's submission further explained how rate pegging has affected the way councils raise funds:

Rate pegging has meant that Local Government has not been readily able to introduce rate variations into the community that reflect the cost of service provision to that community in accordance with its expectations. This has meant that Local Government has been forced to explore higher risk sources of income, as well as be perpetually competing for grant allocations, thereby burdening it with further bureaucracy.

¹⁴¹ Submission 142, Local Government NSW, p 3.

¹⁴² Evidence, Ms Jude Munro, former member of the Independent Local Government Review Panel, 27 July 2015, p 49.

¹⁴³ Submission 97, Riverina and Murray Regional Organisation of Councils, p 2.

Local Government is currently forced to resort to Special Rate Variations, which produce a sporadic and uneven rate burden upon the community in order to deliver funding which is highly tied in nature and therefore not able to respond to the varying resource needs of communities. At the very least, the ability suggested in the ILGRP final report, for Councils to consider a short term rate increase of up to 5% above the rate peg without further reference to the IPART needs further consideration.¹⁴⁴

- 4.34** Blacktown City Council was another council that highlighted rate pegging as the most significant issue affecting financial sustainability in the local government sector. The council noted that there had been some improvement in how the rate peg was set in recent years, but the system was still in urgent need of reform:

The most significant general issue affecting NSW councils' financial sustainability is rate pegging. The long-term policy of rate pegging in NSW represents a very clear negative impact on the ability of councils to deliver essential services to growing populations.

The regulation of council income through rate pegging is a situation overdue for urgent review. It is a policy which is directly at odds with the responsibilities which councils carry for long term strategic planning for the communities we serve and the statutory requirements for long-term planning for finances and infrastructure. Given the growing expectations for councils to do more, then surely they have the financial capacity to determine their own rates in a responsible and transparent manner.

Despite recent changes in the assessment of special rate variations, the rate cap merely factors in underlying costs and inflationary pressures and ignores the reality of escalating expenses to fund growing community demands for increased services and infrastructure.

Notwithstanding recent improvements which have (in some years) seen IPART allowing rises above inflation and more in line with increasing costs of local government, rate pegging has still limited the ability of many councils to adequately vary their rates and to better secure their own financial positions. Increases in rate pegging have not kept pace with overall cost increases incurred by local government and in particular the backlog of infrastructure maintenance work and renewal work that cannot be funded.¹⁴⁵

- 4.35** The submission from the Institute of Public Works Engineering Australasia raised a separate concern about the current method of calculating the rate peg, arguing that it can lead to a funding shortfall for councils:

While rate pegging is determined having regard to the calculation of a Local Government Cost Index (LGCI), this does not provide increases which maintain parity with the appropriate Road Construction Cost Index. This creates a funding shortfall because of the value of assets and the ongoing need to maintain and renew this infrastructure is higher than the rate peg, ultimately creating a funding gap that needs to be addressed through a special rate variation.¹⁴⁶

¹⁴⁴ Submission 57, Shellharbour City Council, p 3.

¹⁴⁵ Submission 72, Blacktown City Council, p 7.

¹⁴⁶ Submission 129, Institute of Public Works Engineering Australasia, p 21.

4.36 A number of councils recommended that rate pegging should be removed or reformed. The North Sydney Regional Organisation of Councils (NSROC) for example, supported reforming rate pegging to enable councils to set rates that allow them to meet service needs:

NSROC Councils support major reform to rate setting controls. Councils are generally of the view that, with appropriate checks and balances and in consultation with their communities, they should be able to set rates that allow them to meet the local service needs and expectations established under their Integrated Planning & Reporting Framework (IPR) plans.¹⁴⁷

4.37 Newcastle City Council supported the removal of rate pegging,¹⁴⁸ while Boorowa Council argued that unless rate pegging was addressed and ‘alternate, equitable and reliable revenue streams are developed’, the long term sustainability of the sector would continue to decline.¹⁴⁹

4.38 In its final report, *Revitalising Local Government*, the ILGRP came to the following conclusion about the adverse impact of rate pegging on the financial management of councils:

The Panel’s conclusion is that, while there is certainly a case for improving efficiency and keeping rate increase to affordable levels, the rate-pegging system in its present form impacts adversely on sound financial management. It creates unwarranted political difficulties for councils that really can and should raise rates above the peg to meet genuine expenditure needs and ensure their long term sustainability. The Panel can find no evidence from experience in other states, or from the pattern and content of submissions for Special Rate Variations, to suggest that councils would subject their rate payers to grossly excessive or unreasonable imposts if rate-pegging were relaxed.¹⁵⁰

4.39 The ILGRP’s report recommended either replacing rate pegging with a new system of ‘rate benchmarking’ and ‘more rigorous delivery programs’, which would require proposed rate increases and associated expenditure to be subject to community consultation, or streamlining the existing arrangements to remove unwarranted complexities, costs and constraints.¹⁵¹

4.40 Professor Brian Dollery of the University of New England questioned whether the financial sustainability of councils should be assessed through the Fit for the Future process before the ILGRP’s recommendation on rate pegging was implemented:

Unfinished business relating to proposed removal of rate pegging. The Panel (2013) made a recommendation that the NSW rate-pegging scheme be overhauled in response to inter-municipal inequity and significant fiscal constraints inherent in the current regime. The NSW OLG [Office of Local Government] seems to have accepted this argument and has promised an independent inquiry into the current rate-pegging arrangements. The obvious question is whether ‘fitness for the future’

¹⁴⁷ Submission 66, Northern Sydney Regional Organisation of Councils, p 6.

¹⁴⁸ Submission 39, The City of Newcastle, p 1.

¹⁴⁹ Submission 67, Boorowa Council, p 3.

¹⁵⁰ Independent Local Government Review Panel, ‘Revitalising Local Government’, (Final Report, October 2013) p 42.

¹⁵¹ Independent Local Government Review Panel, ‘Revitalising Local Government’, (Final Report, October 2013) p 16, 43.

should thus be assessed according to current revenue constraints which are likely to be lifted in the short term?¹⁵²

- 4.41** The committee heard that not all councils would immediately benefit from the removal of rate pegging. Cr Lewis, for example, told the committee that small rural councils such as his would have little opportunity to raise rates even if rate pegging were removed.¹⁵³

Financial Assistance Grants

- 4.42** FAGs are grants from the Australian Government to local government bodies, via state governments. As part of the 2014 budget, the Australian Government froze the indexation of FAGs at the current level until 2017-18.
- 4.43** LGNSW explained that the indexation freeze would lead to a reduction, in real terms, of funding for the local government sector, costing local councils in New South Wales over \$285 million over the forward estimates period until 2017-18:

There is an ongoing decline in Australian Government financial support for Local Government relative to economic growth (GDP) and the growth in national taxation revenues. This has been exacerbated by the current freeze on FAG indexation. This decision will see FAGs frozen at their current level until 2017-18 and will result in a permanent reduction in the FAGs base by about 13 per cent. In NSW the FAGs indexation freeze will result in losses from forgone revenue of approximately \$287.7 million over the forward estimates to 2017-18.¹⁵⁴

- 4.44** The submission from LGNSW further noted that, in 2013-14, FAGs amounted to around 0.67 per cent of Commonwealth taxation revenue and that the decision to freeze FAGs until 2017-18 would see that proportion drop to less than 0.60 per cent. According to LGNSW, this reduction continued a long term trend, noting in contrast that in 1995-96 and 1996-97 FAGs represented around 1 per cent of total Commonwealth taxation revenue.¹⁵⁵
- 4.45** At the public hearing on 27 July 2015, Mr Keith Rhoades, President of LGNSW stated that the freeze in FAGs had 'hurt councils quite dramatically in delivering services ... particularly in regional and rural areas'.¹⁵⁶
- 4.46** Blacktown City Council was among a number of stakeholders to call for the NSW Government to support the restoration of indexation of FAGs.¹⁵⁷
- 4.47** At its hearing on 18 August, the committee discussed the freeze on FAGs with the Minister for Local Government. Mr Toole informed the committee that he had made representations to the Australian Government relating to FAGs,¹⁵⁸ and he later submitted a letter he had sent

¹⁵² Submission 5, Professor Brian Dollery, p 21.

¹⁵³ Evidence, Cr Lewis, 17 August 2015, p 2.

¹⁵⁴ Submission 142, Local Government NSW, p 3.

¹⁵⁵ Submission 142, Local Government NSW, p 8.

¹⁵⁶ Evidence, Mr Keith Rhoades, President, Local Government NSW, 27 July 2015, p 19.

¹⁵⁷ Submission 72, Blacktown City Council, p 8.

¹⁵⁸ Evidence, the Hon Paul Toole MP, Minister for Local Government, 17 August 2015, pp 37-38.

to the Hon Warren Truss MP, Commonwealth Minister for Infrastructure and Regional Development, requesting that the Australian Government reconsider its decision to pause indexation of FAGs.¹⁵⁹

- 4.48** Another issue relating to FAGs raised during the inquiry was the potential to redistribute the grants according to need, so that councils in the most need of financial assistance would receive the bulk of the federal funding. This issue was canvassed in the ILGRP's final report, which recommended that the NSW Government:

Subject to any legal constraints, seek to redistribute federal Financial Assistance Grants and some State grants in order to channel additional support to councils and communities with the greatest needs.¹⁶⁰

- 4.49** Marrickville Council suggested that larger metropolitan councils would be amenable to a redistribution of FAGs, if rates could be increased more easily:

There is a willingness by larger metropolitan Councils to be able to build in a phased redistribution of FAGs, if there were greater capacity to set rates without lengthy IPART submissions. The FAGs could be gradually reduced, so as to lessen the financial burden for those Councils that will receive a reduction, and eventually, no FAGS.¹⁶¹

- 4.50** Cr Lewis suggested that if other councils were able to increase their rates following the removal of rate pegging, then the FAGs for those councils might instead be redirected to far west councils that have no realistic opportunity to raise rates:

Certainly rate pegging is not a big issue for our local government. Our rates are high enough anyway. People pay more rates here, so taking rate pegging away would not assist us much. Maybe if those councils that can increase their rates, like some of the big city councils where land is worth money and they know they are going to get paid—we do not even get paid some of our rates—increase their rates then we would have access to their financial assistance grants [FAGs]. The Western Division councils could access more FAG grants. There is no way a council like Bourke can operate without any grants ... Getting rid of rate pegging would not help us much at all because we just cannot charge enough. People are at their limit of paying rates anyway. But if other councils are able to increase their rates, we could access their FAG grants. That would certainly assist us.¹⁶²

- 4.51** On the other hand, the submission from Bankstown City Council suggested that some metropolitan councils, such as Bankstown, were also relatively disadvantaged and suggested that any redistribution of FAGs should also take into consideration the level of disadvantage in some metropolitan councils:

Consideration should also be given to where a Local Government Area sits on the SEIFA [Socioeconomic Indexes for Areas] index and in doing so, consider the ability of its community to pay. For instance, based on data collected from the 2011 census,

¹⁵⁹ Answers to questions on notice, Minister for Local Government, 16 September 2015, pp 2-3.

¹⁶⁰ Independent Local Government Review Panel, 'Revitalising Local Government', (Final Report, October 2013) p 16.

¹⁶¹ Answers to supplementary questions, Marrickville Council, 21 August 2015, p 2.

¹⁶² Evidence, Cr Lewis, 17 August 2015, p 2.

the City of Bankstown is rated as having an index of relative socio-economic disadvantage of 946. This means that the LGA [Local Government Area] is more disadvantaged than over 60% of other LGA areas in NSW.

Accordingly, Bankstown City Council aims to set rates and charges at a level that provides a sustainable income but does not impose undue hardship on property owners. While the Fit for the Future Road map suggests that government financial assistance could be redistributed to rural and regional areas, this principle ignores the high level of disadvantage faced by some metropolitan councils.¹⁶³

- 4.52** Ms Amanda Bray of Fairfield City Council raised a similar concern, pointing out that Fairfield was the third most disadvantaged local government area in the state, and agreeing that any redistribution of FAGs should be based on socioeconomic indexes for areas data on disadvantage.¹⁶⁴

Cost shifting by state and federal governments

- 4.53** Cost shifting was a third key issue raised by LGNSW in relation to fixing the funding of the local government sector. LGNSW defines cost shifting as a situation where the responsibility for, or costs of, providing certain services, assets or regulatory functions are 'shifted' from a higher level of government on to a lower level of government without providing corresponding funding or revenue raising capacity.¹⁶⁵
- 4.54** LGNSW conducts an annual cost shifting survey of local councils in New South Wales, which attempts to identify and measure the amount of cost shifting that occurs. In its submission to the inquiry, LGNSW informed the committee that, according to its 2011-12 survey, cost shifting amounted to \$521 million in 2011-12. This accounted for 5.6 per cent of local government's total income before capital. LGNSW further noted that the impact of cost shifting had increased significantly in recent years, rising from \$380 million in 2005-06.¹⁶⁶ LGNSW urged the NSW Government to bring an end to cost shifting.¹⁶⁷
- 4.55** A number of councils and other stakeholders, including Bourke Shire Council, Canterbury City Council, Marrickville Council, the Orana Regional Organisation and Councils, and the United Services Union, also highlighted cost shifting from state and federal governments as having a significant impact on the finances of local councils in New South Wales.¹⁶⁸

¹⁶³ Submission 51, Bankstown City Council, p 4.

¹⁶⁴ Evidence, Ms Amanda Bray, Director, Corporate Governance, Fairfield City Council, 27 July 2015, p 61.

¹⁶⁵ Local Government NSW, *Cost Shifting Survey*, www.lgnsw.org.au/policy/finance/cost-shifting-survey.

¹⁶⁶ Submission 142, Local Government NSW, p 8.

¹⁶⁷ Submission 142, Local Government NSW, p 8.

¹⁶⁸ Evidence, Mr Ross Earl, General Manager, Bourke Shire Council, 17 August 2015, p 9; Evidence, Mr Jim Montague, PSM, General Manager, Canterbury City Council, 10 August 2015, p 45; Evidence, Mr Mark Gardiner, Mayor, Marrickville Council, 27 July 2015, p 60; Evidence, Mr Rex Wilson OAM, Board Member, Orana Regional Organisation of Councils, 17 August 2015, p 22; Evidence, Mr Stephen Hughes, United Services Union, 10 August 2015, pp 29 and 30.

- 4.56** Armidale-Dumaresq Council, on the other hand, provided an alternative view about cost shifting. In its answer to a question on notice, the council suggested that cost or service shifting was inevitable and that councils must adapt to such changes:

It was recognised that a general transfer of roles and functions from the State to local government needed to occur as many aspects of regulation and advice could be better served at a local level...If a business is going to grow, it must change. If in local government's case, the roles and functions are directed to change, then that is what must happen...Local government needs to accept that cost shift or service shifts will continue to occur ...¹⁶⁹

Rate exemptions

- 4.57** Rate exemptions, along with fees and charges that are regulated or fixed by the NSW Government or the *Local Government Act 1993*, were other areas of concern highlighted by LGNSW as impacting on the financial sustainability of local councils.
- 4.58** LGNSW indicated that the system of rate exemptions in New South Wales was archaic, with many exemptions carried over from the *Local Government Act 1919*. LGNSW suggested that many exemptions were now poorly targeted and inequitable and provided an example of rate exemptions on the commercial forestry operation of the Forestry Corporation of NSW. LGNSW stated that such exemptions contributed to the revenue shortfall for local government in the state and, in the case of the Forestry Corporation of NSW, the operations of the exempt organisation often added to local council expenditure on repairing council roads damaged by log trucks.¹⁷⁰
- 4.59** LGNSW suggested that this issue needed to be looked into further and that the 'commercial activities of government probably should actually make some contribution to the roads and things that they use'.¹⁷¹
- 4.60** Other inquiry participants to raise this issue included Cr Abelson of Mosman Council,¹⁷² Blacktown Council,¹⁷³ and Eurobodalla Shire Council. Eurobodalla Shire Council recommended reviewing rate exemptions to ensure they were equitable and sustainable:

Rate exemptions such as pensioner rebates and commercial activities in Forestry Corporation NSW and National Parks should be reviewed for sustainability and equity. National parks attract visitors and users of local infrastructure and Forestry Corporation NSW are a significant user of our rural roads, yet make no financial contribution to the provision, maintenance or renewal of infrastructure.¹⁷⁴

- 4.61** The fees and charges levied by local councils, but regulated by the State Government, was similarly brought up as an area for reform. LGNSW noted that a large proportion of local government fees and charges remain regulated by the NSW Government and many have not

¹⁶⁹ Answers to questions on notice, Armidale-Dumaresq Council, 8 September 2015, p 1.

¹⁷⁰ Submission 142, Local Government NSW, p 7.

¹⁷¹ Evidence, Ms Donna Rygate, Chief Executive, Local Government NSW, 27 July 2015, p 18.

¹⁷² Evidence, Cr Abelson, 27 July 2015, p 59.

¹⁷³ Submission 72, Blacktown City Council p 6.

¹⁷⁴ Submission 204, Eurobodalla Shire Council, p 2.

been reviewed or indexed for years.¹⁷⁵ Ms Donna Rygate, Chief Executive of LGNSW provided the following example of the charge for a zoning certificate to demonstrate their point:

Regulated fees and charges need to be looked at. We have a great example in our submission of the section 149 zoning certificates that people get when buying and selling property. They cost \$53 and they have cost \$53 since 1994. It possibly costs a little more to produce them now than it did then.¹⁷⁶

Rates for apartments

4.62 In New South Wales, local council rates are based on the land value, rather than capital improved value, of a property. This means that when valuing a property, all buildings and other improvements are disregarded and the value is determined according to what the land would be worth if it was an empty block.

4.63 Professor Graham Sansom, former Chair of the ILGRP, raised this issue, particularly in respect of the way that rates for apartments are determined, noting the ILGRP's proposal to base apartment rates on capital improved value:

Another major concern raised by the ILGRP was the need to change the basis on which apartments are rated. Currently, owners of high value apartments can pay much less in rates than owners of houses of similar value, because all rates are calculated on land value and the land value of an apartment block is typically divided between dozens or even hundreds of strata titles. In the City of Sydney, for example, most apartment owners pay only the minimum rate. This situation is clearly inequitable. Moreover, with the surge in apartment construction in many parts of Sydney as well as Wollongong, Newcastle and elsewhere, councils are foregoing large amounts of revenue that could reasonably be raised from apartment owners. The ILGRP proposed that in future councils have the option of rating apartments on their 'capital improved' value.¹⁷⁷

4.64 The committee discussed the ILGRP's proposal to change the basis for determining rates for apartments with Mr Anthony Pizzuto, Vice President of Local Government Professionals NSW. Mr Pizzuto noted the recommendation to change to capital improved values, rather than land value, but suggested that an alternative method of addressing the problem could be to apply a minimum rating for apartments.¹⁷⁸

4.65 Mr Pizzuto accepted that one of the detractions of the minimum rating method was that 'you might have a \$3 million penthouse being rated the same as a \$300,000 fibro property'.¹⁷⁹ However, he pointed out that a significant drawback of the capital improved method is that every property would need to be separately valued, which could be expensive to undertake:

¹⁷⁵ Submission 142, Local Government NSW, p 7.

¹⁷⁶ Evidence, Ms Rygate, 27 July 2015, p 18.

¹⁷⁷ Submission 132, Professor Graham Sansom, p 13.

¹⁷⁸ Evidence, Mr Anthony Pizzuto, Vice President, Local Government Professionals NSW, 10 August 2015, p 37.

¹⁷⁹ Evidence, Mr Pizzuto, 10 August 2015, p 37.

The problem with the capital improved side of things is you would then need to get all the things separately valued. For a block of units you would not just value the whole block, you would have to look at individual units within the block, which may be a relatively expensive exercise.¹⁸⁰

- 4.66** Mr Ray Brownlee, General Manager of Randwick City Council also raised this issue with the committee and proposed implementing a rating model in which the proportion of properties charged the base rate could be increased from 50 per cent (the current maximum) to 70 per cent. Mr Brownlee explained that as a result of such changes, the owners of units would ‘pay a little bit more and households would pay less,’ but ‘councils would not get any more money; the pie would not change but the distribution would change’.¹⁸¹
- 4.67** The submission from Sydney Metropolitan Mayors suggested that the rating system required a ‘fundamental, comprehensive review and overhaul’ addressing the total rating package, including exemptions and non-rateable properties and moving to end rate pegging.¹⁸²
- 4.68** The committee heard that a review of the current rating system is already planned by the NSW Government. The Government’s submission noted that it has agreed to conduct a review to address concerns raised by the ILGRP in relation to ‘the equity of the rating system, while ensuring that ratepayers are protected from unfair rate rises and pensioner concessions are maintained’.¹⁸³

Water utilities

- 4.69** The committee heard that for many councils, particularly those in rural and regional areas, water utilities play an important role in ensuring the financial sustainability of the council. For example, Mr Gary Woodman, General Manager of Cobar Shire Council, noted the impact that removing water utilities would have on council finances, not only for his own council but for almost all rural councils:

Mr WOODMAN: We are the provider of water services. Bulk water supply is through the Cobar Water Board but we are the administrator contract.

The Hon. ROBERT BORSACK: If the provision of water services was stripped out from the council what impact would that have on your bottom line?

Mr WOODMAN: It would completely make us unsustainable.

...

The Hon. ROBERT BORSACK: The State Government might be considering amalgamating all water services and then privatising them.

¹⁸⁰ Evidence, Mr Pizzuto, 10 August 2015, p 38.

¹⁸¹ Evidence, Mr Ray Brownlee, General Manager, Randwick City Council, 24 August 2015, p 6.

¹⁸² Submission 182, Sydney Metropolitan Mayors, p 12.

¹⁸³ Submission 109, NSW Government, p 9.

Mr WOODMAN: If they do that it would make almost every rural council in New South Wales completely unsustainable.¹⁸⁴

- 4.70** LGNSW further explained the role that water utilities play in many regional councils' budgets, and how this income underpins many other services provided by councils:

Water supply and sewerage services are a major part of most regional councils' operations often making up a quarter or more of councils' annual budget and employing a significant number of their workforce. Water supply and sewerage services enhance the robustness of councils' revenue base, their ability to undertake major projects, to employ a wider range of skilled staff, and to undertake strategic planning and foster knowledge, creativity and innovation, as well as the ability to achieve effective regional collaboration and be a capable partner for agencies of the NSW Government and the Australian Government.¹⁸⁵

Committee comment

- 4.71** The financial sustainability of the local government sector in New South Wales has been an issue of concern for some time. Both Government and independent reviews have highlighted concerns over infrastructure backlogs, underspending on asset maintenance and operating deficits of numerous councils throughout the state.
- 4.72** It appears that the Minister for Local Government attempted to draw attention to the problem with comments such as 'councils are losing over \$1 million dollars a day'. These comments were criticised by some stakeholders as being too simplistic a characterisation of the financial sustainability of local councils. The committee considers that such comments from the Minister were not helpful and may have undermined efforts to engage the sector in the Fit for the Future reform program.
- 4.73** While the committee believes the Minister's comments were not helpful, the evidence from numerous inquiry participants, including LGNSW, along with the findings of the reviews by IPART, the ILGRP, TCorp and the Office of Local Government, appear to demonstrate the challenging financial state that many councils find themselves in. This demonstrates the need for a mature discussion on local council funding that honestly grapples with the issues of rate pegging, redistribution of grant monies, rating structures and cost shifting.
- 4.74** The committee notes that there is significant variability in the financial position of councils throughout the state. Some small rural councils, for example, rely on FAGs for over 90 per cent of their revenue, while other large metropolitan councils receive more than \$80 million in rates each year.
- 4.75** In addition to the variability between councils, which greatly affects their financial positions, there are a number of other factors which have affected financial sustainability of all councils in the state over an extended period of time. These include rate pegging, rate exemptions and regulated charges, and cost shifting by state and federal governments. The freezing of FAGs will also have a significant impact in coming years.

¹⁸⁴ Evidence, Mr Gary Woodman, General Manager, Cobar Shire Council, 17 August 2015, p 10.

¹⁸⁵ Submission 142, Local Government NSW, p 13.

- 4.76 There were calls by stakeholders to address these factors, or in the words of LGNSW to ‘fix the funding first’, before commencing any structural reforms of local government, arguing that lasting improvement in the financial sustainability of councils will not be achieved otherwise.
- 4.77 Rate pegging has been in effect in this state for the past 40 years and the committee heard it has led to New South Wales councils having the lowest rates in the country, outside of the Northern Territory. Numerous councils and other inquiry participants called for removal of rate pegging and the committee notes the ILGRP’s conclusion that rate pegging system, in its current form, adversely impacts on the sound financial management of local councils.
- 4.78 The committee supports the ILGRP’s view that there needs to be reform of the rate pegging system. Communities should be able to decide the level of services provided by their local council and the rates they are willing to pay for such services. Rates, therefore, should be set by local councils in consultation with their community, rather than by the NSW Government. To ensure there is appropriate consultation and accountability, the committee considers that proposed rate increases by councils should be conditional on the delivery of a local works plan, which outlines the expenditure associated with the rate increase.
- 4.79 The committee notes that the NSW Government has committed to undertaking a review of the rating system in New South Wales and suggests that the removal of rate pegging should be considered during that review.

Recommendation 3

That, as part of its planned review of the rating system, the NSW Government evaluate the option of the removal of rate pegging and allow councils to determine their own rates conditional on the delivery of a local works plan outlining the expenditure associate with any proposed rate increases and demonstrated community support.

- 4.80 The decision to freeze FAGs at their current level until 2017-18 will have a significant impact on the funding, in real terms, of the local government sector over the coming years. The committee acknowledges that this was a decision of the Australian Government, and notes that Minister for Local Government has made representations to his federal counterparts on this matter. However, the committee remains concerned about this issue and calls on the Minister to join with local government to liaise further with his federal counterparts to seek a reversal of the decision to freeze FAGs.

Recommendation 4

That the Minister for Local Government work cooperatively with the NSW local government sector to petition the Australian Government to reverse its decision to freeze the indexation of Financial Assistance Grants.

- 4.81** In relation to FAGs, the committee notes the support from stakeholders, and a recommendation from the ILGRP, to redistribute the grants according to need, so that the councils in the most need of financial assistance would receive the bulk of the federal funding.
- 4.82** The committee notes that this proposal received support from a number of small rural councils, as well as some of the larger metropolitan councils that may lose funding as a result of any redistribution. For such councils, the willingness to redistribute FAGs was conditional on alternative opportunities being provided for councils to raise revenue, such as removing rate pegging. The committee sees merit in this proposal and suggests that if FAGs are redistributed, the NSW Government should ensure that other avenues for raising revenue, such as removing rate pegging or streamlining requests for rate increases, are made available to those councils that lose grant funding.
- 4.83** A number of stakeholders anticipated that rural councils would be likely to benefit most from a redistribution of FAGs. However, the committee notes that there are also some metropolitan councils whose communities are relatively disadvantaged. The committee considers that any redistribution should channel funding to councils and communities with the greatest needs. The decision should be based on the distinction between those councils that can afford to increase rates or introduce other revenue raising measures, and those that cannot as a result of a range of factors including population size, geographic size and location, and the socioeconomic profile of their communities.
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Recommendation 5

That the Minister for Local Government work cooperatively with the local government sector to petition the Australian Government to seek to redistribute Financial Assistance Grants in order to direct additional funding to councils with the greatest needs, provided councils with the capacity to raise additional local revenue are able to do so.

- 4.84** Cost shifting by state and federal governments is an issue that the committee considers is having a significant impact on the financial sustainability of local councils. The committee believes that where the responsibility for and costs of providing services, assets, concessions, or other regulatory functions are imposed on local government by the NSW Government, the NSW Government should provide adequate funding to cover the costs.
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Recommendation 6

That the NSW Government eschews future cost shifting and commits to providing adequate funding to local government for any new services, assets or regulatory functions that it devolves to local councils.

- 4.85** The committee acknowledges the concerns raised about rate exemptions and rates for apartments. The committee considers that it is appropriate for such issues to be addressed during NSW Government's planned review of the rating system.
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4.86 The committee notes the important role that water utilities play in ensuring the financial sustainability of many local councils, particularly those in regional areas. Water utilities are a core piece of the puzzle in regards to council finances and play an important part in securing the services that councils provide to their communities. The committee therefore recommends that those water utilities that are currently operated by local councils remain under the control of those councils.

Recommendation 7

That the NSW Government ensure that those water utilities that are currently operated by local councils remain under the control of those councils.

Chapter 5 Merits of the Fit for the Future criteria

The criteria used by the Independent Pricing and Regulatory Tribunal (IPART) to assess councils' Fit for the Future proposals are the focus of this chapter. The merits of each of the criteria – scale and capacity, sustainability, infrastructure and service management, and efficiency – are discussed, along with the associated performance measures and benchmarks for each criterion.

Fit for the Future criteria

- 5.1 As noted in chapter 3, IPART's assessment of the Fit for the Future proposals submitted by local councils was based on the following four criteria: scale and capacity, sustainability, infrastructure and service management, and efficiency.
- 5.2 Each of the criteria, except scale and capacity, had a number of specific performance measures which each council was assessed against. In turn, each of the performance measures had a benchmark that councils were expected to meet. The table below provides details of the measures and benchmarks for each criterion.

Table 7 Fit for the Future criteria and measures

Criteria and measures	Definition	Benchmark
1. Sustainability		
Operating Performance Ratio	$\frac{\text{Net continuing operating result (excl. capital grants and contributions)}}{\text{Total continuing operating revenue (excl. capital grants and contributions)}}$	Greater or equal to break-even average over 3 years
Own Source Revenue Ratio	$\frac{\text{Total continuing operating revenue (excl. all grants and contributions)}}{\text{Total continuing operating revenue (incl. capital grants and contributions)}}$	Greater than 60 per cent average over 3 years
Building and Asset Renewal Ratio	$\frac{\text{Asset renewals (building and infrastructure)}}{\text{Depreciation, amortisation and impairment (building and infrastructure)}}$	Greater than 100 per cent average over 3 years
2. Effective infrastructure and service management		
Infrastructure Backlog Ratio	$\frac{\text{Estimated cost to bring assets to satisfactory condition}}{\text{Total (Written Down Value) of infrastructure, buildings, other structures, depreciable land, and improvement assets}}$	Less than 2 per cent

Criteria and measures	Definition	Benchmark
Asset Maintenance Ratio	$\frac{\text{Net continuing operating result (excl. capital grants and contributions)}}{\text{Total continuing operating revenue (excl. capital grants and contributions)}}$	Greater than 100 per cent average over 3 years
Debt Service Ratio	$\frac{\text{Cost of debt service (interest expense and principal repayments)}}{\text{Total continuing operating revenue (excl. capital grants and contributions)}}$	Greater than 0 per cent but less than or equal to 20 per cent average over 3 years
3. Efficiency		
Real Operating Expenditure	$\frac{\text{Operating result}}{\text{Population}}$	A decrease in real operating expenditure per capita over time

Source: Independent Pricing and Regulatory Tribunal, 'Methodology for Assessment of Council Fit for the Future Proposals', (Consultation Paper, April 2015) p 7.

- 5.3** In determining whether a council was 'fit for the future', IPART did not require councils to meet all of the above benchmarks immediately, apart from scale and capacity, but rather councils were expected to meet or show improvement against each benchmark over a certain period of time.
- 5.4** For the sustainability measures, metropolitan and regional councils were expected to meet the benchmarks for operating performance and own source revenue within five years and, at a minimum, show improvement in the building and asset renewal measure. Rural councils, on the other hand, were expected to show how they planned to improve their current performance against the measures and to demonstrate how they would meet the benchmarks within 10 years.¹⁸⁶
- 5.5** For the infrastructure and service management measures, all councils were expected to meet the debt service ratio benchmark within five years and to meet or demonstrate improvement in the other two measures.¹⁸⁷
- 5.6** For the efficiency measure, metropolitan and regional councils that proposed to stand alone were expected to demonstrate operational savings within five years. Rural councils and council that proposed mergers had the same benchmark but there was greater discretion allowed, because IPART recognised that achieving savings may not be practical in the short term.¹⁸⁸

¹⁸⁶ Independent Pricing and Regulatory Tribunal, 'Methodology for Assessment of Council Fit for the Future Proposals', (Consultation Paper, April 2015) pp 41-42.

¹⁸⁷ Independent Pricing and Regulatory Tribunal, 'Methodology for Assessment of Council Fit for the Future Proposals', (Consultation Paper, April 2015) p 45.

¹⁸⁸ Independent Pricing and Regulatory Tribunal, 'Methodology for Assessment of Council Fit for the Future Proposals', (Consultation Paper, April 2015) p 47.

Stakeholder views on the criteria

5.7 At the hearing on 24 August 2015, the committee asked Dr Peter Boxall, Chairman of IPART, whether he was confident that IPART was given the right ‘tools’ to assess whether councils are fit for the future, when the NSW Government provided IPART with its terms of reference in April 2015. Dr Boxall replied that the ‘terms of reference are sufficient for us to make an assessment about whether a council’s proposal is fit or not fit’.¹⁸⁹ Dr Boxall’s comments reflect the views expressed by IPART in its 2014 review of the Fit for the Future criteria:

We note that the four criteria reflect what the Review Panel considered to be the essential elements of an effective system of local government. We consider that if councils meet these four criteria they would be able to govern effectively, and have the capacity to both partner with the State and reduce red tape and bureaucracy for business.¹⁹⁰

5.8 Professor Graham Sansom, former Chair of the Independent Local Government Review Panel (ILGRP), told the committee that in his opinion the criteria provided to IPART and IPART’s proposed methodology for assessing council proposals was ‘basically sound but limited by the Government’s criteria’.¹⁹¹

5.9 Some other stakeholders were more critical of the criteria and benchmarks. Local Government NSW (LGNSW), for example, argued that there were ‘significant weaknesses and deficiencies with the criteria and benchmarks’.¹⁹² In its submission to the inquiry LGNSW attached an *Independent Review of FFTF Criteria* prepared by Mr John Comrie in April 2015, which had been commissioned by LGNSW. Mr Comrie is a South Australian expert in local government, who as previously noted was subsequently appointed as a temporary tribunal member at IPART. However, Mr Comrie’s review for LGNSW was completed in February 2015, prior to his appointment at IPART.

5.10 In the review Mr Comrie made the following comment about the overall usefulness of the criteria:

It’s not clear to me how a council’s score for each of these indicators is applied to determine whether it is ‘fit for the future’. Providing that a council has reasonably reliable accounting records and long-term financial planning assumptions and is committed to and is forecasting ongoing achievement of modest operating surpluses (net of capital revenues) I would suggest (prima facia) that it is ‘fit for the future’.¹⁹³

5.11 LGNSW contended that local government was not an agency of the NSW Government and that it was therefore ‘inappropriate that state governments seek to micro manage local government by applying criteria and benchmarks that they do not apply to their own

¹⁸⁹ Evidence, Dr Peter Boxall, Chairman, Independent Pricing and Regulatory Tribunal, 24 August 2015, p 28.

¹⁹⁰ Submission 109, NSW Government – Attachment C, Independent Pricing and Regulatory Tribunal, ‘Review of criteria for fit for the future’, (Final Report, September 2014) p 3.

¹⁹¹ Evidence, Professor Graham Sansom, former Chair, Independent Local Government Review Panel, 27 July 2015, p 50.

¹⁹² Submission 142, Local Government NSW, p 12.

¹⁹³ Submission 142, Local Government NSW, Attachment B, p 5.

departments'. LGNSW suggested that 'state governments would not accept such impositions being placed upon them by the Australian Government'.¹⁹⁴

- 5.12** A number of inquiry participants compared the Fit for the Future criteria with those used to measure the performance of the NSW Government. For example, Mr David Rawlings, a long serving local government employee, noted that many of the measures are not consistent with measures used by the NSW Government. Mr Rawlings observed that the key performance indicators set out in the *Report on State Finances 2013-14* for the NSW Government were: Revenue, Expenses, Budget Result (Net Operating Balance), Comprehensive Amount, Capital Expenditure, Cash Surplus/(Deficit), Net Lending/(Borrowings). Mr Rawlings suggested that 'of these, only the Net Operating Balance indicator has a similar comparison in the local government benchmarks'.¹⁹⁵
- 5.13** In its submission Tweed Shire Council examined how the NSW Government would perform against the Fit for the Future benchmarks and found a number of 'interesting results'. The council claimed that the actual 2012-13 budget result and the budgets for 2013-14 and 2014-15 'present deficit positions which would fail the operating performance ratio benchmark'. The council also stated that for the years mentioned above, over 40 per cent of state revenue came from Australian Government grants and subsidies, which meant the NSW Government would also fail the own source revenue benchmark.¹⁹⁶
- 5.14** In addition, LGNSW argued that because councils were accountable at elections, 'these types of performance measures are also considered unnecessary. Councils are democratically accountable to their communities. Poor performance will be punished at the ballot box'.¹⁹⁷
- 5.15** Some inquiry participants suggested that the criteria for assessing whether councils were 'fit for the future' were too narrow. Marrickville Council, for example, suggested that the criteria failed to recognise the importance of environmental and social outcomes, and raised concerns about the fact that there was no assessment of 'communities of interest' or community feedback.¹⁹⁸
- 5.16** Lake Macquarie City Council similarly commented on the prioritisation of financial metrics over other potential assessment criteria:
- ... it is disappointing that the review is so heavily biased towards financial metrics. Consideration of community expectations, and performance against strategic environmental, social, economic and civic leadership criteria would have provided a more robust analysis.¹⁹⁹
- 5.17** Community members participating in the inquiry also expressed their concerns about the Fit for the Future criteria. For example, Cr Carolyn Corrigan, a participant in committee's public forum on 10 August 2015, said:

¹⁹⁴ Submission 142, Local Government NSW, p 12.

¹⁹⁵ Submission 135, Mr David Rawlings, p 6.

¹⁹⁶ Submission 18, Tweed Shire Council, p 4.

¹⁹⁷ Submission 142, Local Government NSW, p 12.

¹⁹⁸ Submission 59, Marrickville Council, p 2.

¹⁹⁹ Submission 65, Lake Macquarie City Council, p 8.

The State Government's Fit for the Future reform will be a disaster for local communities because of its overriding unbalanced and unfair focus on economic and property development at the expense of other equally important social and community functions.²⁰⁰

5.18 In his evidence to the inquiry, Professor Brian Dollery of the University of New England was critical of many aspects of the Fit for the Future process and the associated criteria and benchmarks. One of the criticisms raised by Professor Dollery was that there were ‘a number of other indicators which should also have been included in the Fit for the Future program which purports to measure NSW municipal “fitness for the future”’.²⁰¹ Professor Dollery listed the following indicators, which he said should have been included:

- revenue effort
- depreciation rate
- budget overrun
- community need
- distributive equity
- measures of community satisfaction along various dimensions
- estimates and timing of cyclical infrastructure expenditure
- long term debt obligations as a proportion of tax revenues
- measures of liquidity
- slack resources relative to risk.²⁰²

Responses to the online questionnaire: Fit for the Future methodology

Some of the responses to the committee’s online questionnaire were critical of the assessment methodology. For example, 59 per cent of respondents thought the methodology being used by IPART to assess whether a council is ‘fit’ or ‘unfit’ was not valid and reliable.

Some of the further comments made about the methodology included:

- ‘The IPART methodology appears quite flawed, in that important criteria that should be used to judge effectiveness and fit for purpose of local councils has not been included’²⁰³
- ‘I don't think the methodology gives sufficient weighting or value to the sense of community and local engagement that is more likely to happen with smaller councils’²⁰⁴
- ‘The methodology does not appear to take into account community consultation results or anything community focused, like services offered vs need. The way in which councils will be

²⁰⁰ Public forum, Cr Carolyn Corrigan, 10 August 2015, p 9.

²⁰¹ Submission 3, Professor Brian Dollery, University of New England, pp 18-20.

²⁰² Submission 3, Professor Dollery, pp 18-20.

²⁰³ Responses to online questionnaire – respondent from Ashfield.

²⁰⁴ Responses to online questionnaire – respondent from Lane Cove.

judged is purely on whether or not they are putting in a submission in line with IPART's original recommendations or if they are “financially fit”²⁰⁵.

- ‘Changing goal posts. The methodology has been changed multiple times and finalised very late. It is all about ‘scale and capacity’ and ignores other important factors’²⁰⁶
- ‘The program has decided on criteria on the run, instead of in advance of the start of the program. It is not evidence-based. It relies on the ideological assumption that “bigger is better”’.²⁰⁷

Scale and capacity

5.19 The scale and capacity criterion was the primary or threshold criterion for assessing council proposals. This criterion related to the strategic capacity of councils, as well as to their size (scale). In its 2014 *Review of criteria for fit for the future*, IPART explained the importance of scale and capacity as follows:

Ensuring that councils have the right scale, resources and strategic capacity will enable them to govern effectively and partner with the State to provide better services and reduce red tape and bureaucracy for business.²⁰⁸

5.20 IPART contended that councils should address scale and capacity first when preparing submissions for Fit for the Future:

Firstly, council need to determine whether they are of a scale sufficient to enable them to meet the needs of the local community and have the strategic capacity to partner with the State to deliver strategic priorities... IPART recommends that councils make this assessment before considering the other criteria. This will allow councils to develop their plans for becoming ‘fit for the future’ under their new organisational arrangement, rather than developing financial plans and delivery programs that are superseded by organisational change.²⁰⁹

5.21 In the same 2014 *Review of criteria for fit for the future*, IPART outlined the following key elements of strategic capacity, which had been identified by the ILGRP:

- more robust revenue base
- scope to undertake new functions and major projects
- ability to employ wider range of skilled staff
- knowledge, creativity and innovation
- advanced skills in strategic planning and policy development
- effective regional collaboration

²⁰⁵ Responses to online questionnaire - respondent from Holroyd.

²⁰⁶ Responses to online questionnaire – respondent from Strathfield.

²⁰⁷ Responses to online questionnaire – respondent from Willoughby.

²⁰⁸ Independent Pricing and Regulatory Tribunal, ‘Review of criteria for fit for the future’, p 18.

²⁰⁹ Independent Pricing and Regulatory Tribunal, ‘Review of criteria for fit for the future’, p 13.

- credibility for more effective advocacy
- capable partner for state and federal agencies
- resources to cope with complex and unexpected change
- high quality political and managerial leadership²¹⁰

5.22 In regard to how it would assess the scale and capacity criterion, IPART provided some information in its June 2015 *Methodology for the assessment of council Fit for the Future proposals*. The primary measure for IPART was whether or not the council's proposal was consistent with the ILGRP's preferred option for that council:

We will consider first the ILGRP's preferred option for each council regarding scale and capacity and whether the council's proposed option is broadly consistent with this option.²¹¹

5.23 If a council wished to remain as a standalone council and the ILGRP's preferred option was a merger, then IPART's methodology stated that the council would be required to demonstrate how it met the elements of strategic capacity outlined above:

The onus is on the council to demonstrate how it meets the strategic capacity requirements... particularly if it chooses an option different from the ILGRP's recommendation. We will use our judgement in assessing strategic capacity based on the information we have available, given that there are no standardised benchmarks for these requirements.²¹²

Stakeholder views on scale and capacity

5.24 Numerous inquiry participants were critical of the scale and capacity criterion. Concerns raised by stakeholders included the difficulty in defining the criterion and the concern that many of the features of strategic capacity are difficult, if not impossible, to objectively measure. Ms Donna Rygate, Chief Executive of LGNSW, for example, gave evidence to the committee about 'scale and capacity and how opaque and difficult that is to pin down'.²¹³ She also suggested that 'conflating scale and capacity' was problematic.²¹⁴

5.25 Other stakeholders suggested that the criterion combined the two distinct concepts - scale, on the one hand, and strategic capacity, on the other. Cr Richard Quinn, Mayor of Hunters Hill Council asked whether scale and capacity was one or two criteria and pointed out the difficulty in understanding how to respond to the criterion:

One of the big issues with the criteria that have been set by the State Government is whether scale and capacity are one criterion or two criteria. Are they two different

²¹⁰ Independent Pricing and Regulatory Tribunal, 'Review of criteria for fit for the future', p 10.

²¹¹ Independent Pricing and Regulatory Tribunal, 'Methodology for the assessment of council Fit for the Future proposals', (Consultation Paper, April 2015) p 8.

²¹² Independent Pricing and Regulatory Tribunal, 'Methodology for the assessment of council Fit for the Future proposals', (Consultation Paper, April 2015) p 31.

²¹³ Evidence, Ms Donna Rygate, Chief Executive, Local Government NSW, 27 July 2015, p 27.

²¹⁴ Evidence, Ms Rygate, 27 July 2015, p 25.

things on which we must make an assessment? It has been difficult for us to pinpoint and clearly identify the information required to substantiate a response to that criterion.²¹⁵

- 5.26** The submission from the Local Government Engineers Association NSW commented on the problem of confusing ‘scale’ with ‘capacity’ and suggested that IPART’s ‘current concept of what constitutes capacity is deficient’. The association said the two concepts should be considered separately and argued that it was quite possible for a small council to have great capacity to deliver services, while a large council may not.²¹⁶
- 5.27** Other stakeholders to discuss the conflation of scale with strategic capacity included Pittwater Council, which suggested that strategic capacity ‘should not be viewed through the lens of “scale”, and in particular population size’, contending that the ‘use of population size to demonstrate strategic capacity is folly’.²¹⁷
- 5.28** The submission from Professor Dollery and Dr Joseph Drew of the University of New England said that the concept of strategic capacity ‘is an elusive term with no firm definition. Indeed, it derives more from the skills and talents of people running a given local council than the size of the council’.²¹⁸
- 5.29** Closely related to the difficulty in defining strategic capacity is the difficulty in objectively measuring it. Mosman Council suggested that the elements of strategic capacity proposed by the ILGRP, such as ‘knowledge, creativity and innovation’, ‘effective regional collaboration’, ‘credibility for more effective advocacy’, and ‘high quality political and managerial leadership’, were ‘ill-defined, lack metrics and cannot be readily validated’.²¹⁹ Mosman Council concluded that it was ‘inappropriate to elevate weakly defined “strategic capacity” over other equally or more important capacities to serve the local population’.²²⁰
- 5.30** Tweed Shire Council was another council to comment on this criterion, noting that the council believed ‘the assessment of strategic capacity will prove to be the most problematic and hotly debated within the proposed reforms’. The council declared that the ‘assessment of strategic capacity is largely subjective’ unlike the ‘objective, measurable and verifiable components of some of the other criteria’.²²¹
- 5.31** Leichhardt City Council was concerned that councils were required to respond to the elements of strategic capacity ‘in the absence of any measures or benchmarks applicable to each element’. They noted that councils had ‘not been provided with more precise indicators on how, for example, they can clearly demonstrate knowledge, creativity and innovation or ability to employ wider range of staff’.²²²

²¹⁵ Evidence, Cr Richard Quinn, Mayor, Hunter's Hill Council, 10 August 2015, p 19.

²¹⁶ Submission 45, Local Government Engineers Association NSW, p 16

²¹⁷ Submission 85, Pittwater Council, p 6.

²¹⁸ Submission 11, Professor Brian Dollery and Dr Joseph Drew, p 15.

²¹⁹ Submission 44, Mosman Council, p 3.

²²⁰ Submission 44, Mosman Council, p 3.

²²¹ Submission 18, Tweed Shire Council, p 4.

²²² Submission 23, Leichhardt City Council, p 4

- 5.32** The subjectivity of the criterion was further highlighted by Hunters Hill Council, which questioned how IPART could objectively assess an existing council against a non-existent amalgamated council:

The threshold test of Scale and Capacity is a subjective test. In the absence of knowing what a fictitious amalgamated entity might look like and how it might function/operate, it is unclear as to how IPART are going to objectively assess alternate propositions such as stand-alone proposals, or joint organisations.²²³

- 5.33** During a public hearing, the committee asked Dr Boxall to respond to the comments from Hunters Hill Council. Dr Boxall did not deny the scale and capacity criterion was subjective, replying: ‘It is a subjective test, and it has been clear all along that the tribunal would exercise judgement as to whether or not a council satisfies the scale and capacity criterion’.²²⁴

- 5.34** There were also suggestions that the ILGRP’s recommendations for achieving increased scale and capacity through mergers were not based on rigorous empirical evidence. Professor Dollery argued that the ILGRP’s recommended merger options were not based on rigorous empirical research but the assumption that ‘bigger is better’:

... there is no reference to rigorous empirical research, such as regression analysis or data envelopment analysis (DEA), because these essential empirical exercises were never undertaken and – as we have shown elsewhere – they do not support the arguments of the ILGRP (2013) in any case. Indeed, the Panel relied almost entirely on conjecture and the ideology that somehow ‘bigger is better’.²²⁵

- 5.35** Professor Dollery proposed that, prior to making any recommendations on the fate of councils, IPART should review the evidence the ILGRP had relied on, particularly in light of a number of studies by himself and others, which ‘present empirical evidence that council amalgamations will damage New South Wales local government’.²²⁶

Sustainability

- 5.36** The sustainability criterion was assessed against three performance measures: operating performance ratio, own source revenue, and building and asset renewal ratio. To satisfy this criterion each council was required to meet the relevant benchmarks set by IPART within a defined number of years. Each of the three measures comprising the sustainability criterion are examined below.

Operating performance ratio

- 5.37** The operating performance ratio ‘indicates council’s capacity to meet ongoing expenditure requirements’.²²⁷ The ratio is calculated by dividing the operating result of a council by its

²²³ Submission 128, Hunters Hill Council, p 8.

²²⁴ Evidence, Dr Boxall, 24 August 2015, p 31.

²²⁵ Submission 3, Professor Brian Dollery, p 11.

²²⁶ Submission 3, Professor Brian Dollery, p 12.

²²⁷ Independent Pricing and Regulatory Tribunal, ‘Methodology for the assessment of council Fit for the Future proposals’, (Consultation Paper, April 2015) p 41.

operating revenue (excluding capital grants and contributions for both). The ratio provides context to the size of a council's surplus or deficit by comparing it to the council's revenue.

- 5.38** Some commentators considered this result to be one of the most important indicators of a council's financial sustainability. Mr John Comrie, Tribunal Member, IPART, for example, provided the following comments on the measure:

I support use of this indicator and suggested target. In fact I consider it to be by far the most important indicator. If a council can maintain a reasonable Operating Performance Ratio over time I would not be unduly concerned regarding its performance against other appropriate financial indicators.²²⁸

- 5.39** Other inquiry participants, however, raised a number of concerns about the measure. Professor Dollery, for example, suggested that the operating performance ratio was 'heavily dependent on data which is still the subject of unfinished business'. He explained that the NSW Government's proposed review of rating practices and potential changes to the distribution of Financial Assistance Grants (FAGs) would likely have an impact on the future revenues of councils. Accordingly, Professor Dollery concluded that future revenues 'cannot be predicted with any degree of confidence', and consequently the estimates of the operating performance ratio would be similarly uncertain.²²⁹
- 5.40** Blacktown City Council argued that the operating performance ratio presented a 'misleading result for some councils that were experiencing a significant level of growth in their infrastructure asset base'.²³⁰
- 5.41** LGNSW noted that the annual results for the ratio 'are subject to distortion by abnormal items such as the impact of natural disasters and the timing of grant payments'. LGNSW contended that the variability created by such sporadic events meant that the ratio ought to be analysed as a trend over time.²³¹
- 5.42** Tweed Shire Council also noted that the timing of grant funding, which is outside of a council's control, could have a significant impact on the operating performance ratio. The council provided the example of recent advance payments of FAGs and the subsequent withdrawal of the advanced payment, which contributed to better than normal results in 2011-12 and worse than normal results in 2013-14.²³²
- 5.43** The council also argued for a more realistic timeframe for achieving the benchmark for the operating performance ratio, suggesting that 2021-22 would be appropriate. The council claimed that 'the operating deficit result has been entrenched in local government for some time' and that, depending on the size of the deficits faced by individual councils, it may be more beneficial to have a staged implementation of a return to surplus.²³³

²²⁸ Submission 142, Local Government NSW, Attachment 2, p 1.

²²⁹ Submission 3, Professor Brian Dollery, p 40

²³⁰ Submission 72, Blacktown City Council, p 15.

²³¹ Submission 142, Local Government NSW, p 6.

²³² Submission 18, Tweed Shire Council, p 2.

²³³ Submission 18, Tweed Shire Council, p 2.

5.44 According to Shoalhaven City Council the operating performance ratio measure encouraged councils to plan rate increases, via a special rate variation, simply in order to meet the benchmark. The council informed the committee that:

... anecdotal evidence suggests that this particular benchmark is putting upward pressure on many councils to factor in Special Rate Variation increases in the out years in their FFF application.²³⁴

Depreciation

5.45 Depreciation represents a large proportion of the total operating expenses for many councils. The reported level of a council's depreciation expense can therefore have a significant bearing on the operating result.²³⁵ The significant impact of the way depreciation is calculated on the operating performance ratio and other Fit for the Future measures was raised by a number of inquiry participants.

5.46 LGNSW asserted that depreciation is difficult to reliably estimate and claimed that the varying reliability of depreciation data was widely recognised.²³⁶ Blacktown City Council similarly advised that there is a general lack of consistency across the local government sector in how depreciation is measured. The council outlined the following problems with depreciation:

- there is no state-wide industry standard on depreciation rates for different types of assets
- depreciation is not a true reflection of the consumption of the asset or level of required intervention
- it is difficult to accurately align depreciation with Asset Management Plans
- depreciation can be artificially adjusted to provide a better result.

5.47 Mr John Wells, Deputy Mayor, Shoalhaven City Council, also discussed this issue, noting that there is likely to be variation between councils on methods of depreciation.²³⁷ Cr Mark Gardiner, Mayor of Marrickville Council agreed, telling the committee the measurement of depreciation is not yet uniform across councils and that 'at the moment there can be massively different rates of depreciation'.²³⁸

5.48 Even Mr Comrie, who strongly supported the operating performance ratio, noted in his review for LGNSW that an 'arguable weakness' of the measure was the impact that depreciation could have on the result and the difficulty in reliably estimating depreciation.²³⁹ Mr Comrie outlined some examples of the variation in asset accounting practices between councils and noted the impact these could have on depreciation expenses:

²³⁴ Submission 78, Shoalhaven City Council, p 3.

²³⁵ Submission 142, Local Government NSW, p 6.

²³⁶ Submission 142, Local Government NSW, p 6.

²³⁷ Evidence, Mr John Wells, Deputy Mayor, Shoalhaven City Council, 27 July 2015, p 44.

²³⁸ Evidence, Mr Mark Gardiner, Mayor, Marrickville City Council, 27 July 2015, p 63.

²³⁹ Submission 142, Local Government NSW, Attachment 1, p 5.

... there is a wide degree of variation regarding infrastructure asset accounting practices between NSW councils...There are for example differences regarding expensing or capitalising outlays, the basis for and outcomes of asset revaluation, componentisation of assets, depreciation rates and methodologies, assumed useful lives and residual values that may be hard to reconcile...Differences in above described asset accounting practices can have a material impact on recorded depreciation, and hence therefore a council's reported operating result.²⁴⁰

- 5.49** Nonetheless, Mr Comrie considered that depreciation was 'too important to disregard', and argued the key 'is to ensure that auditors and management teams pay careful consideration to the basis of their councils' annual estimates of depreciation expenses'.²⁴¹
- 5.50** When asked about depreciation at one of the inquiry's public hearings, Mr Comrie informed the committee that there are Australian accounting standards for depreciation, which councils are required to follow, and they 'do not give councils discretion in respect of picking a number...you cannot just say we are going to depreciate this asset over 10 years or 20 years or 50 years. We have to provide a reliable estimate of the rate of consumption of the asset'. Mr Comrie agreed that depreciation numbers would vary between councils, but stressed that 'those numbers are the council's best estimates of the pattern of consumption of their assets in delivering services and those estimates are audited independently'.²⁴²
- 5.51** While there are existing accounting standards for depreciation, the committee was advised by Randwick City Council that the 'method of calculating depreciation is not mandated' and 'a variety of depreciation methods can be used'. The council wrote that there are three main factors involved in the calculation of a council's annual depreciation expense:
- the method of depreciation used
 - the useful lives allocated to each asset
 - the valuation methods for assets.²⁴³
- 5.52** According to the council, all of these factors 'involve a great level of subjective judgement to be made'.²⁴⁴ Randwick City Council maintained that there 'should be a mandated depreciation method for Local Government to help achieve more comparable depreciation expenses across the industry'.²⁴⁵
- 5.53** The committee sought other councils' views on the matter and found a number of councils in agreement. For example, Mr Wayne Rogers, Director Corporate Services, Blacktown City Council, and Mr Greg Dyer, Chief Executive Officer, Parramatta City Council agreed there is a need to standardise the definition of depreciation for all councils across New South Wales.²⁴⁶

²⁴⁰ Submission 142, Local Government NSW, Attachment 2, p 1.

²⁴¹ Submission 142, Local Government NSW, Attachment 1, p 5.

²⁴² Evidence, Mr John Comrie, Tribunal Member, Independent Pricing and Regulatory Tribunal, 10 August 2015, pp 34-35.

²⁴³ Answers to questions on notice, Randwick City Council, 16 September 2015, pp 1-2.

²⁴⁴ Answers to questions on notice, Randwick City Council, 16 September 2015, pp 1-2.

²⁴⁵ Answers to questions on notice, Randwick City Council, 16 September 2015, pp 1-2.

²⁴⁶ Evidence, Mr Greg Dyer, Chief Executive Officer, Parramatta City Council, and Mr Wayne Rogers, Director Corporate Services, Blacktown City Council, 10 August 2015, p 7.

5.54 However, not all councils agreed that standardising depreciation rates was feasible. The City of Sydney Council considered that it would be impossible to harmonise depreciation rates across the state because ‘the environmental factors vary too wildly in different areas’. The City of Sydney Council’s preferred approach to managing asset renewal would be to use asset management plans in the Integrated Planning and Reporting framework.²⁴⁷ The Council explained why it saw asset management plans as more valuable than depreciation:

Council’s asset management plans are the appropriate source to consider the breadth and conditional quality of our assets, as they are much better integrated into our operations and long term financial plans, and significantly more useful for asset planning than an arbitrary depreciation schedule. The plans provide condition assessments of all key asset classes, identify assets which require a particular focus, and allow for the ebbs and flows of operations to ensure that our asset upgrade, renewal and maintenance programs are fully funded and appropriate for the particular time frame.²⁴⁸

5.55 Warringah Council noted another initiative that could assist in achieving more reliable and consistent depreciation results across the state. The Council indicated that one of the recommendations of the ILGRP was to ‘place local government audits firmly under the aegis of the Auditor General’. The Council suggested that, if implemented, this would ‘ensure consistency of approach and provision of reliable data that can be used for sustainability assessments and benchmarking’.²⁴⁹

Own source revenue ratio

5.56 Own source revenue is a measure of the extent of a council’s reliance on external funding sources. It is calculated by dividing a council’s operating revenue *excluding* all grants and contributions by its operating revenue *including* capital grants and contributions. In its methodology, IPART wrote that councils with ‘higher own source revenue have greater ability to control their own operating performance and financial sustainability’.²⁵⁰

5.57 While FAGs from the Australian Government are an external source of revenue for councils, IPART’s assessment methodology recognised that FAGs ‘provide a stable income source for rural councils’. Therefore IPART stated that it would consider the impact of FAGs when assessing the own source revenue measure for rural councils.²⁵¹

5.58 This concession by IPART was supported by stakeholders such as Mr Comrie, who had argued that it was unrealistic ‘to expect many relatively disadvantaged councils in rural and regional areas to meet this criteria’ and suggested ‘including FAGs income in the numerator’ as such income is relatively secure.²⁵²

²⁴⁷ Answers to questions on notice, City of Sydney Council, 17 September 2015, pp 3-5.

²⁴⁸ Answers to questions on notice, City of Sydney Council, 17 September 2015, pp 3-5.

²⁴⁹ Answers to questions on notice, Warringah Council, 17 September 2015, p 2.

²⁵⁰ Independent Pricing and Regulatory Tribunal, ‘Methodology for the assessment of council Fit for the Future proposals’, (Consultation Paper, April 2015) p 14.

²⁵¹ Independent Pricing and Regulatory Tribunal, ‘Methodology for the assessment of council Fit for the Future proposals’, (Consultation Paper, April 2015) p 41.

²⁵² Submission 142, Local Government NSW, Attachment B, p 1.

- 5.59** Some inquiry participants, however, thought that other councils, not just rural councils, should also be permitted to include income from FAGS as own source revenue. The Institute of Public Works Engineering Australasia, for example, wrote that ‘all councils should be able to include Federal Assistance Grants in their revenue’ noting that FAGs were ‘a relatively stable income source’.²⁵³
- 5.60** Eurobodalla Shire Council similarly asserted that FAGs should be included in calculations for own source revenue and other measures. The Council also suggested that utilities, such as water and sewerage revenue, should be included in the calculation of the ratio,²⁵⁴ a view shared by the Riverina and Murray Regional Organisation of Councils (RAMROC).²⁵⁵
- 5.61** A separate concern, raised by Mr Rogers of Blacktown City Council, was that the own source revenue benchmark may not be appropriate for growth councils. Mr Rogers indicated that for a council such as Blacktown the total revenue is ‘impacted by the amount of section 94 income we get’. Section 94 income refers to developer contributions for improved amenities or services. Mr Rogers suggested that because this portion of their revenue is large, it is difficult for the council to meet the benchmark. Mr Rogers informed the committee that they had been told ‘where the indicator comes from’ but that there was less inclination to ‘tell us about the logic of how those indicators...are appropriate’ for a growth council such as Blacktown.²⁵⁶

Building and asset renewal ratio

- 5.62** According to IPART, the building and asset renewal ratio ‘measures whether a council’s assets are deteriorating faster than they are being renewed’ and therefore acts as an indicator of ‘whether a council’s infrastructure backlog is likely to increase’.²⁵⁷ The ratio is determined by dividing a council’s renewals expenditure on building and infrastructure assets by its depreciation expense.
- 5.63** Issues raised in relation to this measure include concerns about the degree of subjectivity in the measure, problems with making comparisons between councils, its reliance on unaudited data and depreciation, and the time period over which it is measured.
- 5.64** Tweed Shire Council noted that the ratio is dependent on assumptions that will vary from council to council, including ‘asset capitalisation thresholds, assumptions on what costs can be classified as renewals and the estimated useful lives of assets’.²⁵⁸
- 5.65** Manly Council suggested that the measure was subjective and based on information that cannot easily be compared between different councils. Manly Council argued that a major problem with the ratio is that it relies on unaudited data for the numerator and includes

²⁵³ Submission 192, Institute of Public Works Engineering Australasia, p 8

²⁵⁴ Submission 204, Eurobodalla Council, p 3.

²⁵⁵ Submission 97, Riverina and Murray Regional Organisation of Councils, p 6.

²⁵⁶ Evidence, Mr Wayne Rogers, Director Corporate Services, Blacktown City Council, 10 August 2015, p 8.

²⁵⁷ Independent Pricing and Regulatory Tribunal, ‘Methodology for the assessment of council Fit for the Future proposals’, (Consultation Paper, April 2015) p 41.

²⁵⁸ Submission 18, Tweed Shire Council, p 3.

depreciation in the denominator.²⁵⁹ Willoughby City Council was another council to discuss the problems stemming from using depreciation in this measure.²⁶⁰

- 5.66** The ‘lumpy’ nature of council asset renewals was another point of concern, raised in submissions by both LGNSW and Cooma-Monaro Shire Council.²⁶¹ Both submissions quoted LGNSW’s review of the Fit for the Future criteria by Mr Comrie, which explained that the average lives of councils’ assets are typically very long and therefore there are likely to be peaks and troughs in asset renewal spending. Mr Comrie’s review suggested that a longer period than three years would be needed to generate meaningful results for this indicator.
- 5.67** Cooma-Monaro Council proposed that rather than encouraging councils to base their asset renewal spending on depreciation, a better approach would be to ‘undertake asset renewal in accordance with levels and timing outlined in a soundly based asset management plan’.²⁶² The Institute of Public Works Engineering Australasia made similar comments in its submission,²⁶³ as did Blacktown City Council.²⁶⁴
- 5.68** Albury City Council also considered that assessing asset renewal spending against depreciation was not ideal, and suggested that ‘the adequacy of building and infrastructure renewal should be assessed against movements in the Infrastructure Backlog Ratio rather than depreciation expense’.²⁶⁵
- 5.69** A separate issue raised by Wollongong Council was that the measure does not account for contributed asset renewal, assets managed by third parties, or assets that aren't being replaced. The council provided examples of ‘privately funded commercial buildings or community constructed recreational assets where at least a portion of renewal would be anticipated to be third party funded’.²⁶⁶

Infrastructure and service management

- 5.70** The infrastructure and service management criterion had three associated performance measures: infrastructure backlog ratio, asset maintenance ratio and debt service ratio. Stakeholder views of each of these measures are outlined in the following sections.

Infrastructure backlog ratio

- 5.71** The infrastructure backlog ratio measures how effectively a council is managing its infrastructure. IPART wrote in its *Methodology for the assessment of council Fit for the Future proposals*

²⁵⁹ Submission 93, Manly Council, p 10.

²⁶⁰ Submission 70, Willoughby City Council, p 2.

²⁶¹ Submission 142, Local Government NSW, Attachment 2, p 2; Submission 81, Cooma-Monaro Shire Council, p 9.

²⁶² Submission 81, Cooma-Monaro Shire Council, p 9.

²⁶³ Submission 129, Institute of Public Works Engineering Australasia, p 9.

²⁶⁴ Submission 72, Blacktown City Council, p 19.

²⁶⁵ Submission 20, Albury Council, pp 1-2.

²⁶⁶ Submission 46, Wollongong Council, p 2.

that increasing infrastructure backlogs may affect a ‘council’s ability to provide services and remain sustainable’.²⁶⁷ The ratio is determined by dividing the estimated cost to bring assets to a ‘satisfactory condition’ by the total written down value of infrastructure, buildings, other structures, depreciable land and improvement assets.²⁶⁸

5.72 The Fit for the Future benchmark for the infrastructure backlog ratio was less than two per cent. In 2015, there were 116 councils that reported backlog ratios of greater than two per cent, with the state average being 8.7 per cent.²⁶⁹

5.73 There were two main criticisms about this ratio raised by stakeholders; first, that determining if an asset is in a ‘satisfactory condition’ is highly subjective and, second, that the ratio is determined using unaudited data.

5.74 Mr Comrie, for example, said in his review for LGNSW: ‘There is a high degree of subjectivity by and inconsistency of approach between councils in quantifying asset renewal backlogs’. He also asserted that he ‘would be very wary of making financial assessments of councils or comparisons between councils based on this data’.²⁷⁰

5.75 The City of Sydney Council wrote of its concern that there is no consistent definition of ‘satisfactory standard’, noting that ‘these figures are displayed in Special Schedule 7, an unaudited attachment to a council’s financial statements’. The council noted that even IPART had ‘previously recommended that until these schedules are audited there is little value in using the information as a benchmark’.²⁷¹

5.76 Mr Raffaele Catanzariti was another inquiry participant to question the reliability of the data this benchmark relies upon,²⁷² while Wagga Wagga City Council wrote that the results of the measure will be ‘subjective and almost impossible to provide any form of meaningful comparison’.²⁷³

5.77 The submission from Warringah Council informed the committee that since 2012:

... there has been a reported \$1 billion improvement in the balance sheets of councils across New South Wales. As a result, asset backlogs appear to have been reduced and more assets are now reported to be in a satisfactory condition.²⁷⁴

5.78 However, the council continued, the improvement was not due to increased expenditure on assets, but merely changes to the methodology and assumptions used by councils when

²⁶⁷ Independent Pricing and Regulatory Tribunal, ‘Methodology for the assessment of council Fit for the Future proposals’, (Consultation Paper, April 2015) p 44.

²⁶⁸ Independent Pricing and Regulatory Tribunal, ‘Methodology for the assessment of council Fit for the Future proposals’, (Consultation Paper, April 2015) p 40.

²⁶⁹ Submission 203, Mr Brian Halstead – Attachment, Office of Local Government, ‘Your Council’, (Report, June 2015) p 27.

²⁷⁰ Submission 142, Local Government NSW - Attachment B, Mr John Comrie, ‘Independent Review of FFTF Criteria (Comrie Supplementary)’, (Submission, February 2015) p 1.

²⁷¹ Submission 181, City of Sydney Council, p 5.

²⁷² Submission 159, Mr Raffaele Catanzariti, p 8.

²⁷³ Submission 76, Wagga Wagga Council, p 4.

²⁷⁴ Answers to questions on notice, Warringah Council, p 2.

assessing asset conditions, for example ‘changes to valuation, cost to bring to satisfactory condition, expected service level of assets, etc.’.²⁷⁵

5.79 Some inquiry participants suggested there was scope for improving the measure. The Institute of Public Works Engineering Australasia, for example, supported ‘a requirement for councils to reduce the backlog of infrastructure works’,²⁷⁶ but suggested a number of modifications to the ratio including changing the denominator to the current replacement cost rather than written down value of assets and increasing the timeframe to meet the benchmark. The institute offered to work with the Office of Local Government to improve definitions and standards relating to this measure and to further build capacity within councils.²⁷⁷

5.80 The Local Government Engineers Association similarly suggested the following four modifications to the ratio:

i. the denominator should be changed to current replacement cost (in place of written down value). The real measure of backlog is against the total replacement cost of the infrastructure. This is also less susceptible to distortion from factors such as growth, which may artificially reduce the ratio without a council taking action to address its backlog;

ii. the value (or ratio) should be increased to 2.5-3.0 times annual depreciation. The current backlog ratio represents less than one year of depreciation which doesn't reflect the fact that infrastructure is often long lived with unpredictable events (e.g. prolonged wet periods) and uncertainties (e.g. ground conditions) significantly influencing actual outcomes.

iii. the timeframe for meeting the criteria should be increased. Councils can introduce cost effective solutions to respond to backlog considered over a longer period (e.g. 10-20 years). Simple strategies such as fully funding the infrastructure replacement need for short lived assets (i.e. assets with a useful life of less than 20 years) will result in the cycle of renewal removing backlog in time.

iv. There is also a need to better and more consistently define how to calculate the backlog across the industry. In particular there is a need for standardisation of the underpinning criteria for infrastructure assets (e.g. road hierarchy, condition assessment methodologies) and typical ranges of useful lives for use by local government.²⁷⁸

5.81 In contrast to these inquiry participants, who proposed keeping the ratio but making some improvements, Professor Dollery and Dr Drew's criticism went a step further and suggested that IPART should ‘scrap the infrastructure backlog ratio until such time as the data can be shown to be reasonably accurate’.²⁷⁹

²⁷⁵ Answers to questions on notice, Warringah Council, p 2.

²⁷⁶ Submission 129, Institute of Public Works Engineering Australasia, p 11.

²⁷⁷ Submission 129, Institute of Public Works Engineering Australasia, p 11.

²⁷⁸ Submission 45, Local Government Engineers Association, p 18.

²⁷⁹ Submission 11, Professor Brian Dollery and Dr Joseph Drew, p 17

Asset maintenance ratio

- 5.82** A council's asset maintenance ratio is the ratio of actual to required asset maintenance. IPART's methodology advised that the ratio measures whether a council is spending enough on maintaining its assets to avoid increasing its infrastructure backlog.²⁸⁰
- 5.83** As with a number of the other performance measures, a criticism of the asset maintenance ratio was its subjectivity. Tweed Shire Council, for example, noted that the ratio 'is based on the subjective view of what is the required maintenance'.²⁸¹ Wollongong City Council and Wagga Wagga City Council similarly criticised that ratio on the basis that there were no consistent definitions or standards set by the Office of Local Government, making it difficult to have any meaningful comparisons between councils.²⁸²
- 5.84** Wollongong City Council further noted that the benchmark for the measure – greater than 100 per cent average over three years – could indicate that a council was not efficiently managing its assets or overspending on maintenance.²⁸³ This same point was picked up in Mr Comrie's review for LGNSW, which said: 'I do not understand the rationale for the "at least 100 per cent target". Surely a target of close to 100 per cent would be more appropriate ... I can't see how spending a lot more than is considered warranted can be financially desirable'.²⁸⁴
- 5.85** Professor Dollery expressed a similar view, writing that the ratio 'is subject to an obvious flaw' and claiming that to pass the benchmark a council 'must demonstrate that it is spending more on asset maintenance than what is required!'²⁸⁵
- 5.86** In response to such criticisms, which had previously been raised during IPART's consultation on the assessment criteria, IPART clarified in its final assessment methodology that 'performance of close to 100 per cent, rather than above 100 per cent, will be considered to meet the benchmark'.²⁸⁶

Debt service ratio

- 5.87** The debt service ratio of a council is determined by dividing a council's cost of debt service (interest expense and principal repayments) by its total operating revenue (excluding capital grants and contributions). IPART considered that the measure 'indicates whether a council is using debt wisely to share the life-long cost of assets and avoid excessive rate increases'. The benchmark for this measure was a ratio of between 0 and 20 per cent, averaged over three years.²⁸⁷

²⁸⁰ Independent Pricing and Regulatory Tribunal, 'Methodology for the assessment of council Fit for the Future proposals', (Consultation Paper, April 2015) p 44.

²⁸¹ Submission 18, Tweed Shire Council, p 3.

²⁸² Submission 46, Wollongong City Council, p 2; Submission 76, Wagga Wagga Council, p 4.

²⁸³ Submission 46, Wollongong City Council, p 2.

²⁸⁴ Submission 142, Local Government NSW, Attachment B, p 4.

²⁸⁵ Submission 3, Professor Brian Dollery, p 45.

²⁸⁶ Independent Pricing and Regulatory Tribunal, 'Methodology for the assessment of council Fit for the Future proposals', (Consultation Paper, April 2015) p 17.

²⁸⁷ Independent Pricing and Regulatory Tribunal, 'Methodology for the assessment of council Fit for the Future proposals', (Consultation Paper, April 2015) pp 40 and 44.

5.88 The submissions from the City of Sydney Council and Blacktown City Council were critical of the indicator because councils with no debt would fail to meet the benchmark. Blacktown Council acknowledged that it was practical for councils to use debt in some instances, but argued that it was inappropriate to require all councils to have debt. Both councils suggested that the benchmark should allow for councils with nil debt.²⁸⁸

5.89 In response to this issue, IPART noted in its final report on the *Methodology for the assessment of council Fit for the Future proposals* that ‘we will consider whether the debt is necessary for the council’s asset base, as well as whether or not it is feasible’.²⁸⁹

5.90 Mr Comrie’s review of the criteria for LGNSW raised a number of other concerns about the debt service ratio. He outlined the following three prime concerns he had with the indicator:

The first is that the suggested target favours less use of debt relative to more. My second concern is that it is fundamentally an indicator that is inconsistent with encouraging use of accrual accounting data for decision-making. This is because the numerator includes both interest expenses and principal repayments and principal repayments are not an accrual accounting expense.

Thirdly, a focus on this indicator could also discourage councils from improved treasury management practices that have the potential to realise significant interest savings and reduce their interest rate risk exposure. It would be generally sensible for example for councils to apply cash on hand to reduce outstanding debt where possible but if they did so their score for this indicator would be adversely affected.²⁹⁰

5.91 Mr Comrie also noted that most other states no longer encourage reporting using this indicator, with several other jurisdictions requiring local governments to report against a net financial liabilities ratio instead. Despite these concerns about the measure, Mr Comrie suggested that many councils in New South Wales were making too little use of debt.²⁹¹

5.92 Dr Drew informed the committee of a recent study he had undertaken about the debt service ratio of councils in Victoria. He applied a number of the different debt ratios that were used by different states or advocated by organisations such as Treasury Corporation (TCorp) and PricewaterhouseCoopers and found that ‘every time I applied a different ratio, I got a different answer to which councils had trouble with debt’. Dr Drew felt this finding reflected an unacceptable state of affairs and suggested using a debt modelling method instead:

It is unacceptable to be in a situation where the answer you get is determined by which ratio you pick and which arbitrary benchmark you use. There is a correct method to use. It is called debt modelling and it uses panel data and multiple regression analysis. It ensures all the variables are included and examines how a particular council's debt changes with respect to those variables. It is a well-known method.²⁹²

²⁸⁸ Submission 181, City of Sydney Council, p 4; Submission 72, Blacktown City Council, p 17.

²⁸⁹ Independent Pricing and Regulatory Tribunal, ‘Methodology for the assessment of council Fit for the Future proposals’, (Consultation Paper, April 2015) p 17.

²⁹⁰ Submission 142, Local Government NSW, Attachment B, pp 4-5.

²⁹¹ Submission 142, Local Government NSW, Attachment B, pp 4-5.

²⁹² Evidence, Dr Joseph Drew, University of New England, 18 August 2015, p 16.

Efficiency

- 5.93** The efficiency criterion had just one performance measure – real operating expenditure. A council’s real operating expenditure is calculated by dividing the council’s operating expenditure by its population. The benchmark for this measure is a decrease in real operating expenditure per capita over time. IPART’s assessment methodology stated that the measure indicates ‘how well the council is utilising economies of scale and managing service levels to achieve efficiencies’.²⁹³
- 5.94** Professor Dollery raised some serious concerns about the efficiency ratio, key among them being his contention that the ratio does not measure efficiency. In his submission Professor Dollery explained this as follows:
- The first thing to note about the Fit for the Future ‘efficiency’ ratio which IPART has been asked to assess is that it does not measure efficiency! Technical efficiency measures the conversion of inputs into outputs generally through the use of non-parametric techniques such as data envelopment analysis (DEA). In the case of NSW councils the appropriate inputs would be measures of capital and labour used, whereas outputs might be specified according to number of households, employing businesses and roads. We note that once again the OLG has ignored the expert advice of TCorp (2013) which did not include an ‘efficiency ratio’ in their suite of financial sustainability ratios. We also note that IPART (2015, p.32) appear to conflate the ‘efficiency’ measure with ‘value for money’. However, this a completely spurious conflation which further exacerbates the problems associated with this criterion given that “achieving best value is not just about economy and efficiency but also about effectiveness and quality of local services.”²⁹⁴
- 5.95** Professor Dollery maintained that there were a number of other problems with the efficiency ratio, including problems with ‘the population data employed in the calculations, the method used to deflate data and the method used to assess the direction of expenditure trend’,²⁹⁵ as well as a problem with employing ‘linear regression to establish whether expenditure per capita is rising or falling’.²⁹⁶
- 5.96** Dr Drew agreed that the Fit for the Future efficiency ratio did not measure efficiency and that the ‘correct method for measuring efficiency over time is intertemporal data envelopment analysis’. Dr Drew also noted that the ratio ‘uses just a single functional unit—population,’ which he said seemed to suggest ‘that councils do not spend money on business entities or non-rateable entities such as schools and government organisations’.²⁹⁷
- 5.97** Ashfield Council and Marrickville Council both pointed out that a council could achieve the benchmark through a deterioration in services, instead of improving operational efficiency.²⁹⁸

²⁹³ Independent Pricing and Regulatory Tribunal, ‘Methodology for the assessment of council Fit for the Future proposals’, (Consultation Paper, April 2015) pp 46 and 47.

²⁹⁴ Submission 3, Professor Brian Dollery, p 26.

²⁹⁵ Submission 3, Professor Brian Dollery, p 49.

²⁹⁶ Submission 3, Professor Brian Dollery, p 51.

²⁹⁷ Evidence, Dr Drew, 18 August 2015, p 15.

²⁹⁸ Submission 26, Ashfield Council, p 3.

Marrickville Council suggested that the benchmark of ‘a decrease in Real Operating Expenditure per capita over time’ should have added the phrase ‘without loss of services’.²⁹⁹

- 5.98** The submission from LGNSW raised a similar issue, as well as suggesting that there could be circumstances in which an increase in the ratio might be preferred by a council’s residents:

A decrease in real operating expenditure per capita over time could imply that efficiency is improving but it could also imply that service levels are falling. An increase in real operating expenditure per capita is in my view most likely to suggest service levels are rising. Providing that a council can also maintain a reasonable operating result then I’d imagine that is an outcome that would be preferred by a majority of its residents and ratepayers.³⁰⁰

Committee comment

- 5.99** The four criteria used by IPART to assess whether councils are ‘fit for the future’ were scale and capacity, sustainability, infrastructure and service management, and efficiency. These criteria were developed by the NSW Government, based on previous work by TCorp, the ILGRP and the Infrastructure Audit.
- 5.100** The committee notes that some stakeholders, such as IPART, considered the criteria were sufficient to make an assessment of whether a council is ‘fit for the future’, while others were critical of some or all of the criteria. The committee acknowledges that any set of criteria would be likely to face criticism of some kind. However, there were a number of issues raised in relation to the criteria that were of concern to the committee.
- 5.101** Scale and capacity was the threshold criterion for Fit for the Future proposals and, in the committee’s view, it was also the most problematic. The key problems with this criterion are that it was ill-defined and difficult, if not impossible, to objectively measure. The committee heard that the assessment of scale and capacity was a subjective exercise, and that there were few precise indicators that councils could use to understand the elements of the criterion they needed to satisfy. A number of stakeholders felt that IPART did not adequately explain this criterion.
- 5.102** Related to these concerns is the issue that the primary measure for this criterion appears to be a comparison between a council and the ILGRP’s preferred merger option for that council. As was pointed out by one council, this meant comparing itself against some fictional entity.
- 5.103** In addition, and as noted in chapter 3, there were some questions raised about whether IPART was best placed to assess some of the non-financial aspects of the strategic capacity elements – such as knowledge, creativity and innovation; or high quality political and managerial leadership – associated with this criterion.
- 5.104** The committee is of the view that any criteria for making assessments about the future of local councils should be clearly defined, objective, measurable and verifiable, particularly if those assessments may lead to widespread structural reforms. It is the committee’s opinion that the

²⁹⁹ Submission 26, Ashfield Council, p 3; Submission 59, Marrickville Council, p 6.

³⁰⁰ Submission 142, Local Government NSW, Attachment B, p 5.

scale and capacity criterion does not satisfy those parameters. Accordingly, it was not an appropriate criterion to include in the Fit for the Future assessment criteria.

Finding 5

That the scale and capacity criterion was a flawed criterion and it should not have been included in the Fit for the Future assessment criteria and accordingly assessments of councils' fitness based on this threshold criterion are not well-founded.

- 5.105** Of the three performance measures associated with the sustainability criterion, the committee considers that the operating performance ratio is the most useful indicator of a council's financial position and long term sustainability. However, a drawback of this measure, along with a number of the other Fit for the Future measures, is its reliance on depreciation data.
- 5.106** The committee heard that there is a lack of consistency between councils in how depreciation is determined. While there are accounting standards for depreciation, the committee understands that there are a variety of depreciation methods that are being used and there can be significant variation between councils in estimates of useful lives and residual values of assets, and the componentisation of assets. The committee acknowledges that, due to environmental factors, there will always be some variation in the lives of assets in different areas, but the committee considers there is scope to implement a more standardised and uniform approach to measuring depreciation in the state.
- 5.107** The committee notes the ILGRP's recommendation to place local government audits under the aegis of the Auditor-General and considers that the implementation of this recommendation could be a useful step towards a more consistent approach to depreciation.
- 5.108** The committee proposes that the Office of Local Government make use of the Auditor-General's expertise and, in consultation with the local government sector, develop guidelines to ensure greater consistency across all councils in New South Wales in the treatment of assets, particularly in relation to:
- a depreciation methodology that correlates with the actual condition of deterioration
 - quantifying the useful life of an asset
 - determining the realistic residual values of assets
 - the componentisation of assets.

Recommendation 8

That the Office of Local Government, in consultation with the Audit Office of New South Wales and local government representatives, develop guidelines to ensure greater consistency across councils in the treatment of assets, including:

- a depreciation methodology that more closely correlates with the actual condition of deterioration and considers the councils' priorities for the condition of the infrastructure
 - quantifying the useful life of an asset
 - determining the realistic residual values of assets
 - the componentisation of assets.
-

- 5.109** In regards to the own source revenue ratio, the committee considers it is inconsistent to take FAGs into account when assessing this criterion for some councils but not for others. The committee also notes that if there is a redistribution of FAGs or changes to rates income as a result of the NSW Government's review of the rating system, then councils' future revenue estimates are likely to be unreliable.
- 5.110** For the building and asset renewal ratio, the committee considers that the relatively long average lives of council assets and 'lumpy' nature of asset renewal mean that measuring this ratio over just a few years can create misleading results. It would be preferable to assess this performance measure over a longer period to generate meaningful results. The committee further notes depreciation is part of the calculation for this measure, and accordingly it will have the reliability concerns outlined above.
- 5.111** The infrastructure backlog ratio was of concern to stakeholders because it relies on unaudited data and because there is no consistent definition of the 'satisfactory condition' of assets. The committee acknowledges these concerns and considers that the results of this measure rely too heavily on subjective judgements to be regarded as robust and reliable.
- 5.112** The committee's main concern regarding the debt service ratio was in relation to councils that are currently debt free, as there is a risk for such councils that the measure may create a perverse incentive to accumulate unnecessary debt.
- 5.113** The committee notes stakeholder concerns about the efficiency criterion, in particular, the suggestions that it is not the most appropriate measure of efficiency for local government and that the benchmark could be achieved through a deterioration of services rather than improving operational efficiency.
- 5.114** The committee is concerned that many of the performance measures for Fit for the Future rely on subjective judgements or unreliable data or have other difficulties. The committee therefore finds that there is significant uncertainty about the reliability of these measures and the overall assessment that they contribute to.
- 5.115** The committee accepts that it may not be possible to immediately address concerns regarding unreliable data or inconsistency for some of these measures. However, it is troubling that the future of some local councils in New South Wales could be influenced by such measures, when it is clear that there are significant problems with their measurement.

Finding 6

That there is significant uncertainty about the reliability of many of the Fit for the Future performance measures, which undermines the validity of the Fit for the Future assessment outcomes.

Chapter 6 Amalgamations

The amalgamation of local councils was a core issue raised throughout the inquiry.³⁰¹ This chapter begins with an overview of the Independent Local Government Review Panel's (ILGRP) preferred merger options, before examining the costs and benefits of amalgamations. Also considered are the impacts of amalgamations on rates and rural and regional communities.

The ILGRP's preferred merger options

6.1 As noted in previous chapters, the Fit for the Future process required local councils to consider the ILGRP preferred merger options when responding to the 'scale and capacity' criterion of the assessment methodology.

6.2 The ILGRP outlined its preferred merger options for various New South Wales local councils in its 2014 report, *Revitalising Local Government*. The ILGRP's preferred options were summarised by the former Chair of the panel, Professor Graham Sansom, as follows:

- 24 rural and regional councils into 11 (focused on strengthening regional centres or councils with very small populations that are adjacent to one or more suitable partners)
- 6 Lower Hunter/Central Coast councils into 3
- 31 metro councils into 8 (plus one substantial boundary change).

Thus only 61 of the 144 councils required to submit a FFTF [Fit for the Future] proposal were covered by the ILGRP's 'preferred options'. For the other 83 there was either no merger option at all (42), or the merger option was given equal weight (pending further investigation) with 'no change' (conditional for most non-metropolitan councils on participation in a 'fully fledged' regional Joint Organisation).³⁰²

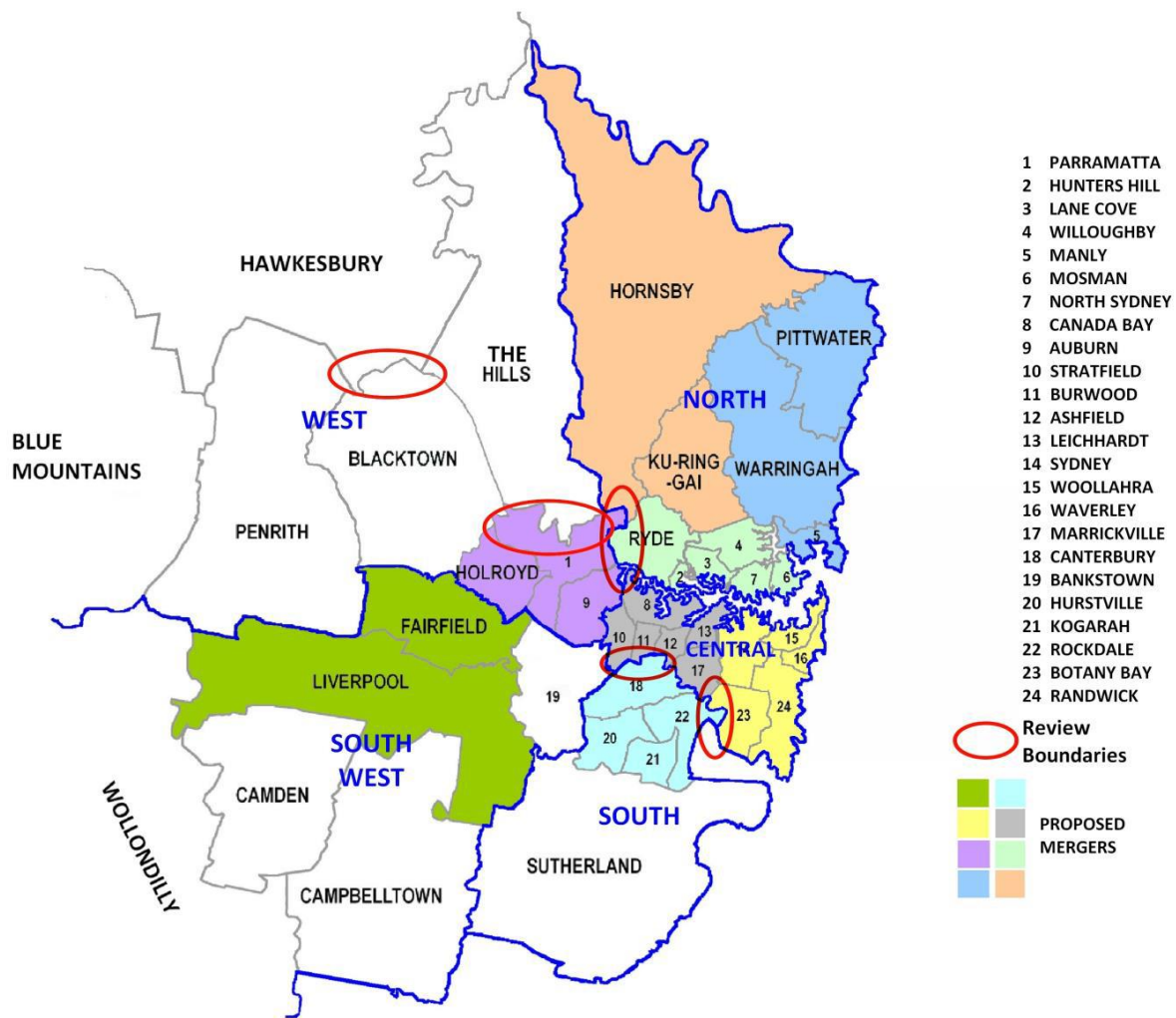
6.3 The full list of the ILGRP's preferred merger options or structural changes for each council in the state, as reported on the Office of Local Government's Fit for the Future website, can be found in Appendix 1.

³⁰¹ Note on terminology: throughout this chapter the terms 'amalgamation' and 'merger' will be used interchangeably.

³⁰² Submission 132, Professor Graham Sansom, p 3.

6.4 The figure below provides a pictorial representation of the preferred merger options proposed by the ILGRP for the Sydney region.

Figure 8 ILGRP preferred merger options for Sydney



Source: Independent Local Government Review Panel, 'Revitalising Local Government', (Final Report, October 2013) p 107.

Current requirements for amalgamating councils

6.5 The *Local Government Act 1993* sets out the existing provisions for amalgamating two or more local council areas into one local council area.³⁰³ The Act provides that the Minister for Local Government may recommend the amalgamation of councils only after the proposal has been examined and reported on by either the Boundaries Commission or the Director-General.³⁰⁴ It is at the minister's discretion as to which body examines a merger proposal.

³⁰³ *Local Government Act 1993*, ss 218A-218F and ss 260-265.

³⁰⁴ The Act refers to the Director-General of the Department of Local Government. This position has now been replaced by the Chief Executive of the Office of Local Government.

- 6.6** An examination of a proposed amalgamation by either the Boundaries Commission or Director-General must follow the same steps set out below (except for step 5, which is for the Director-General only).
1. The Minister for Local Government refers the amalgamation proposal to Boundaries Commission/Director-General for examination and report.
 2. The Boundaries Commission/Director-General must hold an inquiry seeking the views of electors in each of the council areas over a period of at least 40 days. The Commission/Director-General may do this by means of a formal poll, or by public meetings, public submissions and postal surveys/opinion polls.
 3. The Boundaries Commission/Director-General is required to have regard to the following factors, in relation to both the existing areas and the proposed new area, when considering the proposal:
 - financial advantages or disadvantages to residents and ratepayers
 - community of interest and geographic cohesion
 - existing historical and traditional values
 - attitude of residents and ratepayers
 - requirements in relation to elected representation for residents and ratepayers
 - impact on council’s ability to provide adequate, equitable and appropriate services and facilities
 - impact on the employment of council staff
 - impact on rural communities
 - in the case of a proposal for the amalgamation of two or more areas:
 - the desirability of dividing the resulting area into wards
 - the need to ensure that the opinions of each of the diverse communities are effectively represented
 - such other factors as it considers relevant to the provision of efficient and effective local government.
 4. The Boundaries Commission/Director-General is required to provide a report to the Minister.
 5. (For the Director-General only) The Director-General must furnish a report to the Boundaries Commission for review and comment, prior to providing the report to the Minister.³⁰⁵

The Boundaries Commission

- 6.7** The Boundaries Commission consists of four commissioners, who are appointed as follows:
- one commissioner (the chair) is nominated by the Minister
 - one commissioner is an officer of the Office of Local Government, nominated by the Director-General
 - two commissioners are appointed from a panel of councillors nominated by Local Government NSW (LGNSW).

³⁰⁵ *Local Government Act 1993*, ss 218A-218F and ss 260–265.

- 6.8** The Commission's functions are to examine and report on merger proposals referred to it by the Minister, according to the steps set out above.
- 6.9** In 2013, the ILGRP recommended amending the *Local Government Act 1993* to create a more independent Boundaries Commission that would consider potential amalgamations.³⁰⁶ The ILGRP considered that the Commission's authority and independence had been weakened by providing the Director-General with a similar role to the Commission in 1999. The ILGRP also felt that the Minister was provided with too much scope to amend the Commission's recommendations without any scrutiny or explanation.
- 6.10** The ILGRP proposed a reconstituted Boundaries Commission comprising three members who were not public officials, current or former councillors or state politicians. The Commission's chair would be nominated by the Minister, with the two other members nominated jointly by the Minister and President of LGNSW.
- 6.11** The ILGRP proposed that the Commission would have a dedicated secretariat, plus funding for research, and one of its functions would be to undertake regular reviews of local government boundaries across New South Wales, and to initiate proposals for change when warranted. The Commission would also examine proposals for amalgamations submitted by the Minister, any council or public authority, or a group of electors (consisting of 250 electors or 10 per cent of the area's population, whichever is the lesser).
- 6.12** The ILGRP recommended that the following requirements apply to amalgamation proposals submitted to the Commission.
- Commission is to determine whether or not the proposal has sufficient merit to proceed, and to publish the reasons for its decision.
 - If the proposal proceeds, the Commission is to prepare a public information report setting out arguments for and against.
 - Retain the current provisions for public inquiries, surveys and polls, but remove the ministers power to decide whether an inquiry is warranted.
 - Require the Commission to conduct a survey or poll of all residents and ratepayers in the areas affected, unless it is a voluntary merger and councils have undertaken adequate community consultation.
 - Require the Commission to report to the Minister about whether the proposal should proceed and, if so, how it should be implemented.
 - Enable the Minister to request the Commission to reconsider its recommendations, but require any proposed amendments and the reasons for them to be published.
 - Require the Minister to implement the Commission's final recommendations in full unless the Minister reasonably forms the opinion that the process has been flawed and/or that to proceed would be contrary to the wider public interest.³⁰⁷

³⁰⁶ Independent Local Government Review Panel, 'Revitalising Local Government', (Final Report, October 2013) p 16.

³⁰⁷ Independent Local Government Review Panel, 'Revitalising Local Government', (Final Report, October 2013) p 75.

- 6.13** The NSW Government did not support the ILGRP's recommendation for a revised process for considering amalgamations through a re-constituted and more independent Boundaries Commission. The Government made the following response to the recommendation:

The Government is committed to ensuring transparency and public confidence in any boundary review process. The Government will consider the suggestions made by the Panel in preparing a new Local Government Act, to identify opportunities to streamline the process whilst ensuring robust and transparent decision making. In the meantime, the Government will make it easier for councils wishing to merge voluntarily.³⁰⁸

Stakeholder views about the Boundaries Commission

- 6.14** During the inquiry the committee sought the views of a range of witnesses about the Boundaries Commission and the ILGRP's proposals. Many witnesses highlighted the importance of community consultation and agreed that the Boundaries Commission process, or some similar alternative, should be retained for considering amalgamations of local councils.
- 6.15** In its first public hearing the committee discussed the Boundaries Commission with Professor Sansom, the former Chair of the ILGRP. Professor Sansom stressed the importance of having a rigorous process to review amalgamation proposals:

You need a process which is going to rigorously review the circumstances of the case. We were able, with our research, to identify what we called preferred options and we had a degree of confidence that we had got those more or less right, but that is not to say that they do not need further rigorous scrutiny. ...My view...is that it is essential that you maximise the degree of scrutiny and that you maximise the degree of community consultation.³⁰⁹

- 6.16** Professor Sansom further explained that the ILGRP had concluded the existing process for considering amalgamation proposals was flawed and he was concerned that the NSW Government had discussed introducing an even more streamlined process:

We were very clear that the current process has some serious flaws. The current process is the one that was used back in 2004 and all our research indicated that the 2004 amalgamations did not go well. That was partly the way the legislative provisions were used and partly because of the way the legislation is currently written. That was a very important issue that we raised. But, as you have heard, unfortunately the Government decided not to accept our recommendation on that and talked instead about perhaps streamlining the boundaries commission process, which fills me with concerns, I must say.³¹⁰

³⁰⁸ NSW Government, 'Fit for the Future: NSW Government Response to Independent Local Government Review Panel recommendations & Local Government Acts Taskforce recommendations', (Government Response, September 2014) p 12.

³⁰⁹ Evidence, Professor Graham Sansom, former Chair, Independent Local Government Review Panel, 27 July 2015, p 48.

³¹⁰ Evidence, Professor Sansom, 27 July 2015, p 48.

- 6.17** Mr Raymond Stubbs, of the Riverina and Murray Regional Organisation of Councils (RAMROC), noted that some councils were concerned about the potential to move away from the Boundaries Commission process towards the kind of amalgamation process used in Victoria during the 1990s:

I think it is critically important to have the Boundaries Commission do that independent assessment. The fear amongst our councils is that in New South Wales we may follow the Victorian model that was introduced by Geoff Kennett in the nineties, of simply legislating for a widespread reduction of councils. There are some positives for that but there are some pretty negative stories associated with that, as well. I am a ratepayer and resident of one of those Victorian shires that suffered.³¹¹

- 6.18** In its submission to the inquiry, RAMROC similarly expressed its strong support for the ILGRP's recommendations to strengthen the Boundaries Commission:

ILGRP recommended that proposed mergers be independently assessed by a reconstituted and better resourced Boundaries Commission over the next few years. RAMROC strongly agrees, as this would remove the potential for a State Government ad hoc decision to simply legislate mergers based on the IPART's limited financial assessment alone, which would negate the important scrutiny of an open and transparent Boundaries Commission process.

The Boundaries Commission remains a critically important element in local government reform, because it will always deliver an independent and evidence based assessment of merger proposals. It will also provide the opportunity for the IPART performance measures and benchmarks to be further analysed as one component of a much wider merger investigation process.³¹²

- 6.19** Other inquiry participants, such as the United Services Union,³¹³ and Mr Barry Smith, President of Local Government Professionals Australia,³¹⁴ expressed a preference for retaining the Boundaries Commission rather than removing it or streamlining the process. Even the Committee for Sydney, a stakeholder that was firmly in favour of council amalgamations in Sydney, was in favour of retaining a Boundaries Commission process 'for determining the geography and for taking into consideration the will of local communities'.³¹⁵
- 6.20** LGNSW highlighted the need for strengthened community consultation and engagement in the Fit for the Future process, and suggested that retaining the Boundaries Commission process would potentially 'make up for any flaws in the process so far on that issue'.³¹⁶

³¹¹ Evidence, Mr Raymond Stubbs, Executive Officer, Riverina and Murray Regional Organisation of Councils, 17 August 2015, p 56.

³¹² Submission 97, Riverina and Murray Regional Organisation of Councils, p 6.

³¹³ Evidence, Mr Dunstan, Legal Special Projects Officer, United Services Union, 10 August 2015, p 23.

³¹⁴ Evidence, Mr Barry Smith, President, Local Government Professionals New South Wales, 10 August 2015, p 34.

³¹⁵ Evidence, Dr Tim Williams, Chief Executive Officer, Committee of Sydney, 27 July 2015, p 89.

³¹⁶ Evidence, Ms Donna Rygate, Chief Executive, Local Government NSW, 27 July 2015, p 19.

- 6.21** Ms Simone Schwarz, Director, Community Services, Marrickville Council similarly stressed the importance of an open and robust process for considering any changes to council boundaries, to ensure that residents understand why decisions are made:

I think a robust process that involves local communities in what their local government area looks like is essential. At the moment the Boundaries Commission is a way to do that. I think that that is an important step so that you do get that level of democratic participation and faith that this has been an open process. I think that that is a really important part for our local residents to understand—how and why these decisions are being made and that they are going to be of benefit to the local community.³¹⁷

- 6.22** Mr Russell Pigg, General Manager, Shoalhaven City Council considered that, whether the existing process is used or not, the key principles were openness, transparency and consultation:

Whether it is the existing boundaries commission process or whether it is a modified one I think the key principles of being open and transparent and having the community come on side and make a fully informed decision of whether they support their council being merged or not is just a key principle to protect. I think all the evidence from other studies seems to indicate that to have a higher probability of success in any merger proposal the community has to be part and parcel of that process, be involved and support it.³¹⁸

Stakeholder views of proposed council amalgamations

- 6.23** Throughout the inquiry the committee heard from many stakeholders who held strong views about the council amalgamations proposed by the ILGRP, and particularly about ‘forced amalgamations’, that is, amalgamations that are implemented at the behest of the Minister or NSW Government rather than arising from the constituent councils. The following section outlines some of the views stakeholders expressed about amalgamations in general, while later sections of this chapter will explore the costs and benefits of amalgamations and the empirical evidence about amalgamations, among other things.
- 6.24** The Save Our Councils Coalition was a strong voice during the inquiry that informed the committee it was ‘campaigning on a single issue: to save our councils and communities from forced amalgamations’.³¹⁹ The Save Our Councils Coalition believed that amalgamations ‘should only proceed where communities of each LGA have voted in favour of amalgamation in a valid referendum’.³²⁰
- 6.25** The City of Sydney Council considered that amalgamation was not a solution that could guarantee, in and of itself, improved services, infrastructure and a better financial position for councils:

³¹⁷ Evidence, Ms Simone Schwarz, Director, Community Services, Marrickville Council, 27 July 2015, p 66.

³¹⁸ Evidence, Mr Russell Pigg, General Manager, Shoalhaven City Council, 10 August 2015, p 48.

³¹⁹ Submission 116, Save Our Councils Coalition, p 1.

³²⁰ Submission 116, Save Our Councils Coalition, p 2.

An amalgamation, forced or voluntary, cannot in itself deliver such outcomes. An amalgamation, in itself, cannot guarantee that the resulting council will have the capacity, resources or leadership to ensure that it is sustainable or capable of meeting the needs of its community. Amalgamating two poorly performing or two poorly managed councils only creates one larger poorly performing or poorly managed council.³²¹

6.26 Another council, the City of Canterbury Council, argued that ‘if the majority of the proposed reforms outlined by the ILGRP were implemented, amalgamations could ultimately prove to be unnecessary’.³²²

6.27 One of the more colourful views expressed to the committee was one that contrasted the proposed local government reforms to how the situation would appear if such reforms targeted state governments instead. During a public forum in Sydney, Mr Peter White, a councillor, presented the following hypothetical scenario to demonstrate why he felt forced amalgamations were undemocratic:

The Prime Minister has just announced one of the most radical reforms for the Federation in the history of this country. Apparently his plan is to put Queensland, New South Wales, Victoria and Tasmania together to form the Great Eastern State, and South Australia, Western Australia and the Northern Territory will form Western Australia. The quid pro quo is that the GST is only going to go up to 12.5 per cent, not 15 per cent. It is not going to go to the public; and it is not going to an election but the Prime Minister is confident he can get it through. That brings me to the point of democracy. Do you think I am kidding? Of course I am kidding. But that is what we are being asked to do in this situation—to sit back and let another tier of government control our lives.³²³

6.28 LGNSW advised that its policy was for no forced amalgamations; however, it did maintain support for ‘voluntary structural reform’ and ‘continuous improvement in Local Government’s strategic service delivery plan and underlying financial and asset management system and practices’.³²⁴ As noted previously, LGNSW argued that regardless of what amalgamations occurred, ‘real and lasting improvement will not be achieved unless the funding framework for Local Government is reformed’.³²⁵

6.29 Some other councils expressed support for amalgamations, in certain circumstances. Mr Herman Beyersdorf, Deputy Mayor from Armidale Dumaresq Council, for example, told the committee:

I think I can say that the council takes a cautious pro-amalgamation view—cautious in that it did not say that it would support a forced amalgamation but rather that it would support a voluntary amalgamation. If the Government did force it, we would be ready to take that on.³²⁶

³²¹ Submission 181, City of Sydney Council, p 7

³²² Submission 60, City of Canterbury Council, p 3.

³²³ Public forum, Mr Peter White, 10 August 2015, p 16.

³²⁴ Submission 142, Local Government NSW, p 3.

³²⁵ Submission 142, Local Government NSW, p 3.

³²⁶ Evidence, Mr Herman Beyersdorf, Deputy Mayor, Armidale Dumaresq Council, 18 August 2015, p 2.

6.30 In its review of the Fit for the Future criteria, Independent Pricing and Regulatory Tribunal (IPART) expressed its support for the ILGRP's recommendations, suggesting that mergers will lead to better service delivery for communities:

We support the Review Panel's framework for mergers, rural councils and the formation of regional organisations. We agree that, over time, the resulting larger, stronger councils will be able to better and more efficiently deliver services to their ratepayers.³²⁷

6.31 However, some stakeholders took a firm position of support for amalgamations, even if they were forced amalgamations. For example, in its submission, the Property Council recommended that a 'new Local Government Act should be drafted to facilitate the compulsory amalgamation of councils in the Sydney metropolitan area'.³²⁸

6.32 The NSW and Sydney Business Chambers argued that the current structure of local councils in Sydney was 'simply failing to support the needs and aspirations of a modern and growing city' and suggested that 'council numbers must be reduced to ensure that the quality of services and delivery of infrastructure to the community is maintained'.³²⁹

6.33 The Committee for Sydney similarly argued for a reduction in councils numbers to create stronger councils that are better able to address challenges:

We would like to see fewer but stronger councils with more resources, powers and capacity, some form of metropolitan governance for Sydney with greater coordination between councils and State government at the greater Sydney level because we think there are serious challenges which cannot be addressed by a fractured local government system.³³⁰

Responses to online questionnaire: views on amalgamations

A number of the responses to the committee's online questionnaire, related to the issue of council amalgamations, are set out below.

- 73 per cent of respondents did not support the forced amalgamation of local councils, if IPART found that they do not have sufficient scale and capacity.
- 73 per cent of respondents thought the services provided by their local council would be compromised if their council was amalgamated into a larger council.
- 75 per cent of respondents considered that the size and scale of their own local council was appropriate.
- 74 per cent did not think that the amalgamation of their local council would improve its financial sustainability.
- 71 per cent of respondents did not support the amalgamation of their local council.³³¹

³²⁷ Submission 109, NSW Government – Attachment C, Independent Pricing and Regulatory Tribunal, 'Review of criteria for fit for the future', (Final Report, September 2014) p 2.

³²⁸ Submission 153, Property Council, p 5.

³²⁹ Submission 88, NSW and Sydney Business Chambers, p 3.

³³⁰ Evidence, Dr Tim Williams, Chief Executive Officer, Committee for Sydney, 27 July 2015, p 86.

³³¹ Responses to online questionnaire.

Benefits of amalgamations

6.34 The costs and benefits of council amalgamations were discussed by numerous submission authors and witnesses. The section below will present the views of inquiry participants about the benefits of amalgamations, while the subsequent section will set out the costs of amalgamations, according to inquiry participants.

Increased strategic capacity

6.35 As outlined below, one of the main benefits of mergers raised by stakeholders was increased strategic capacity. For example, Ms Marcia Doheny, Chief Executive of the Office of Local Government, discussed with the committee the focus on strategic capacity that was central to the ILGRP's work and explained what this meant for councils:

What they did focus on was the need for councils to have strategic capacity and they considered that currently councils do not have sufficient strategic capacity. When they were referring to strategic capacity they were talking about things such as the capacity: to plan well for their infrastructure and their services, to attract skilled staff and skilled councillors, to deliver major projects successfully and to manage their finances well.

So in this whole range of elements, including importantly the capacity to partner with State Government and the Federal Government, there were 10 features of a council with strategic capacity.³³²

6.36 The Office of Local Government also advised the committee that past mergers, 'such as the creation of City of Auckland (2010), Tamworth Regional Council (2004) and the City of Charles Sturt (1997)', had shown that mergers could improve councils' ability to 'invest in larger infrastructure, deliver more ambitious solutions to solve problems and form effective partnerships with other organisations'.³³³

6.37 In his submission to the inquiry, the former Chair of the ILGRP, Professor Sansom underlined enhanced strategic capacity as a potential outcome of amalgamations, referring to the conclusions of a 2011 report of the Australian Centre for Excellence in Local Government, *Consolidation in Local Government: A Fresh Look*, which discussed the link between amalgamations and strategic capacity:

... consolidation provides important opportunities to capture economies of scope and enhance the strategic capacity of local government ... newer evidence about the value of strategic capacity, and that it may be strongly linked to larger units of local government, means that amalgamation should not be ruled out as an option simply because other forms of consolidation can yield economies of scale or scope, or because amalgamations have not been shown to generate significant cost savings or rate reductions.³³⁴

6.38 Professor Sansom argued that amalgamations were needed in the Sydney region, the Central Coast and the Lower Hunter to 'improve metropolitan governance, planning and

³³² Evidence, Ms Marcia Doheny, Chief Executive, Office of Local Government, 27 July 2015, p 14.

³³³ Correspondence from Office of Local Government to Chair, July 2015, p 2.

³³⁴ Submission 132, Professor Graham Sansom, p 10.

management'. He wrote that councils 'can and should play a stronger role,' and that this required 'increased capacity'. Professor Sansom further suggested that 'the alternative is a continuing decline in the status of local government'.³³⁵

6.39 Dr Tim Williams, Chief Executive Officer of the Committee for Sydney, similarly argued for amalgamations in Sydney to increase the capacity of councils in the city:

We would like to see fewer but stronger councils with more resources, powers and capacity, some form of metropolitan governance for Sydney, with greater co-ordination between councils and State government at the greater Sydney level, because we think there are serious challenges which cannot be addressed by a fractured local government system.³³⁶

6.40 While Dr Williams' evidence referred to a 'fractured local government system', the committee notes that research from the Organisation for Economic Co-operation and Development (OECD) found the average number of local governments per hundred thousand people (in large metropolitan regions in the OECD) was 3.7. For Sydney, however, it was suggested during the committee's hearing, this ratio is only one, indicating that Sydney is less fragmented than the OECD average.³³⁷

6.41 The NSW Business Chamber was another stakeholder to stress the importance of strategic capacity, arguing that while some efficiency gains might be achieved through the amalgamation of councils it was 'merged councils' increased strategic capacity and scope that provide the greatest benefit from structural reform'.³³⁸ The Property Council also listed strategic capacity at the top of its list of the potential benefits of council amalgamations.³³⁹

6.42 Cr Steve Russell, Mayor of Hornsby Shire Council was another inquiry participant to discuss the potential benefits of amalgamations, telling the committee, 'We believe that size equals strength and we see many benefits in joining our neighbours through amalgamation'.³⁴⁰

Other benefits of amalgamations

6.43 Other potential benefits of amalgamations included streamlined administrative processes, reduced operating expenses, improved service delivery, and simpler planning systems.

6.44 The NSW Business Chamber, in its answers to questions on notice, listed several key benefits of amalgamations, including:

- streamlined back office administrative functions, such as IT systems and payroll functions

³³⁵ Submission 132a, Professor Graham Sansom, p 4.

³³⁶ Evidence, Dr Tim Williams, Chief Executive Officer, Committee for Sydney, 27 July 2015, pp 89 and 96.

³³⁷ Evidence, the Hon. David Shoebridge MLC and Dr Tim Williams, Chief Executive Officer, Committee for Sydney, 27 July 2015, p 91.

³³⁸ Answers to questions on notice, NSW Business Chamber and Sydney Business Chamber, 20 August 2015, p 6.

³³⁹ Submission 153, Property Council, p 6.

³⁴⁰ Evidence, Cr Steve Russell, Mayor, Hornsby Shire Council, 10 August 2015, p 43.

- reduced governance and administration costs due to a reduction in the number of senior management and councillors
- reduced charges for businesses and consumers due to more efficient processing of service delivery
- improved regulation and regulatory practices
- greater capacity for councils to attract and retain skilled management and planning staff.³⁴¹

6.45 The joint submission from the NSW Business Chamber and the Sydney Business Chamber further suggested that amalgamated councils could offer higher councillor remuneration and indicated that this could encourage a more diverse range of councillors:

By amalgamating councils in Sydney, a higher level of councillor remuneration (including full time salaries) can be justified reflecting the greater responsibilities these officials will have in guiding the shape of our city. Attracting and supporting a more diverse group of candidates to positions of local leadership should be pursued. It is the Chambers' view that the current structure of local government and the lack of full time salaries contributes significantly to a lack of representation from younger community leaders, especially women. Indeed only 27% of NSW councillors are women (compared to 51% of the general population).³⁴²

6.46 The Property Council included strategic capacity at the top of its list of the potential benefits of council amalgamations, but also included the following benefits:

- Financial capacity: greater financial strength and stability; lower administrative costs; and increased purchasing power.
- Service delivery: better service delivery; quicker DA processing times; and more effective ability to deliver local infrastructure.
- Local democracy: more accountable governance, local democracy and representation; maintenance of local identity through more effective place management.³⁴³

6.47 The NSW Small Business Commissioner, Ms Robyn Hobbs noted that the current number of councils in the Sydney Metropolitan area creates a regulatory burden for small businesses, particularly when there is inconsistency between the councils: 'If we have 41 metropolitan councils we will have 41 sets of fees and 41 sets of policies. That is not making it easy for small businesses to thrive'.³⁴⁴

6.48 Mr Des Bilske, General Manager of Deniliquin Council, considered that one of the key benefits of amalgamations would be reduced costs of administration and salaries of higher level managers, noting that these could offset some of the transitional costs of amalgamation:

The benefits of amalgamations are the reduced overall costs of administration between the merged councils especially at the higher levels of General Managers,

³⁴¹ Answers to questions on notice, NSW Business Chamber and Sydney Business Chamber, p 7.

³⁴² Submission 88, NSW and Sydney Business Chambers, p 7.

³⁴³ Submission 153, Property Council, p 6.

³⁴⁴ Evidence, Ms Robyn Hobbs, Commissioner, Office of the NSW Small Business Commissioner, 24 August 2015, p 43.

Directors and senior managers. This will be substantial and can assist in offsetting any funding required to attract additional skills and professionals to meet the new organisational structure requirements in a centralised location.³⁴⁵

6.49 Mr Bilske also noted that one of the advantages with larger councils is that there is greater career scope for individual employees within the council, meaning that they 'have somewhere where they can go within the one organisation, without having to relocate themselves and their whole family'.³⁴⁶

6.50 Cr Russell Webb of Tamworth Regional Council discussed some of the benefits that had arisen from the 2004 amalgamation which created Tamworth Regional Council:

The amalgamation took place in 2004 and I say from the outset that the result of that amalgamation forming the now Tamworth Regional Council has been nothing but an outstanding result for the wider community...the stuff that we have been able to do as an amalgamated council really does stand us out. When we look at what we have built in the past—for example, we built what is known as the National Equine Centre. That was a big project for a local government organisation to take on. Had we not amalgamated the bean counters tell me that would never have happened ... The amalgamated council started with 67 timber bridges ... Of those 67 bridges, 41 have now been replaced under the amalgamated council. We have spent in excess of \$20 million building those as an amalgamated group ... We have seen the Barraba council which could not afford to put a new water supply in. We have since put in, with the help of the Federal and State governments, a water supply from Split Rock Dam and that now gives them guaranteed water basically for eternity.³⁴⁷

6.51 In its submission to the inquiry, Fairfield City Council outlined some of the benefits of council amalgamations likely to occur as a result of the Fit for the Future process:

- The transfer of responsibilities such as planning matters from the State Government
- A greater influence on State and Federal Governments
- Access to increased funding opportunities.³⁴⁸

6.52 Ms Jude Munro, former member of the ILGRP, noted that the smaller number of councils in Brisbane has made it simpler for the Queensland Government to consult with local councils and that those councils are still able to convey the critical issues for their communities:

In metropolitan Brisbane, effectively there are five or six major local government areas – Brisbane, Redlands, Logan, Ipswich and Moreton Bay. Really, if the Premier wants to have a discussion about issues, they are not meeting with 32, 50 or 17 or larger numbers. Those mayors are able to talk with some depth and knowledge about the really critical issues that are affecting those communities.³⁴⁹

³⁴⁵ Submission 123, Mr Des Bilske, p 5.

³⁴⁶ Evidence, Mr Des Bilske, General Manager, Deniliquin Council, 17 August 2015, p 69.

³⁴⁷ Evidence, Cr Russell Webb, Councillor, Tamworth Regional Council, pp 39-40.

³⁴⁸ Submission 98, Fairfield City Council, p 7.

³⁴⁹ Evidence, Ms Jude Munro, former member, Independent Local Government Review Panel, 27 July 2015, p 52.

- 6.53** Mr Steven Orr, Deputy Chief Executive of the Office of Local Government, noted that another merger benefit particular to the Fit for the Future program was the financial assistance that the NSW Government was offering to local councils that chose to merge. Mr Orr explained that up to \$258 million in funding was available, across the state, to ‘assist with the direct costs associated with merging’.³⁵⁰

Case studies: potential merger benefits for Hornsby Shire Council and Randwick City Council

- 6.54** As part of the Fit for the Future process a number of councils in New South Wales considered mergers with neighbouring councils. Cr Ted Seng, Mayor of Randwick City Council, for example, provided the committee with the findings of their respective councils’ research into merger options.

- 6.55** Cr Seng provided the following overview of the benefits that were expected as a result of a merger between Randwick and Waverley Councils:

The business case shows that a merger of Randwick and Waverley Councils will create an organisation with a stronger financial position, more capable of delivering the expected level of capital, infrastructure and maintenance investment across the eastern suburbs in the long term. The merged council will provide the community with a strong voice in shaping the future of development, transport and other key infrastructure in the region with a greater capability to provide new and enhanced services.³⁵¹

- 6.56** Hornsby Shire Council, in conjunction with The Hills Council, commissioned research by PricewaterhouseCoopers to investigate potential mergers with neighbouring councils. Hornsby provided the following extensive list of the potential benefits that could arise from an amalgamation:

- Strategic Capacity - access to a larger pool of financial and non-financial resources would enable a merged Hornsby/The Hills Council to undertake new functions and deliver new services.
- Lobbying - a larger Council would have greater weight in applying for State and Federal funding in addition to having a stronger negotiating position when discussing tenders and preferred supplier arrangements.
- Asset Utilisation and Rationalisation - there would be an increased ability to utilise assets by sharing resources and disposing of surplus or duplicated assets.
- Administrative Rationalisation - both Hornsby and The Hills operate through a similar organisational structure based on the configuration of functional expertise and the delivery of services. This would reduce the execution risk of removing duplicate functions.
- Increased Service Delivery - removing duplicate activities in multiple community centres, standardisation of services and increased scale of process would allow for more cost efficient delivery of services. Strategic location of newly developed infrastructure assets of a newly merged council would benefit a larger population, reducing the need to duplicate investment in infrastructure.
- Investment in Future Capital Assets - realisation of surplus assets may provide additional funds to reinvest in future capital projects, reduce the need to borrow or allow for the redeployment of reserves for new projects.

³⁵⁰ Evidence, Mr Steve Orr, Deputy Chief Executive, Office of Local Government, 27 July 2015, p 9.

³⁵¹ Submission 73, Cr Ted Seng, p 4.

- Upgrade Existing Infrastructure - an amalgamation would allow for some facilities to be closed, delivering maintenance savings and income from property sales. An evaluation of the infrastructure requiring remediation would need to be undertaken to identify overlap and identify areas of potential savings.
- Re-calibrate Capital Structure - the loan funding levels of Hornsby and The Hills Councils are relatively low, with debt service ratios not exceeding 5%. There is capacity to increase borrowings to fund capital budgets and reduce backlogs in costs to bring assets to a satisfactory condition. There would also be an ability to refinance or repay existing debt to reduce borrowing costs given the stronger balance sheet position of the merged council.
- Strategic Alignment - there is an alignment of a number of strategic goals of Hornsby and The Hills. This alignment indicates that there are potential synergies to be gained in achieving these goals from an amalgamation of the two Councils e.g.
 - Ecology and environment strategies in relation to climate change, bushland and natural areas, environmental education, development and water.
 - Economy and infrastructure strategies in relation to transport, economic development, recreation, employment, assets and business development.
 - Community strategies in relation to community engagement, service provision, cultural engagement and crime.
 - Governance strategies in relation to reporting, internal policies, stakeholder management and risk management.
- In respect of financial benefits:
 - The rationalisation of corporate support functions like information technology, financial services, records, and human resources would lead to significant expense reductions.
 - Labour consolidation could also be applied to managerial staff, administrative support staff, property sections and strategy and communication groups.
 - A review of the information system requirements of a combined council may result in reasonable savings in lease payments.
 - Rationalisation of assets that on review are surplus to needs may present opportunities to improve cash-flow and address infrastructure backlogs. Reduced maintenance budgets may also be a side benefit.
 - Reduced operating expenses due to labour consolidation and asset rationalisation to address infrastructure backlogs would improve a council's strategic ability to manage reliance on rate pegging allowances.³⁵²

Responses to online questionnaire: benefits of amalgamations

When considering the potential advantages of amalgamating their local council, 58 per cent of respondents to the committee's online questionnaire selected 'none/can't think of any'. The next most popular responses were 'less bureaucracy/waste' (23 per cent), 'fewer politicians/councilors' (21 per cent), and 'more influence to attract funding or attention from State and Federal governments' (17 per cent).³⁵³

Questionnaire respondents also provided numerous open-ended responses about the benefits of

³⁵² Submission 145, Hornsby Shire Council, pp 3-4.

³⁵³ Responses to online questionnaire.

amalgamations:

- ‘Less duplication, more efficiency’³⁵⁴
- ‘Less senior staff - more service delivery’³⁵⁵
- ‘Benefits mean more centralised services - more collaboration, not just in the utilities area of waste and roads but in community services as well’³⁵⁶
- ‘In LGAs where populations are reducing and/or aging there may be some advantages in sharing corporate services and this could provide less cost and impact to businesses and be advantageous for ratepayers. Collaborative marketing etc. could be better for the community and businesses in the entire region’³⁵⁷
- ‘[The] ability to pay fewer staff more money may attract better qualified/experienced staff. Logistical benefits, sharing of knowledge particularly strategic planning/plans across the board. Improved compliance with all types of legislation’³⁵⁸
- ‘More effective use of resources, less duplication and more consistency in the application of planning processes and controls’³⁵⁹
- ‘Cheaper to run and more money for community projects’³⁶⁰
- ‘Scale and capacity in terms of buying power’³⁶¹
- ‘Would lead to better planning outcomes and more uniform approaches to development’³⁶²
- ‘More consistent services at reduced costs’.³⁶³

Costs of amalgamations

6.57 Various inquiry participants discussed what they considered to be the costs or the disadvantages of council amalgamations. The transitional costs of merging two or more councils were identified as the first costs that may arise from amalgamations, but there were a number of other potential costs were raised as well, including loss of staff experience and expertise, loss of services, changes to rates and a loss of organisational capacity due to the focus on merger issues.

6.58 A number of other outcomes of council amalgamations, which were described as costs or disadvantages by inquiry participants, are discussed in other chapters. In particular, the potential loss of local representation and engagement will be examined in Chapter 8.

³⁵⁴ Responses to online questionnaire – respondent from Willoughby.

³⁵⁵ Responses to online questionnaire – respondent from Sutherland.

³⁵⁶ Responses to online questionnaire – respondent from Lane Cove.

³⁵⁷ Responses to online questionnaire – respondent from Broken Hill.

³⁵⁸ Responses to online questionnaire – respondent from Kempsey.

³⁵⁹ Responses to online questionnaire – respondent from Waverley.

³⁶⁰ Responses to online questionnaire – respondent from Waverley.

³⁶¹ Responses to online questionnaire – respondent from Lane Cove.

³⁶² Responses to online questionnaire – respondent from Hornsby.

³⁶³ Responses to online questionnaire – respondent from Lane Cove.

Transitional costs

6.59 LGNSW was a stakeholder that argued strongly against forced amalgamations of councils. In its submission, LGNSW noted that many costs of amalgamations are ‘realised in the short term, while the benefits may only emerge in the medium to long term’.³⁶⁴ LGNSW identified a number of the transitional costs associated with amalgamations. It suggested that there would be costs related to the following aspect of amalgamations:

- integration of information technology
- harmonising rates, fees, charges, planning instruments, service and regulatory functions
- staff and premises relocation and displacement
- integration of employees and managements
- redundancy costs for senior management
- community consultation and information
- branding and identity of the new council.³⁶⁵

6.60 In its submission Strathfield Council discussed the ILGRP’s proposed merger option for Strathfield. Strathfield provided the following overview of the steps that would be required to implement the merger:

To transition this merger, it would require development of a new governance and management structure, determination of building requirements including a council chamber, development and implementation of processes. Policies, systems and branding, employment transition and salary system equalisation and redesign, change management, standardisation of policies, processes and procedures, development of new communications including branding, websites and social media, preparation of new plans under Integrated Planning and Reporting System (which have taken each council many years to develop underpinned by extensive community engagement), redundancies of senior staff and then appointment of senior staff in new executive and management positions, implementation of a single IT system across the new council, rationalisation of buildings and plant and so on.³⁶⁶

6.61 Strathfield Council argued that the costs of amalgamation would be far higher than the available compensation for mergers that was being offered by NSW Government, referring to research that had been undertaken on this issue:

Independent research undertaken by industry experts Morrison Low found that the costs of amalgamation will be 5 to 6 times more than the NSW Government is offering and the shortfall is estimated at upwards of \$70 million/super council.³⁶⁷

Disruption to service provision and loss of expertise

6.62 In addition to the direct costs arising from the transition to a merged council, some inquiry participants such as Marrickville Council drew attention to the disruption to service provision and the potential for services to be lost following amalgamation:

³⁶⁴ Submission 142, Local Government NSW, p 9.

³⁶⁵ Submission 142, Local Government NSW, pp 22-23.

³⁶⁶ Submission 118, Strathfield Council, p 10.

³⁶⁷ Submission 118, Strathfield Council, p 11.

Councils provide services that are required by their communities. The danger in amalgamating councils with different services, is that some of those services are likely be lost in the larger amalgamated council due to the need to make cost savings to compensate for the implementation costs associated with amalgamations.³⁶⁸

- 6.63** The committee also heard that the loss of staff expertise and experience and the resulting impact on service provision was one of the potential outcomes of amalgamations. Mr Raffaele Catanzariti, Fairfield Liverpool District Co-Chair, Sydney Alliance, cited research from Adelaide University and the amalgamations in Queensland about this cost:

There is increasing evidence that severe impacts on service provision and local assets due to a loss of local expertise and knowledge as a result of an amalgamation process. This has been identified by a study conducted by the Centre for Labour Research at Adelaide University. It noted one of the negative aspects expressed by the employees was the loss of experience and expertise which resulted from staff loss ... Evidence of the negative impacts on local expertise and knowledge from forced amalgamation processes in Queensland were also identified.³⁶⁹

- 6.64** Strathfield Council noted some of the costs and impacts if the council merged, including the 'disruption to service provision, loss of key staff, organisational knowledge and skills'.³⁷⁰ The council also spoke of the costs to the local community, such as the 'reduction and access of representation, loss of community voice, increasing size and bureaucratisation of council administration, job losses etc.'³⁷¹

- 6.65** The joint submission from the City of Ryde, Hunters Hill and Lane Cove councils highlighted the disruption to the focus and day-to-day services of councils that arise from council mergers. The submission claimed that mergers typically take 'at a minimum, a three year embedding period' during which the merged council is focused on its internal structure and operation alignment.³⁷²

- 6.66** The City of Canada Bay and Sydney City councils both discussed the disruptive effects of amalgamations. Both councils have experience of previous amalgamations, with Canada Bay Council being formed from the merger of Drummoyne and Concord council in 2000, while the City of Sydney Council last underwent a merger in 2004. Canada Bay Council stated that for its amalgamation, there was a period of service disruption while the council focused on the merger transition and that it 'was not until eight years ago that the council was able to become outwardly focused again'.³⁷³ The City of Sydney Council similarly outlined the disruptive impact of its merger, which drew in significant council resources over multiple years to manage the process:

The City is well placed to understand the impacts of an amalgamation, having been created through a politically motivated forced amalgamation in 2004. The process was disruptive and took three to five years to fully complete, with significant organisational capacity focused on successfully managing the process. Time and resources to align

³⁶⁸ Answers to supplementary questions, Marrickville Council, 21 August 2015, p 1.

³⁶⁹ Submission 159, Mr Raffaele Catanzariti, p 19.

³⁷⁰ Submission 118, Strathfield Council, p 10.

³⁷¹ Submission 118, Strathfield Council, p 9.

³⁷² Submission 80, City of Ryde, Hunter's Hill and Lane Cove Councils, p 3.

³⁷³ Submission 95, City of Canada Bay Council, p 7.

administration, policies and systems of three different councils, even those these areas had historically been together.³⁷⁴

- 6.67** The Institute of Public Works Engineering Australia also wrote of the ‘significant level of disruption to council operations through amalgamation’. The Institute noted that in addition to some of the factors listed above, the diversion of attention and resources away from the core business of council would also be required to achieve: alignment of salaries and awards, harmonisation of planning systems and alignment of contracts and services levels between the merging councils.³⁷⁵
- 6.68** Kogarah Council similarly outlined a number of risks to the services and priorities for councils that merge, including:
- Early transition costs require funding to be diverted from other services, priorities and opportunities
 - Transition requires significant focus from the organisation which can lead to a loss of momentum on important local and regional projects and a disruption to service delivery
 - Local priorities can be lost within the new entity, particularly for smaller council areas subsumed into a larger neighbouring council and where there are significantly different local priorities between areas
 - Less representation will result in neighbourhood specific issues being less likely to be addressed.³⁷⁶

Impact on councils’ budget positions

- 6.69** The amalgamation of two or more councils will invariably involve combining the finances of the two councils, including any outstanding debts or infrastructure backlog. One of the speakers at the committee’s public forum in Sydney, Ms Jane Pistolese, drew the committee’s attention to this issue. Ms Pistolese, a resident of Strathfield Council, felt it was unreasonable to expect the residents of one council to take on the debt and infrastructure backlog of other councils:

I am perplexed that Strathfield may be forced to amalgamate when our council is debt free. Why are the residents of Strathfield potentially forced to be accountable for Burwood’s debt of \$6.7 million, Ashfield’s debt of \$9.4 million, Leichhardt’s debt of \$11.4 million, Marrickville’s debt of \$15.2 million or Auburn’s debt of \$15 million? Why should the residents of Strathfield be forced to be liable for an infrastructure backlog of \$160 million from Burwood? This is just unreasonable for the residents of Strathfield as our infrastructure backlog is \$3.5 million.³⁷⁷

- 6.70** The submission from Save Our Strathfield raised the same issue,³⁷⁸ while Cooma-Monaro Shire Council wrote that ‘a community is unlikely to be willing to take on another jurisdiction’s debt or infrastructure issues’.³⁷⁹

³⁷⁴ Submission 181, City of Sydney Council, p 7.

³⁷⁵ Submission 129, Institute of Public Works Engineering Australia, p 14.

³⁷⁶ Submission 84, Kogarah Council, p 8.

³⁷⁷ Public forum, Ms Jane Pistolese, 10 August 2015, p 14.

³⁷⁸ Submission 110, Save Our Strathfield, pp 14 and 16.

³⁷⁹ Submission 81, Cooma-Monaro Shire Council, p 16.

- 6.71** Leichhardt Municipal Council was proposed to merge with five neighbouring councils under the NSW Government's preferred merger options. The council noted that its financial position as a standalone council would be better than that of the merged council:

Leichhardt Council's excellent financial position is superior to the Independent Review Panel's preferred option of the amalgamation of Leichhardt Council with its neighbouring 5 inner west councils. In this regard, independent modelling by industry experts Morrison Low found that the proposed amalgamated Council will not be as financially sustainable after 10 years as Leichhardt Council stand alone. Specifically, the independent modelling found that an amalgamated inner west council will only meet 4 of the 7 Fit for the Future benchmarks after 10 years and is therefore not "Fit for the Future", whereas Leichhardt Council will meet all 7 benchmarks by 2015/16.³⁸⁰

Rural impacts

- 6.72** Concerns were raised that communities in rural and regional areas of the state may be particularly affected by council amalgamations. In smaller rural communities, councils are often one of the major employers in the area. Associate Professor Roberta Ryan, Centre for Local Government, University of Technology, Sydney, explained that local government is a pivotal employer in regional areas, not only due to the number of people employed but due to the diverse range of skills required. She said that regional employment is:

Very important ... there are roughly 565 local governments nationally. Local government is the biggest employer in 60 of those local governments nationally and it is the biggest or second biggest in 100 of those local governments, so local government is a significant employer.

The importance of local government as an employer is more valuable perhaps than other types of employment generators out of non-metropolitan areas because of the range of skills that are employed by people in local government.³⁸¹

- 6.73** Associate Professor Ryan noted that amalgamating councils can lead to a reduction in employment in regional areas. She indicated that the data was mixed in regards to the impact of mergers on regional employment, but there have been cases of significant employment losses:

The impact of amalgamations on the local government workforce – again I have some data looking at Queensland and Victoria in terms of those and it is a mixed picture and it partly depends on how it has been done but in Queensland over time there are many regional areas where there have been losses of significant employment ...³⁸²

- 6.74** Mr Stephen Hughes, Manager – North, United Services Union, informed that committee that in regional areas in New South Wales, 'most councils are the largest employers and any reduction in jobs has a major impact'.³⁸³

³⁸⁰ Submission 23, Leichhardt Municipal Council, p 6.

³⁸¹ Evidence, Associate Professor Roberta Ryan, Centre for Local Government, University of Technology, Sydney, 27 July 2015, p 41.

³⁸² Evidence, Associate Professor Ryan, 27 July 2015, p 41.

³⁸³ Mr Stephen Hughes, Manager-North, United Services Union, 10 August 2015, p 23.

- 6.75** There are currently a number of protections for employees of councils that are amalgamated in the *Local Government Act 1993*. Section 354F of the Act provides that there must be no forced redundancies of non-senior staff members for three years after an amalgamation.³⁸⁴ While for rural centres, which are defined as centres with a population of 5,000 people or fewer, there are additional protections. Section 218CA of the Act requires an amalgamated council to ensure the number of regular staff of the council employed at a rural centre is maintained, as far as is reasonably practicable, following an amalgamation.³⁸⁵
- 6.76** The NSW Government's submission to the inquiry noted that the Government recognised 'the important role that councils play as local employers, particularly in small rural communities', and for that reason it was 'committed to maintaining existing employment protections under the Local Government Act'.³⁸⁶
- 6.77** Namoi Councils indicated that in, the experience of its member councils, amalgamations of rural councils had resulted in decreased service provision for smaller communities:

Anecdotal evidence from member Councils (most of whom who have experienced amalgamation in the past) is that results have been mixed, with ongoing concerns from residents in rural areas and in smaller communities that they are not always receiving the level of support that they had experienced in the past. This can include concerns that in the case of amalgamations staff resources may be withdrawn from smaller communities as part of a rationalisation of service offerings.³⁸⁷

- 6.78** Cr Bilske expressed concern for smaller townships that are currently the business centre for a local government area but no longer would be after amalgamation. He suggested that such towns 'will suffer the most from economic downturn as a result of these mergers being introduced'.³⁸⁸
- 6.79** Mr Jim Hampstead, OAM, Deputy Mayor of Bogan Shire Council was even more emphatic in his critique, declaring '...we absolutely oppose amalgamations because I think it is the death of small rural towns if they lose their shire'.³⁸⁹
- 6.80** The committee also heard evidence from Mr Anthony McMahon, General Manager of Boorowa Council, who explained the difficult position that senior staff can find themselves in when considering council amalgamations that are likely to affect their own livelihood:

From a personal perspective, it has been quite an odd experience going through this Fit for the Future process where I have effectively been writing myself out of a job and I think that is a difficult thing to do. I know that other people may not take that so well; it is not necessarily an easy thing to put the interests of your community...ahead of your own interests I think certainly people would find challenging. I know I have.³⁹⁰

³⁸⁴ *Local Government Act 1993*, s 354F.

³⁸⁵ *Local Government Act 1993*, s 218CA.

³⁸⁶ Submission 109, NSW Government, p 9.

³⁸⁷ Submission 87, Namoi Councils, p 3.

³⁸⁸ Submission 123, Mr Des Bilske, p 4.

³⁸⁹ Evidence, Mr Jim Hampstead, OAM, Deputy Mayor, Bogan Shire Council, 17 August 2015, p 24.

³⁹⁰ Evidence, Mr Anthony McMahon, General Manager, Boorowa Council, 17 August 2015, p

6.81 NSW Farmers' Association raised a separate concern for amalgamations of primarily rural councils with neighbouring councils that have larger urban populations. It suggested that such mergers lead to decreased representation of farmers and agricultural issues:

... it is important to note that amalgamations can cause an increase in the proportion of urban populations in a local government area, which could cause a decrease in engagement of local councils on key agricultural issues, or a decrease in the representation of farmers on their local council. It may result in the disproportionate charging of rates on agriculture becoming entrenched across larger council areas.³⁹¹

Responses to online questionnaire: costs of amalgamations

When considering the potential disadvantages of their local council merging with one or more neighbouring councils 73 per cent of respondents to the committee's online questionnaire selected 'local issues will be overlooked/loss of local identity'. The next most popular responses were 'loss of representation/loss of voice' (65 per cent), 'doubt about cost savings/waste of time and/or money' (61 per cent), 'a bigger council will be less efficient/too bureaucratic' (58 per cent).³⁹²

Questionnaire respondents also submitted a number of open-ended responses on the costs of amalgamations:

- 'Higher rates, large administration costs in changeover. Little savings in service delivery outcomes. Loss of jobs and intellectual property. Loss of social capital in job losses'³⁹³
- 'Loss of autonomy, cost of local jobs, waste of currently owned machinery which will become redundant'³⁹⁴
- 'Instability of programs and departments that are already working well, danger of "one size fits all" approach for unique issues'³⁹⁵
- 'Higher costs. Reduced services. Slower response times'³⁹⁶
- 'Merged Councils will take years to work through the changes with no guarantee of improved services, financial efficiency or improved civic leadership. The costs are a certainty and the benefits a promise'³⁹⁷
- 'From what I have read, interstate experience of amalgamation has not saved money for councils. Amalgamation has also resulted in the need to set up 'parish' councils in some amalgamated councils in order to deal with local affairs. The reduced number of councillors per head of population diminishes representation and is undemocratic'³⁹⁸
- 'There is no evidence to suggest that amalgamations have resulted in improved services or cost savings to rate payers'.³⁹⁹

³⁹¹ Submission 184, NSW Farmers' Association, p 6.

³⁹² Responses to online questionnaire.

³⁹³ Responses to online questionnaire – respondent from Lake Macquarie.

³⁹⁴ Responses to online questionnaire – respondent from Coffs Harbour.

³⁹⁵ Responses to online questionnaire – respondent from Hornsby.

³⁹⁶ Responses to online questionnaire – respondent from Marrickville.

³⁹⁷ Responses to online questionnaire – respondent from Randwick.

³⁹⁸ Responses to online questionnaire – respondent from Willoughby.

³⁹⁹ Responses to online questionnaire – respondent from Lake Macquarie.

Rural and regional impacts

- ‘Small councils are the major employer in remote communities. Amalgamation usually results in a reduction of staff in the smaller towns with the resultant financial back lash on business, schools and community services in these areas’⁴⁰⁰
- ‘It will be the beginning of the end, less jobs, down turn of the real estate market, younger families forced to move or not looking to the region for relocation, lack of consistent supervision for amalgamated council work force in remote location/towns - poor services to our people’⁴⁰¹
- ‘Allowance should be made for rural and remote local government areas with large areas and small populations. Amalgamation is not the answer. Mergers with a larger regional centre would leave vast areas without adequate representation or key services such as roads’.⁴⁰²

Impacts of amalgamations on rates

6.82 The impact of council amalgamations on rates was addressed in a number of submissions and other evidence to the inquiry. The evidence received was mixed, with some inquiry participants arguing that amalgamations are likely to lead to rates rises, while others suggested that they may lead to reductions in rates.

6.83 LGNSW was one of the stakeholders that considered rates would rise as a result of amalgamations. In its submission to the inquiry, LGNSW compared rates in New South Wales with other states around the country:

What is beyond doubt, however, is that amalgamations have driven rates up in other jurisdictions. The Queensland amalgamations referred to took place in 2008. Total Queensland council rate revenue grew by 27.4% in the period 2001-08 to 2010-11. By comparison, NSW council rate revenue grew by only 13.4% in the same period. As noted previously, NSW has the lowest per capita rates of all jurisdictions except the Northern Territory. According to the Local Government National Report 2012-2013, Victorian council rates averaged \$692 per capita compared to \$499 in NSW - a difference of nearly 40%. This is despite amalgamations in 1994 that reduced the number of Victorian councils from 210 to 78.⁴⁰³

6.84 The Office of Local Government provided an alternative view, however, arguing that the history of amalgamations in New South Wales ‘demonstrated that mergers have not produced higher rates for their residents’. The Office of Local Government referred to the mergers that occurred in New South Wales between 2000 and 2014, noting that ‘of the 26 councils established from mergers, 17 of these had lower residential rates in 2013-14 than the average residential rate across each classification of council’.⁴⁰⁴

6.85 Following further questions from the committee on this issue, the Office of Local Government provided information about the overall residential rate take of merged entities in

⁴⁰⁰ Responses to online questionnaire – respondent from Gwydir.

⁴⁰¹ Responses to online questionnaire – respondent from Northern Tablelands.

⁴⁰² Responses to online questionnaire – respondent from Carrathool.

⁴⁰³ Submission 142, Local Government NSW, p 10.

⁴⁰⁴ Answers to supplementary questions, Office of Local Government, 22 August 2015, p 12.

New South Wales in 2004 compared to the rate take of the pre-merger councils the year before. The Office of Local Government stated that there were 22 entities with available data and, of these, 11 (or half) of the mergers had ‘produced a lower residential rate-take in the year after the merger, expressed by the average rate received across rateable properties’.⁴⁰⁵ The table below shows the average residential rate for the 11 councils in 2003-04 compared to 2004-05, taking account of the rate peg.

Table 8 Rate reductions after amalgamations

Average residential rates against no. of rateable properties			
Council	2003-04 \$	2004-05 \$	Difference \$
Sydney	464.76	424.37	40.39
Cooma-Monaro	543.74	498.90	44.84
Palerang	481.70	480.79	0.91
Goulburn Mulwaree	704.62	670.15	34.47
Tumut	488.77	406.35	82.42
Upper Lachlan	385.12	297.37	87.75
Yass Valley	598.60	423.26	175.34
Liverpool Plains	382.56	335.74	46.82
Corowa	348.53	317.51	31.02
Greater Hume	293.87	251.97	41.90
Upper Hunter	540.47	430.22	110.25

Source: Answers to questions on notice, Office of Local Government, 17 September 2015.

6.86 The above data, provided by the Office of Local Government, would be of significantly more assistance if it was accompanied by detail of the increased rates in the 11 other entities that are not included in this list.

6.87 The committee received evidence on the issue of the impact of mergers on rate from City of Canada Bay Council, which was one of the councils formed from amalgamation in 2000. Its evidence to the committee was that the merger did not lead to a rate reduction:

The experience of the City of Canada Bay, which came about following Drummoynes and Concord Councils merging in 2000, did not result in a rate reduction for rate payers. This merger saw an equalisation of rates and the new rate structure resulted in increases for some and reductions for others. This amalgamation did not take pressure off rates.⁴⁰⁶

6.88 Save Our Strathfield’s submission outlined the predicted impact on rates if Strathfield Council merged with five other councils. It noted that rates would increase for Strathfield residents, while they would decrease for some residents in other councils:

⁴⁰⁵ Answers to questions on notice, Office of Local Government, 17 September 2015, p 1.

⁴⁰⁶ Submission 95, City of Canada Bay Council, p 8.

The financial modelling also shows that the rates of residents in Strathfield will increase far more than in any of the other 5 councils. Strathfield has low residential rates in comparison to other Inner West Councils.

By using redistribution of the Council rates ad valorem system, rates in Strathfield and Canada Bay would increase (Strathfield more than any other) but Ashfield, Burwood, Leichhardt and Marrickville would decrease. A small portion of Marrickville would increase but most decrease.

It is therefore not difficult to see why Strathfield residents yield no benefit from any council merger.

The business community will be mostly affected with business rates increasing in Strathfield by \$2000.⁴⁰⁷

- 6.89** Associate Professor Ryan stressed that there was no definitive evidence that amalgamations lead to higher rates, writing:

Again, however, I stress that there is no definitive evidence that amalgamations inevitably lead to higher rates. What is seen often is that if two councils merge with different rate levels – the newly amalgamated area will likely continue with the high rate base rather than have the rates drop to the one with the lower rate base. This can be easily explained as most council don't charge high enough rates (particularly in NSW due to rate capping) nor do they not use their borrowing capacities enough.⁴⁰⁸

- 6.90** The alignment of rating systems between merged councils was discussed by Cooma-Monaro Shire Council in the context of a possible merger between Cooma-Monaro, Bombala and Snowy River Councils. Cooma-Monaro Shire Council noted that it could take a number of years and there would likely be some winners and some losers in the process:

Alignment of rating systems will take considerable effort, potentially over a series of rating years, to achieve fairness and equity. For example, Cooma-Monaro's average 'Farmland' rate has consistently been one of the lowest in the State... whereas our 'Business' rates have been quite high in comparison with other councils in our group.

'Standardisation' within rating categories across three councils with significantly different rating allocations will potentially deliver a rate 'saving' to some ratepayers while at the same time bringing a level of dissatisfaction from others. It is likely that Cooma businesses would see a 'benefit' from rating standardisation, whereas our 'farmland' ratepayers would likely see that standardisation as an additional cost.⁴⁰⁹

Committee comment

- 6.91** The Boundaries Commission provides an independent and consultative approach to considering amalgamation proposals, which offers local communities the opportunity to provide input about potential amalgamations. The committee supports the view of LGNSW

⁴⁰⁷ Submission 110, Save Our Strathfield, p 10.

⁴⁰⁸ Answers to supplementary questions, Associate Professor Roberta Ryan, Centre for Local Government, University of Technology, Sydney, 21 August 2015, p 4.

⁴⁰⁹ Submission 81, Cooma-Monaro Shire Council, p 11.

that retaining the Boundaries Commission may make up for some of the flaws in the Fit for the Future process to date.

Finding 7

That the Boundaries Commission process was strongly supported by many organisations, including Local Government NSW, and a strengthened and more independent Commission may make up for some of the flaws in the Fit for the Future process to date.

- 6.92** The committee considers the Boundaries Commission should be retained, with some changes to ensure it is even more rigorous and robust. To this end, the committee supports the recommendations of the ILGRP to create a more independent Boundaries Commission.
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Recommendation 9

That the NSW Government implement the Independent Local Government Review Panel's recommendations to strengthen the independence of the Boundaries Commission and ensure a robust and consultative process is in place to consider council amalgamation proposals before any further steps are taken by the government in relation to council amalgamations.

- 6.93** The committee notes there are mixed views about the costs and benefits of amalgamations of local councils. However, this is not to say that stakeholders were ambivalent about amalgamations. On the contrary, the issue of amalgamations, and particularly forced amalgamations, evinced passionate responses from many inquiry participants.
- 6.94** When considering the benefits of amalgamations, the potential for increased strategic capacity was highlighted by some stakeholders as the key benefit that merged councils acquire. It was suggested that mergers led to improvements in a council's ability to invest in larger infrastructure, deliver major projects successfully and form more effective partnerships with other levels of government and organisations.
- 6.95** Other benefits suggested by inquiry participants included streamlined administrative processes, reduced operating expenses, improved service delivery and simpler planning systems.
- 6.96** On the other hand, numerous stakeholders identified a range of costs or disadvantages of council amalgamations. These costs included the high transitional costs of mergers, which related to the integration of systems, staff, premises and governance and management structures. Amalgamations also disrupt service provision by councils, as a result of councils focusing on managing the transition, as well as potential losses in staff expertise and experience. The impact on a council's budget position may also be a concern, especially if the residents of one council are expected to take on the debt and infrastructure backlog of a neighbouring council through a merger.

- 6.97** The potential costs for rural and regional communities, particularly small rural townships that would no longer be the business centre of a local council, are of concern to the committee. While there are protections in the *Local Government Act 1993* to ensure the number of staff at rural centres is maintained, the committee heard that it is still these centres that suffer the most from council amalgamations.
- 6.98** The committee also notes that the other employment protections in the Act, which apply to the majority of council employees across the state, do not apply to senior staff such as general managers. The committee is of the view that special consideration needs to be given to ensure there is adequate support and assistance for such staff in the event that their positions are lost in an amalgamation. Of particular concern are senior staff located in rural areas, who may need to relocate to another area to seek new employment.
- 6.99** The committee notes that there will be implications not just for these staff but for their families too, if they are required to relocate. The committee therefore recommends that, as part of any reforms involving council amalgamations, the NSW Government put in place a program to assist and support senior staff that are affected by amalgamations.

Recommendation 10

That the NSW Government implement a program to assist and support senior staff affected by amalgamations, particularly those staff in regional areas who may need to relocate if their position is lost through an amalgamation.

- 6.100** The evidence provided to the committee about the impact of amalgamations on rates was mixed. Some stakeholders suggested that rates would decrease as a result of mergers, while others said they would increase. The committee notes the evidence of Association Professor Ryan who stressed that there was no definitive evidence that amalgamations lead to higher rates. The committee also notes that there are likely to be some winners and some losers following any amalgamation, as disparate rating systems are aligned.
- 6.101** Given the numerous concerns raised by stakeholders about the costs of amalgamations the committee is of the view that the case for amalgamations, and in particular, forced amalgamations, has not been made. The apparent lack of empirical evidence to demonstrate the benefits of amalgamations, as discussed in the following chapter, lends further weight to these concerns.
- 6.102** The committee further notes the concerns raised in previous chapters about the Fit for the Future criteria and considers that findings based on these criteria, about whether a council is 'fit' or 'unfit', should not be the basis for forced amalgamations of local councils.
- 6.103** The committee therefore proposes that the Government adopt a policy of no forced amalgamations of councils, unless a council is shown to be severely financially unsustainable or unable to provide services. The committee notes that councils should only be considered to be severely financially unsustainable if they are bankrupt or on the imminent verge of bankruptcy.

Recommendation 11

That the NSW Government commit to a policy of no forced amalgamations of local councils, except in circumstances where it can be established that a council is severely financially unsustainable to the point of bankruptcy or unable to maintain an acceptable level of service provision.

Chapter 7 Evidence on the outcomes of amalgamations

There are often conflicting views about whether the outcome of any particular amalgamation is positive or negative, as well as conflicting empirical evidence on the outcomes of amalgamations in general. This chapter examines the empirical evidence about amalgamations, as well as considering the factors that can affect the outcomes of amalgamations. The chapter also presents a number of case studies about amalgamations in other jurisdictions.

The empirical evidence about amalgamations

- 7.1** Inquiry participants painted a mixed picture of the empirical evidence on the outcomes of council amalgamations. As discussed below, many inquiry participants contended that there is a lack of empirical evidence about the beneficial outcomes of amalgamations, or suggested that the evidence showed amalgamations often did not realise expected savings and improvements in performance. Some others argued that empirical findings showed amalgamations had led to savings, while others again suggested that there was little evidence to support the claims of the either opponents or supporters of amalgamation.
- 7.2** In its submission to the inquiry, Local Government NSW (LGNSW) stated it had reviewed the research in this area and considered that ‘there does not appear to be any overwhelming or conclusive evidence on the relative costs and benefits of amalgamations generally’.⁴¹⁰ LGNSW further argued that the ‘push for amalgamations seems to be largely driven by blind faith in economies of scale and that bigger is necessarily better’.⁴¹¹
- 7.3** LGNSW suggested there was insufficient evidence to support the argument that bigger councils perform better than smaller councils, and that in fact there was a ‘larger body of research and real life experience that challenge that proposition’. LGNSW referred, in particular, to the Australian Centre of Excellence for Local Government, which reported in May 2011 that:
- An enduring theme is the perception that municipal consolidation will result in gains through economies of scale. Our review of the literature makes it clear there is insufficient robust research to support this proposition.⁴¹²
- 7.4** Professor Brian Dollery of the University of New England suggested that the rationale for amalgamations was ‘derived from the belief that larger councils are more efficient than smaller councils’. However, Professor Dollery warned that the theoretical and empirical literature on the purported benefits of amalgamation was ‘decidedly uncertain’.⁴¹³
- 7.5** Leichhardt Municipal Council suggested the international and national evidence about council amalgamations did not support the assumption that larger councils are more efficient and effective than smaller councils. In fact, Leichhardt countered, the evidence ‘reveals the exact

⁴¹⁰ Submission 142, Local Government NSW, p 9.

⁴¹¹ Submission 142, Local Government NSW, p 9.

⁴¹² Submission 142, Local Government NSW, p 10.

⁴¹³ Submission 3a, Professor Brian Dollery, p 3.

opposite - smaller councils are more efficient, effective, financial sustainable and better represent their local communities'.⁴¹⁴

7.6 Professor Dollery noted that municipal mergers, similar to the amalgamations proposed for New South Wales, have taken place in the United States, Canada and Europe with the intent to produce greater efficiencies in local government. However, research into the outcomes of such mergers cast doubt on the whether the supposed benefits of the mergers were realised.

- In the United States, Feoick (2004) found that municipal mergers had not met their proposed economic objectives but instead, had led to increased expenditure; while Martin and Schiff (2011) found that there was little evidence that amalgamations enhanced performance, through either improved service delivery or reduced costs for delivering the same service.
- In Canada, Reese (2004) found that remuneration levels had increased in the post amalgamation period, resulting in a net increase in local government expenditure.
- In Europe, contributors to Dollery and Robotti (2008) found that municipal mergers in France, Germany, Italy and Spain failed to deliver on their intended objectives.⁴¹⁵

7.7 Kogarah Council concluded that the international research into amalgamations found that:

- the costs of amalgamation and transition are often underestimated
- the financial sustainability of councils is not always improved after amalgamation
- the estimated savings from amalgamation are often not realised and in some cases mergers have resulted in increased expenditures
- amalgamation often does not result in improved performance and service provision.⁴¹⁶

7.8 Lake Macquarie City Council provided details of a recent study conducted by Mr Brian Bell, General Manager of Lake Macquarie City Council, to assess the performance of amalgamated councils in New South Wales:

Using the same 'Fit for the Future' assessment indicators set by the Office of Local Government, a study was undertaken by the General Manager of Lake Macquarie City Council, Brian Bell, in 2015 to assess whether the performance of previously amalgamated councils in NSW were in fact showing whether 'bigger is better'. Were the amalgamated councils performing better than their non-amalgamated peers? ...

Twenty-four significant regional city and town councils in NSW were chosen ... Ten of the 24 councils were amalgamated between 2000 and 2004, so any comparative performance benefits should have been readily identifiable by the data collection period (2012-2014), a minimum of eight years since their amalgamations ...

The study indicated very clearly that there is no better performance by the amalgamated councils over the non-amalgamated councils on any of the 'Fit for the

⁴¹⁴ Submission 23, Leichhardt Municipal Council, p 5.

⁴¹⁵ Submission 3a, Professor Brian Dollery, p 3.

⁴¹⁶ Submission 84, Kogarah Council, p 7.

Future' performance indicators. The data also show there are no discernible economies of scale efficiencies in the bigger councils versus the smaller councils.⁴¹⁷

7.9 The Institute of Public Works Engineering Australia wrote that there was a 'perception that cost savings will be achieved by the procurement of goods and services by an amalgamated council'. However, the Institute argued that such savings are already being realized by existing collaborative structures, such as Regional Organisations of Councils (ROCs), and through the use of existing bulk purchasing arrangements and procurement organisations, such as Local Government Procurement.⁴¹⁸

7.10 Professor Graham Sansom, University of Technology, Sydney, noted that a review of amalgamations in South Australia found the predicted savings from council mergers were not achieved:

McKinlay Douglas (2006, p.23) reported that amalgamations in South Australia in the mid-1990s were projected to save \$150m per annum in local government expenditures, but in practice the changes (albeit greatly modified from the original proposals) saved only \$19m per annum.⁴¹⁹

7.11 However, Professor Sansom argued that it was not known whether this outcome was 'the result of a failure to make efficiency savings, or because savings were "ploughed back" into improved services and infrastructure'.⁴²⁰

7.12 The Office of Local Government went further, arguing that savings were often directed into services and referring to research undertaken by the Australian Centre of Excellence for Local Government in this matter. The Centre's research found 'efficiencies and cost benefits do come from mergers' and these are 'generally redirected into services and infrastructure that communities need'.⁴²¹

7.13 Professor Sansom informed the committee that the evidence on the matters before the committee was mixed, suggesting that many academic papers and reports relied on statistical analysis and modelling that was 'of questionable relevance and value'. He wrote that there were 'very few rigorous "before and after" assessments of mergers' and that judgements about 'specific reform proposals must be made "on balance" taking into account all relevant factors and with full community consultation'.⁴²²

7.14 Professor Sansom further noted that the Independent Local Government Review Panel (ILGRP) found there was little empirical evidence to support the claims made by the either the opponents or supporters of amalgamations:

...the ILGRP found that few of the assertions put forward by opponents of amalgamations are supported by conclusive evidence, and without a substantial

⁴¹⁷ Submission 65, Lake Macquarie City Council p 2.

⁴¹⁸ Submission 129, Institute of Public Works Engineering Australia, p 14.

⁴¹⁹ Submission 132, Professor Graham Sansom, p 9.

⁴²⁰ Submission 132, Professor Graham Sansom, p 9.

⁴²¹ Answers to supplementary questions, Office of Local Government, 22 August 2015, p 12.

⁴²² Submission 132a, Professor Graham Sansom, p 2.

number of detailed before and after studies of specific amalgamations it is virtually impossible to verify either their claims or those of the supporters of amalgamations.

For example, the ILGRP could find no proof that larger councils *necessarily* spend more or suffer from diseconomies of scale...

Turning to employment and economic development, a survey of employment levels before and after the 2004 amalgamations in NSW found no evidence of job losses overall – total employment increased – although there may have been some shifts in the pattern of employment ...⁴²³

7.15 While the proponents of council amalgamations argued that larger, amalgamated councils are more efficient and offer economies of scale, the committee also heard contrasting evidence that some services are better provided at a smaller scale.

7.16 Professor Percy Allen explained that the different functions of local government have different ideal scales. For example, he wrote that ‘most council frontline services require very local attention, in which small councils excel’. Other functions such as ‘urban planning and large developments need a regional focus through regional institutions’, while ‘routine corporate services and public works need scale to capture economies’. Professor Allen suggested that the latter is best achieved through outsourcing or sharing services.⁴²⁴ Professor Allen’s submission argued that ‘some of the most efficient local government units are small contract councils that achieve economies of scale by sharing services with other councils or procuring them from specialist providers’.⁴²⁵

7.17 Professor Dollery was another stakeholder to express the view that economies of scale apply for some services provided by local councils but not others. Professor Dollery contrasted the provision of water and garbage collection to demonstrate his case:

Scale economies are service specific. Say, for example, you have, you can look at scale economies across different services. You have to look at them per sector or per activity. There are scale economies in water obviously because the capital intensity of water is so high. There are scale economies in garbage, when it comes to dealing with garbage, not so much collecting garbage. Because obviously, the more households and more businesses you collect garbage for, you can say one-on-one type places, the labour intensity of garbage collection, there are not significant scale economies. On the other hand, where you dump garbage and you have a waste disposal unit, of course you have got a shared facility there.⁴²⁶

7.18 Professor Dollery suggested that for service where there are scale economies, then it is rational to offer them on a regional or joint basis, as is done by Sydney Water for water in Sydney. But for other services, such as garbage collection or ‘fixing potholes in roads’, there are not scale economies and so ‘it is stupid to aggregate across councils, because you get larger and much more expensive bureaucracy’.⁴²⁷

⁴²³ Submission 132, Professor Graham Sansom, p 11.

⁴²⁴ Submission 5, Percy Allen & Associates, p 12.

⁴²⁵ Submission 5, Percy Allen & Associates, p 2.

⁴²⁶ Evidence, Professor Brian Dollery, University of New England, 18 August 2015, pp 21-22.

⁴²⁷ Evidence, Professor Dollery, 18 August 2015, pp 21-22.

Factors affecting the outcomes of amalgamations

7.19 One possible explanation for the mixed empirical evidence about amalgamations is that there can be a range of outcomes from amalgamations, with some amalgamations having positive outcomes and others having negative or neutral results.

7.20 LGNSW told the committee it appeared that different amalgamations resulted in different net outcomes, positive or negative, which were the product of a multitude of factors. LGNSW suggested that such factors may include the:

- financial condition of the councils amalgamating
- level of community support for the amalgamation
- level of resources available to assist councils with the amalgamation process
- time elapsed since amalgamation
- external factors influenced or controlled by state or federal Governments.⁴²⁸

7.21 LGNSW provided the following list of what it considered to be the key elements of successful amalgamations, based on experience from past amalgamations in New South Wales and other states:

- strong community support based on extensive and informed community engagement
- significant communities of interest across the areas being amalgamated
- evidence that amalgamation will deliver significant medium and long term benefits to the communities involved
- robust planning and implementation, with realistic and achievable timeframes
- strong, supportive leadership and management
- genuine and frequent communication and stakeholder involvement
- availability of incentives including financial support
- a partnering approach based on mutually agreed values, rather than one involving of adversarial or takeover activities
- outcomes that are based on the ideology of a ‘fresh start’
- transitional arrangements in place at the outset
- independent monitoring and evaluation.⁴²⁹

7.22 LGNSW further argued that the above element were ‘far more likely to be present in a voluntary amalgamation’.⁴³⁰

⁴²⁸ Submission 142, Local Government NSW, p 9.

⁴²⁹ Submission 142, Local Government NSW, p 9.

⁴³⁰ Submission 142, Local Government NSW, p 9.

7.23 When asked by the committee about forced amalgamations, Associate Professor Roberta Ryan of the University of Technology Sydney initially responded that the ‘evidence shows that it is entirely advantageous not to force amalgamations’ and that ‘reform that occurs in a voluntary way, where councils come together based on their expertise and their local circumstances, provides better outcomes’.⁴³¹

7.24 However, in her subsequent answers to questions on notice, Professor Ryan wrote that the ‘juxtaposition between forced mergers on the one hand, and voluntary mergers on the other hand, while rhetorically convenient, is somewhat of a misnomer’. Professor Ryan suggested that a better way of thinking about the distinction is ‘between top-down amalgamations – those conducted by governmental and ministerial fiat – and those that are undertaken through a process of substantive consultation, in particular with the option for negotiating what the eventual outcome will look like’.⁴³²

7.25 Professor Sansom raised a similar concern about the distinction between ‘forced’ and ‘voluntary’ amalgamations. Professor Sansom wrote that there was no ‘body of evidence to demonstrate that the outcomes of “forced” amalgamations are necessarily worse than those of “voluntary” mergers’, providing the following example:

...in the Sydney region both the ‘voluntary’ merger of Drummoyne and Concord to create Canada Bay Council, and the ‘forced’ merger of the City of Sydney and South Sydney, have delivered substantial benefits and – over time – been well received by the communities concerned.⁴³³

7.26 Mr Jeff Tate, Director, Jeff Tate Consulting Pty Ltd, evidence to the committee focused on the processes for amalgamations and the elements of successful amalgamations. Mr Tate advised the committee that he had had significant experience of council amalgamations and de-amalgamations, having managed the amalgamation of the City of Onkaparinga in South Australia in 1997 and the de-amalgamation of Douglas Shire Council from Cairns Regional Council in Far North Queensland in 2013, as well as conducting a review of the New South Wales local government amalgamations of 2004 for the ILGRP.⁴³⁴ Mr Tate suggested that one of the key lessons from the work he had done was that there needed to be a ‘partnership approach taken by the State Government and the sector. One cannot just stand outside and demand that things happen’.⁴³⁵

7.27 Mr Tate indicated that his review of the 2004 council amalgamations in New South Wales had found the process ‘left a lot to be desired’.⁴³⁶ He contrasted the level of assistance provided by the NSW Government in 2004 with the mergers he was involved with in South Australia and Queensland:

The experience in 2004 was, as I said before, that councils were largely left to their own devices to go through the amalgamation process. I can contrast that with what

⁴³¹ Evidence, Associate Professor Roberta Ryan, Centre for Local Government, University of Technology, Sydney, 27 July 2015, p 36.

⁴³² Answers to supplementary questions, Associate Professor Roberta Ryan, 21 August 2015, p 1.

⁴³³ Submission 132a, Professor Graham Sansom, p 2.

⁴³⁴ Evidence, Mr Jeff Tate, Director, Jeff Tate Consulting Pty Ltd, 27 July 2015, p 76.

⁴³⁵ Evidence, Mr Tate, 27 July 2015, p 76.

⁴³⁶ Evidence, Mr Tate, 27 July 2015, p 76.

happened in South Australia, and something similar happened in Queensland, where there were flow charts and all sorts of resources provided to assist individual amalgamations to occur. So councils were not left on their own always having to create something new. There were templates and so on which they could actually follow. Also in South Australia there were facilitators appointed to assist councils to work through issues. It was a partnership approach.⁴³⁷

7.28 Mr Scott Greensill, General Manager of Clarence Valley Council, described the amalgamation process in 2004 that led to the establishment of Clarence Valley Council:

There was a fax received, all the councillors were sacked and effectively an administrator started the next day with an interim general manager. There was no financial support nor were there guidelines for the councils to follow, so the processes were basically a case of 'have a go; see what you can do'.⁴³⁸

7.29 When the committee asked Mr Tate whether he supported forced amalgamations, he responded that his 'preference was for the decision to be made locally' but there were 'times when I think it would be appropriate to take that step'. However, Mr Tate suggested that compulsory amalgamation 'should be a last resort' and he stressed again that it needed to be a supported process and properly worked through.⁴³⁹

7.30 Mr Tate was also questioned about whether there should be a clear direction of the next steps in the Fit for the Future process in regard to amalgamations:

I agree there should be a road map. The idea of having a proper process is to make sure that people know where they are at—that everybody understands that we are all on the same page about what we are doing and why. That also includes communicating with people and keeping them engaged in the process, and making sure that key stakeholders are involved in the process.⁴⁴⁰

7.31 During the inquiry the committee asked Ms Marcia Doheny, Chief Executive of the Office of Local Government to explain what the next steps in the Fit for the Future process would be after Independent Pricing and Regulatory Tribunal (IPART) has provided its report to the NSW Government. Ms Doheny replied that 'IPART will report to the Government at the end of October and then the Government will receive that advice and make decisions about the next steps'.⁴⁴¹

7.32 When pressed further on this issue, Ms Doheny responded that she could not pre-empt the NSW Government's decision making:

The Hon. PETER PRIMROSE: Let us take an individual council. They have prepared this material. You cannot say if a council is found to be unfit by IPART what will actually happen next.

⁴³⁷ Evidence, Mr Tate, 27 July 2015, p 77.

⁴³⁸ Evidence, Mr Scott Greensill, General Manager, Clarence Valley Council, 18 August 2015, p 26.

⁴³⁹ Evidence, Mr Tate, 27 July 2015, p 77.

⁴⁴⁰ Evidence, Mr Tate, 27 July 2015, pp 77-78.

⁴⁴¹ Evidence, Ms Marcia Doheny, Chief Executive, Office of Local Government, 27 July 2015, p 4.

Ms DOHENY: I cannot say that because the Government needs to make those decisions, and then I will be implementing through my office those decisions.⁴⁴²

- 7.33** At a later public hearing for the 2015-16 Budget Estimates, the Minister similarly explained that the NSW Government had made no decisions yet about what the next steps in the process would be and was waiting for IPART's report

The process is that we are waiting for a report that is going to be handed down from the independent tribunal. Until we see that report, the Government has made no decisions as to what the next steps will be.⁴⁴³

- 7.34** Mr Tate outlined the stages for successful amalgamations, once the decision to amalgamate has been made, highlighting the importance of planning and communication:

Once the decision is made you then have a planning role. Then the steps are implementation followed by monitoring and evaluation ... It is also a major change project. The point I made in my report is that this is the biggest change that many people—employees or elected people working with communities—will go through in their careers. This is a massive change; it is not a small thing. Part of the planning is to have a communications strategy. That needs to be followed. You need to have somebody whose role is to make sure that the communication happens. You also need to be testing that communication—and testing with other people—and have an ear out. You have to be able to hear what people are saying, whether they feel as if they are being kept informed about things or not.⁴⁴⁴

- 7.35** The committee also heard from a number of councils and other stakeholders about the elements of successful mergers or the processes that should be implemented for council amalgamations. For example, Cr Ted Seng, Mayor, Randwick City Council, discussed the proposed merger between Randwick and Waverley Councils and what he saw as some of the essential ingredients to a successful merger:

The merged council will provide the community with a strong voice in shaping the future of development, transport and other key infrastructure in the region with a greater capability to provide new and enhanced services. The alignment of communities of interest is essential to the success of the proposed merger. This merger brings together two councils that share many commonalities in their demographics, economic and social character as well as environmental characteristics. As an example there will be an opportunity for further coordination in planning of coastal and recreational activities.⁴⁴⁵

- 7.36** Rockdale City Council provided the following outline of the actions and strategies it considered should be implemented if the NSW Government intended to proceed with any merger proposals:

Early in the process, the following needs to take place, as a minimum:

⁴⁴² Evidence, Ms Doheny, 27 July 2015, p 4.

⁴⁴³ Evidence, the Hon Paul Toole MP, Minister for Local Government, General Purpose Standing Committee No. 6, Budget Estimates 2015-16, 4 September 2015, p 4.

⁴⁴⁴ Evidence, Mr Tate, 27 July 2015, p 78.

⁴⁴⁵ Submission 73, Cr Ted Seng, p 4.

- A comprehensive review of relative rating structures and land values of the Councils (these variations are significant and will be important to residents)
- Review of summary service catalogues of the respective Councils (including Service Level Agreements, Costs and FTE's, IT systems)
- Reconciliation of the asset management systems, asset valuations and related accounting assumptions
- Review of knowledge management and customer service structures at the relevant Councils (including Customer Request Management systems, Customer service processes, document management and customer relationship management)
- Review award systems and human resources allocations
- Validate the financial statements and assumptions of each Council's Fit for the Future submission to conduct accurate modelling.

During any merger process, the following strategies should be implemented as soon as possible by any new entity:

- Appointment and resourcing of a skilled transition management team
- Published explanation of the proposed future rating structures (with worked case examples).
- Agreed service levels and allocation of resources to maintain existing service levels (as a minimum)
- Funding for staff engagement, leadership skills development, creation of a positive professional customer centric culture and business process improvement
- An agreed Asset Management strategy (including standardised values and assumptions)
- An agreed customer improvement strategy, including improved customer relationship management, knowledge management and on-line services.⁴⁴⁶

7.37 The NSW Business Chamber proposed that councils undergoing amalgamations could learn best practice from successful private sector mergers of organisations and suggested that ‘the skills and experience of professionals working in mergers and operational integration should be utilised’.⁴⁴⁷

7.38 Namoi Councils proposed that, if any forced amalgamations occur, ‘resources need to be provided by NSW government to undertake competent cost-benefit analyses prior to any amalgamation, and resources should also be provided to undertake post-amalgamation reviews against an appropriate best practice framework’.⁴⁴⁸

Comparative amalgamations in other jurisdictions

7.39 The committee received evidence from a number of inquiry participants about amalgamations of local councils that have occurred in other jurisdictions. The section below examines historical amalgamations from two other jurisdictions – Queensland and Auckland. For Queensland the committee has considered the 2007 reforms which saw a widespread number

⁴⁴⁶ Submission 86, Rockdale City Council, p 4.

⁴⁴⁷ Submission 88, NSW and Sydney Business Chamber, p 6.

⁴⁴⁸ Submission 87, Namoi Councils, p 4.

of amalgamations throughout the state. The committee also presents evidence about Brisbane City Council, which is the largest council in Australia today. Auckland Council in New Zealand provides another example of a single council for the city, established from the amalgamation of multiple metropolitan councils.

Queensland local government reforms and subsequent de-amalgamations

- 7.40** In 2007, the Local Government Reform Commission was independently established to recommend the most appropriate future structure for local government in Queensland, in response to concerns about the financial sustainability of some councils. The Commission recommended a large number of amalgamations across the state, thereby reducing the number of councils in Queensland from 157 to 73. The changes included the Sunshine Coast coming under one authority instead of three, Beaudesert being split into urban and rural sections, with the urban part being merged into Logan, and Townsville and Thuringowa in North Queensland merging.⁴⁴⁹
- 7.41** On 10 August 2007, the Local Government Reform Commission's amalgamation recommendations became law, through the enactment of the *Local Government (Reform and Implementation) Act 2007 (Qld)*.⁴⁵⁰
- 7.42** In 2009, according to Professor Sansom, the Queensland Treasury Corporation's review of the Queensland amalgamations found that:
- the costs of amalgamation were substantial, with 24 councils claiming a total cost of \$184.71 million but the Treasury Corporation (Tcorp) reducing this figure to \$47.21 million, largely by excluding the decisions to adopt the wage and salary levels of the previously highest paying council
 - additional costs would be progressively offset by savings
 - all of the councils had the financial capacity to meet the costs of amalgamation, which represented only 0.3 to 1.5 per cent of operating revenues.⁴⁵¹
- 7.43** Despite the significant structural reforms, in response to continued community dissatisfaction, the Queensland State Government in 2012 invited former Shires to put forward de-amalgamation applications that demonstrated financial viability and support from the community. Of nineteen applications, four successfully made the case for de-amalgamation 'based on the loss of effective local representation, the loss of local identity, substantial increases in rates and service costs and a decline in services and/or service levels'.⁴⁵²
- 7.44** Subsequently, on 1 January 2014, following enactment of the *Local Government (De-amalgamation Implementation) Regulation 2013*, Noosa Shire, Livingstone Shire, Mareeba Shire and Douglas Shire de-amalgamated.⁴⁵³

⁴⁴⁹ Queensland Treasury Corporation, 'Review of Local Government Amalgamation Costs Funding Submissions', (Final Summary Report, August 2009) p 4.

⁴⁵⁰ *Local Government (Reform and Implementation) Act 2007 (Qld)*.

⁴⁵¹ Submission 132, Professor Graham Sansom, pp 11-12.

⁴⁵² Submission 84, Kogarah Council, pp 11-12.

⁴⁵³ Submission 84, Kogarah Council, p 12.

- 7.45** Based on the net cost of all council amalgamations including future projected savings, the Institute of Public Works Engineering Australia estimated that it would take eight to ten years to realise any financial benefit from the amalgamations, with long term financial benefits being what they contended as ‘minimal’. The Institute also noted the financial impact of de-amalgamations, with further costs being incurred to the community.⁴⁵⁴
- 7.46** Hunters Hill Council pointed to the research recently conducted by Drew, Kortt and Dollery (April 2015) which evaluated the 2008 Queensland amalgamation program. Hunters Hill Council said that the research found the following outcomes (excluding inflation) for Queensland, three years on from the mergers, including an increase in:
- real operating expenditure of about 4.7 per cent
 - real council rates of 3.1 per cent
 - council wages of 4.9 per cent.⁴⁵⁵
- 7.47** Hunters Hill Council noted that the researchers concluded that it is ‘impossible to argue’ that the Queensland mergers were a success, noting that this is ‘troubling’ given the similarities with the proposed Fit for Future reforms:
- ... far from the earlier claims of leaner more efficient local authorities, the Queensland forced mergers actually produced more expensive local government funded in part by higher municipal rates and fees. It is thus impossible to argue that this episode of municipal amalgamation was a success. This is particularly troubling given the similarities between the Queensland amalgamations and the proposed Fit for the Future mergers.⁴⁵⁶
- 7.48** Taking into account the Queensland experience with amalgamations, Palerang Council asserted that the costs of the proposed amalgamations in New South Wales would far exceed the funds being offered by the NSW Government. The Council suggested that the mergers would impose significant costs on the ratepayer (likely to be in excess of \$70 million on top of a \$16.5 million government contribution), without a commensurate increase in service levels. In fact, they argued that ‘service levels will decline in any merged council because of the unsustainable financial position of the merged council’.⁴⁵⁷
- 7.49** The Office of Local Government noted, however, that more than \$250 million has been allocated in direct support for councils who voluntarily merge, which they said was five times the investment in the Queensland reforms.⁴⁵⁸
- 7.50** Save Our Strathfield noted that in a presentation on 26 February 2015, LGNSW concluded that the Queensland experience showed that in order for any process to be successful, residents must be part of the decision making process:

⁴⁵⁴ Submission 84, Kogarah Council, p 12.

⁴⁵⁵ Submission 128, Hunters Hill Council, p 10.

⁴⁵⁶ Submission 128, Hunters Hill Council, p 10.

⁴⁵⁷ Submission 115, Palerang Council, p 11.

⁴⁵⁸ Submission 109, Office of Local Government, p 3.

... in order for any such process to be successful the residents must be part of the decision making process and must be respected as genuine stakeholders, with genuine concerns for their loss of identity and culture, dilution of representation, increase in rates, disruption of services and loss of heritage and public assets considered.⁴⁵⁹

- 7.51** Professor Sansom highlighted the outcomes from the Hoffman and Talbot (2013) review of council amalgamations in Queensland, in which the benefits of ‘well-designed amalgamations’ were noted, as were the ‘potential pitfalls’ from a ‘poorly constructed and executed’ amalgamation process. Professor Sansom stated:

Hoffman and Talbot find that in general the Queensland public largely accepts the changes, and... amalgamations have had beneficial effects in terms of financial sustainability and strategic capacity. Also, local government is now seen as a more effective partner of the State government with increased capacity to deal with regional and metropolitan development issues, and greater political clout. However, challenges remain and amalgamations are an ‘opportunity not an outcome’. Hoffman and Talbot conclude that ‘Success will and has been achieved over time (5-10 years) depending on leadership, policy choices and response to external impacts’.⁴⁶⁰

Brisbane City Council

- 7.52** In 1925, 20 local councils were amalgamated to form the largest council in Australia today, Brisbane City Council.⁴⁶¹ Currently, it has a population of 1.13 million and is home to over 115,000 businesses.⁴⁶²
- 7.53** The Lord Mayor of Brisbane, Mr Graham Quirk, contended that the formation of Brisbane City Council through amalgamations has been a success, with residents benefiting from financial stability and security, and infrastructure, economic and environmental development. The Lord Mayor stated that Brisbane City Council’s size is ‘good for business’, as the Council can ‘drive a coordinated and well-resourced economic development plan for the benefit of businesses across the whole city, not just the CBD’. The Lord Mayor also said that this means that businesses ‘get a unique level of certainty’ as with one council there is one set of rules.⁴⁶³
- 7.54** Despite the Lord Mayor’s views, a number of stakeholders pointed to recent research from Dollery, Sinnewe and Kortt (2015) as evidence that the Brisbane City amalgamations did not necessarily improve financial performance or efficiency. In this research, the financial viability of Brisbane City Council was compared to analogous groups of councils.⁴⁶⁴ It showed, based on an analysis of financial data between 2008 and 2011 that Brisbane City Council

⁴⁵⁹ Submission 110, Save Our Strathfield, p 13.

⁴⁶⁰ Submission 132, Professor Graham Sansom, pp 11-12.

⁴⁶¹ Submission 3a, Professor Brian Dollery, p 1.

⁴⁶² Submission 154, Brisbane City Council, p 1.

⁴⁶³ Submission 154, Brisbane City Council, p 2.

⁴⁶⁴ Submission 115, Clareville and Bilgola Okateau Residents Association Inc, p 1; Submission 29, Mr Ian Naylor, pp 1-2; Submission 61, Newport Residents Association, pp 1-2; Submission 110, Save Our Strathfield, p 19.

underperformed in relation to comparable council groups in the areas of financial flexibility, liquidity and debt serving ability.⁴⁶⁵

7.55 Dollery, Sinnewe and Kortt (2015) further contended that their research cast ‘considerable doubts’ over the continuing mantra that ‘bigger is better’, such that their findings ‘lend further support to the growing corpus of research that suggests that ‘bigger is not always best’.⁴⁶⁶

7.56 Cr Peter Abelson, Mayor of Mosman Council, argued that Professor Dollery’s research also highlighted that councils are different to competitive private enterprises, such that increases in growth do not necessarily lead to greater efficiency:

... all the work by Professor Dollery indicates ... that the larger areas do not produce economic savings and the reason for that is that we are not a competitive private enterprise. Competitive private enterprise, if it gets larger, has to make profit and get a return on shareholders zero metrics. We are a monopoly and we are a bureaucracy and the incentive structures are quite different in those things. Being larger does not make you more efficient.⁴⁶⁷

7.57 Lending further weight to the notion that ‘bigger is not always better’, Lake Macquarie City Council compared Brisbane City Council’s performance to 13 councils in the Hunter and Central Coast regions of NSW, taking into account that the aggregate population of the 13 councils was comparable to Brisbane City Council’s population.⁴⁶⁸

7.58 Their findings suggested that the 13 Hunter and Central Coast councils operated more efficiently on a costs per capita basis, such that the ‘councils were less expensive to run in their current form than the conglomerate that is Brisbane City Council’.⁴⁶⁹ Lake Macquarie City Council argued that this showed that ‘well run councils, no matter their size, always outrun and outperform the not so well run councils, no matter their size’.⁴⁷⁰

7.59 Ms Jude Munro, former member of the ILGRP, and former CEO of four councils in three states, criticised the research findings from Dollery, Sinnewe and Kortt (2015), stating that claims that Brisbane City Council is financially unsound or inefficient is ‘ill-informed’ and ‘plain wrong’. Ms Munro outlined a number of concerns in relation to the research which she said demonstrated its flawed nature.⁴⁷¹

7.60 Ms Munro, who was the Chief Executive Officer of Brisbane City Council for 10 years, emphasized the transformation in Brisbane over the last 20 years, highlighting its achievements, including significant infrastructure development:

⁴⁶⁵ Elizabeth Sinnewe, Michael A. Kortt and Brian Dollery, ‘Is Biggest Best? A Comparative Analysis of the Financial Viability of the Brisbane City Council’, (2000) *Australian Journal of Public Administration*, p 12, attached to Submission 3a, Professor Brian Dollery, p 2.

⁴⁶⁶ Elizabeth Sinnewe, Michael A. Kortt and Brian Dollery, ‘Is Biggest Best? A Comparative Analysis of the Financial Viability of the Brisbane City Council’, (2000) *Australian Journal of Public Administration*, p 12, attached to Submission 3a, Professor Brian Dollery, p 2.

⁴⁶⁷ Evidence, Mr Peter Abelson, Mayor, Mosman City Council, 27 July 2015, p 62.

⁴⁶⁸ Submission 65, Lake Macquarie City Council, p 6.

⁴⁶⁹ Submission 65, Lake Macquarie City Council, p 6.

⁴⁷⁰ Submission 65, Lake Macquarie City Council, p 6.

⁴⁷¹ Submission 183, Ms Jude Munro, pp 1-2.

I was CEO of Brisbane City Council from 2000 to 2010. Brisbane City Council at that time had an annual budget of about \$2.6B, 9000 employees and served a population of about 1.2 million people. In those years we delivered a \$2.6B tunnel, a \$300M plus bridge, 10% lift in bus patronage each year for 7 years straight, major water and sewerage infrastructure including 3 new wastewater treatment plants, 2004 national employer of choice across private and public sectors, a world class customer service system, \$89M in strategic procurement savings. In other words much was achieved during that time, but those successes built on the achievements of the previous 10 years, and post-2010 much continues to be accomplished. All of these initiatives have been strategically significant for Brisbane.⁴⁷²

Auckland Council

- 7.61** In 2009, the Royal Commission on Auckland Governance, established by the New Zealand Government, recommended that Auckland's eight city, regional and district councils amalgamate into a single council, Auckland Council. The Government largely accepted the recommendations, with the Auckland Transition Agency being established to implement the amalgamations.⁴⁷³
- 7.62** Subsequently, on 1 November 2010, Auckland Council was formed. The Chief Executive of Auckland Council, Mr Stephen Town, noted that since the council was formed, there have been very few formal assessments of the amalgamation, except for a report by the Office of the Auditor-General in 2012, and a publication in 2014 by a leading constitutional and administrative lawyer in New Zealand.⁴⁷⁴
- 7.63** The Auditor-General's 2012 report reflected on the scale of the changes, being the most significant and unprecedented reforms in New Zealand's public sector history. While it did not review or evaluate the amalgamation reforms, it reflected on the transition process and the Council's emerging governance challenges. Ms Lyn Provost, the Controller and Auditor-General, highlighted that:
- interviewees felt that the enhanced mayoral role and powers enabled regional leadership, which provided 'vigour and an integrating focus to the large amount of planning that the Council has carried out during its first two years'
 - leadership is important during transition arrangements, to ensure trust is built among the public, staff and partners
 - inherent tensions in the Council's governance arrangements need to be constructively managed, with investigation required into ways to strengthen governing body and local board relationships
 - the Council needs to 'wrestle' with how to communicate internally effectively, as a result of its large size
 - the governing body and local boards need to be supported by relevant, timely and useful information that takes account of local, regional and functional governance needs and

⁴⁷² Submission 183, Ms Jude Munro, pp 1-4.

⁴⁷³ Submission 132, Professor Graham Sansom, pp 11-12.

⁴⁷⁴ Correspondence from Mr Stephen Town, Chief Executive, Auckland Council, to the Director, General Purpose Standing Committee No. 6, 26 June 2015, p 2.

perspectives, particularly given demands on members of governing body committees and local boards.⁴⁷⁵

- 7.64** Mr Luke Aitken, Senior Manager of Policy and Advocacy with the NSW Business Chamber, contended that he had received feedback that Auckland Council is achieving significant savings as a result of the amalgamation. He noted that in its latest audited financial reports, Auckland Council has reported an operating surplus of \$150 million in 2013-14.⁴⁷⁶
- 7.65** In contrast to the positive evidence of the Auckland experience, a number of inquiry participants argued that the experience in Auckland shows that amalgamations lead to increased costs. The Clareville and Bilgola Plateau Residents Association Inc, stated that the Auckland reforms took three years and cost nearly \$100 million. They said that as a result of the amalgamations, Auckland has a debt of \$3 billion, which is forecast to blow out to \$12 billion over the coming decade.⁴⁷⁷
- 7.66** Kogarah Council similarly noted negative impacts arising from the Auckland amalgamation reforms. They suggested that overall in Auckland, there has been ‘an increase in rates revenue, expenditure and staff costs in comparison to that of all of the legacy or prior Auckland Councils’.⁴⁷⁸ In particular, Kogarah Council noted that while some ratepayers in Auckland had experienced reductions of up to 13 per cent, others had experienced increases of nearly 16.9 per cent.⁴⁷⁹
- 7.67** Mr Stephen Hughes, Manager-North of the United Services Union, also contended that the Auckland Council has faced ‘enormous’ costs: ‘I am led to believe that the deficit of Auckland City Council is quite massive and that they are in many billions of dollars of deficit’.⁴⁸⁰
- 7.68** Pittwater Council also noted the impact of the amalgamations in terms of employment. They suggested that any merger savings stemmed primarily from reductions in the staffing establishment, with the new organisational structure resulting in a 16 per cent net reduction in staff.⁴⁸¹
- 7.69** Save Our Strathfield said that the post amalgamation ‘blowout’ in Auckland is a ‘warning for councils, given the budgeted costs increased from \$71 million to \$157 million’.⁴⁸²

⁴⁷⁵ Office of the Auditor-General, *Auckland Council: Transition and emerging challenges*, (2012), Auckland Council, <<http://www.oag.govt.nz/2012/auckland-council>>.

⁴⁷⁶ Answers to questions on notice, NSW Business Chamber and Sydney Business Chamber, 20 August 2015 p 1.

⁴⁷⁷ Submission 15, Clareville and Bilgola Plateau Residents Association Inc, p 2.

⁴⁷⁸ Submission 84, Kogarah Council, p 7.

⁴⁷⁹ Submission 84, Kogarah Council, p 9.

⁴⁸⁰ Evidence, Mr Stephen Hughes, Manager-North, United Services Union, 10 August 2015, p 30.

⁴⁸¹ Submission 85, Pittwater Council, p 11.

⁴⁸² Submission 110, Save Our Strathfield, p 13.

Committee comment

- 7.70** Although some questions were raised about the level of robust and rigorous empirical research on the impacts of amalgamations, much of the available evidence appears not to support claims of cost savings and efficiency. The committee heard that numerous studies have shown mergers often fail to achieve expected cost savings and other intended objectives. Further, some stakeholders argued that certain functions of local government require local attention and are better done at a smaller scale.
- 7.71** The committee heard that there are a multitude of factors that can affect the success of amalgamations. Such factors include the level of community support for amalgamation, with community endorsement leading to better outcomes. The availability of resources and support to assist councils through the amalgamation process is also a key factor in success, as is a genuine partnership approach between the NSW Government and local government sector. Robust planning, regular communication and the availability of incentives are other important factors leading to improved outcomes.
- 7.72** The committee considers that there appear to be better outcomes for amalgamations that occur in a voluntary way and are supported by the community. However, the committee acknowledges that there is some contention over the distinction between ‘voluntary’ and ‘forced’ amalgamations. In particular, Associate Professor Ryan suggested that the juxtaposition of these terms was somewhat of a misnomer, while Professor Sansom suggested that there was no body of empirical evidence demonstrating that the outcomes of ‘forced’ amalgamations were necessarily worse than ‘voluntary’ amalgamations.
- 7.73** An issue of concern for the committee was the fact that there was no disclosure of what the next steps in the Fit for the Future process would be after IPART provided its final report to the NSW Government. In particular, there was no information provided about what steps the NSW Government would take for any councils that were found to be ‘unfit’.
- 7.74** The committee is concerned that this reflects either a lack of transparency or a lack of a clear road map or plan for the future of the local government sector in the state. The committee considers that at the outset of any program to transform the local government sector, it should be vital to have a clear understanding of the entire process and to be able to inform and explain to the community how this process will work.
- 7.75** There have been fears of amalgamation throughout the entire Fit for the Future process. This has been very disruptive and has undermined the sector’s trust from the outset. The committee considers that a better approach would have a discussion on the role and functions of local government, rather than focusing on reducing the number of councils. Instead of asking ‘What should local government look like?’ the NSW Government should have first asked ‘What do we want local government to do?’ Form should follow functions.
- 7.76** The committee notes the consultative approach demonstrated during the *Destination 2036* conference in 2011, which triggered the ILGRP’s review. The committee further notes that the ILGRP had outlined a clear plan for implementation of its proposed reforms, including a staged approach for referring potential mergers to the Boundaries Commission for examination. Such an approach would offer the opportunity for consultation with the affected councils and communities. This would be the preferable approach to implementing local government reforms.

Finding 8

That the NSW Government failed to build on the consultative approach established during *Destination 2036* to develop a road map for the future of the local government sector, and appears to have neglected to adequately consult with the community, or effectively partner with the sector, to continue those reforms.

- 7.77** The committee considers that for any amalgamations that may arise out of the Fit for the Future process there is merit in ensuring that the transitions to new councils are well-managed. To this end, the committee recommends that the NSW Government consider allowing for a period of transition to ensure effective planning, consultation, implementation and ongoing service delivery to communities. Such changes, however, should not preclude use of the Boundaries Commission, and should not be inconsistent with the committee's recommendation to strengthen the Boundaries Commission process.
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Recommendation 12

That the NSW Government consider amending the *Local Government Act 1993* to allow for a period of transition between a decision to merge councils and the creation of the new council, to ensure effective planning, consultation, implementation and ongoing service delivery to communities.

- 7.78** The committee notes that there are mixed views about the outcomes of amalgamations that have taken place in other jurisdictions. The 2007 reforms in Queensland were criticised by a number of stakeholders, and the subsequent de-amalgamation of four councils demonstrates that getting it wrong can be a costly exercise.
- 7.79** The discussion about Brisbane City Council appears to demonstrate the benefits of increased strategic capacity in large councils, including improved capacity to deliver major infrastructure and to attract and retain skilled staff. However, the committee acknowledges the conflicting views on whether large councils perform better than smaller councils on some financial measures.
- 7.80** In the committee's view, the experience of amalgamations in Auckland shows the potential for high transitional costs but potential long term savings, demonstrating that it may take some time before the benefits of amalgamation emerge.
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Finding 9

That the projected economic benefits of council amalgamations have been consistently overstated by the proponents of forced amalgamations and the costs and extensive diseconomies of scale caused by amalgamations have not been adequately explained by those same proponents.

Chapter 8 Protecting and delivering democratic structures for local government

This chapter focuses on protecting and delivering democratic structures for local government to ensure it remains close to the people it serves. It outlines the importance of keeping the ‘local’ in local government and notes the concerns raised by inquiry participants regarding the loss of local voice and identity and the ability to speak directly with councillors. The chapter concludes by considering a number of other matters raised by inquiry participants, including the debate on popularly elected or councillor elected mayors and the duration of their term.

Local representation

- 8.1 Local Government NSW (LGNSW) outlined how currently local councils are close to the people they serve:

Councils are close to their communities and have a unique insight into local and community needs. Councils determine service provision according to local needs and the requirements of state and territory local government legislation.⁴⁸³

- 8.2 Save Our Strathfield explained that ‘local government deals with community issues and has close relationships with their communities’ and included the following quote on the role of local government:

Local government is more than just a provider of municipal services. It is a democratic sphere of government charged with creating vibrant, sustainable and supportive communities. The Local Government Act requires councils to exercise community leadership, to promote social justice principles, to conserve the environment and facilitate public involvement. Local government is often the vehicle through which citizens express broader concerns about community well-being and other issues that they care passionately about.⁴⁸⁴

Keeping the ‘local’ in local government

- 8.3 Several inquiry participants highlighted the need to keep the ‘local’ in local government for local government to remain close to the people it serves.⁴⁸⁵ Marrickville Council stated ‘local government has always been the tier of government closest to the people’ and expressed the view that ‘it would be a travesty for this to change, more so for the people themselves than anyone else’.⁴⁸⁶ Shellharbour City Council commented that mergers could pose a risk to local

⁴⁸³ Submission 142, Local Government NSW, pp 3 and 25.

⁴⁸⁴ ‘Does local government matter?’, *Sydney Morning Herald* (online), 9 September 2012 <<http://www.smh.com.au/federal-politics/political-opinion/does-local-government-matter-20120908-25kwp.html>>, Ms Melissa Gibbs, Assistant Director, Australian Centre of Excellence for Local Government, quoted in submission 110, Save Our Strathfield, p 18.

⁴⁸⁵ Evidence, Mr Jim Hampstead, Deputy Mayor, Bogan Shire Council, 17 August 2015, p 20; Submission 95, City of Canada Bay Council, p 10; Submission 168, Cr Elizabeth Barlow, p 3; Submission 16, Save Hunters Hill Municipality Coalition, p 1.

⁴⁸⁶ Submission 59, Marrickville Council, p 4.

government remaining close to the community and expressed the importance ‘that local government be allowed to remain local’.⁴⁸⁷ Similarly, Professor Graham Sansom noted in his research the concerns of elected members that amalgamation of councils would mean ‘real losses in local identity’.⁴⁸⁸

8.4 A number of inquiry participants were concerned that the creation of a ‘super council’ could mean less concern for smaller matters and the loss of local identity and community uniqueness.⁴⁸⁹ Kogarah Council advised that providing communities with the right services and infrastructure is important, but it is also about celebrating what makes communities special.⁴⁹⁰ Similarly, Save Our Strathfield commented that ‘our individual councils know us best’ and the individuality of each community is ‘something to celebrate, not reject’.⁴⁹¹

8.5 Save Our Councils Coalition said that communities expect their local council to represent their interests and advocate local matters through awareness of what is best for the community.⁴⁹² LGNSW highlighted that in a recent piece of research respondents were mostly concerned about representation of their interests if amalgamation occurs.⁴⁹³ Kogarah Council expressed the view that ‘larger councils with reduced representation may not be able to effectively represent communities of interest’ and pointed out that smaller more diverse communities will be impacted the most.⁴⁹⁴

Responses to the online questionnaire: loss of local identity and community uniqueness

There were also some responses to the committee’s online questionnaire which made comments about the loss of local identity and community uniqueness in response to the question ‘What are the costs, impacts and/or benefits of local council amalgamations for the community and businesses?’

A selection of such responses are set out below:

- ‘Each council governs their area according to the needs and wants of their citizens, creating unique communities across Sydney and NSW. Amalgamating these councils dilutes the individuality of some of these areas and could altogether dissolve what makes them appealing in the first place’.⁴⁹⁵
- ‘Reduced local representation, increased middle management costs, poorer understanding of local issues within a super council’.⁴⁹⁶
- ‘Instability of programs and departments that are already working well, danger of “one size fits

⁴⁸⁷ Submission 57, Shellharbour City Council, p 7.

⁴⁸⁸ Chris Aulich, Graham Sansom and Peter McKinlay, ‘A Fresh Look at Municipal Consolidation in Australia’ (2014) 40(1) 1-20 *Local Government Studies* 1, attached to submission 132a, Professor Graham Sansom, p 18.

⁴⁸⁹ Public forum, Ms Jane Pistolese, 10 August 2015, p 14; Public forum, Ms Charlotte Hudson, 10 August 2015, p 11.

⁴⁹⁰ Submission 84, Kogarah Council, p 12.

⁴⁹¹ Submission 110, Save Our Strathfield, p 18.

⁴⁹² Submission 116, Save Our Councils Coalition, p 13.

⁴⁹³ Submission 142, Local Government NSW, p 25.

⁴⁹⁴ Submission 84, Kogarah Council, p 12.

⁴⁹⁵ Responses to online questionnaire – respondent from Lane Cove.

⁴⁹⁶ Responses to online questionnaire – respondent from Balranald.

all” approach for unique issues’.⁴⁹⁷

- ‘Community would definitely lose out with a large Council where smaller matters will be lost in the administration and each area will be competing for resources with the area with most representation winning out’.⁴⁹⁸

- 8.6** The committee heard from many individuals detailing examples of how local government assist the community on a day to day basis demonstrating the importance of keeping local government local. For example, at a public forum, Cr Carolyn Corrigan spoke about responding to the needs of residents on a daily basis through visiting people’s homes, listening and responding to any issues and waking early to join residents in protesting against illegal actions of developers.⁴⁹⁹
- 8.7** Wamboin Community Association pointed out that councillors will make significant effort to visit distant areas within their region to understand the needs of the community.⁵⁰⁰ Ms Niki Huang commented that her local council provides ‘amazing child care centres, parks, aquatic centres, libraries, programs of activities for all ages’ and this wouldn’t be on offer if the council was to amalgamate.⁵⁰¹
- 8.8** The case study below captures the extent to which the local government assists the community. At a public forum, Cr Helen McLucas told personal stories to the committee of how in her role as councillor on Strathfield Council she has helped people on a daily basis.⁵⁰²

Case study - Cr Helen McLucas⁵⁰³

A mum spoke to me. Her five-year-old daughter was going to school the following year. The daughter has a physical disability and had just received an electric wheelchair; she was mobile. Mum said her daughter liked to motor the short distance from home to her mum's shop but had to travel via the road as there were no accessible footpaths. Council installed new accessible footpath ramps within two weeks, and also a new disabled parking spot outsider her school to help with pick up and drop off.

An elderly mum with impaired sight spoke to me about a council tree that had cracked her driveway, causing a tripping hazard for her. She lived with her middle aged son who has a disability. Council started the repairs the next day, even though driveways financially are the responsibility of residents. She had enough on her plate.

...

A fence was knocked down during a car accident. A neighbour contacted me. I worked with the real estate agent to arrange for a trades person to fix the fence. The occupant has mental health issues. We could not let the tradesperson near her as she was very fearful and a very private person. She was also very distressed that she would not be able to afford the [electricity] power that was needed to repair the fence—a couple of dollars; her budget was that tight. I offered to pay. She was really relieved when the

⁴⁹⁷ Responses to online questionnaire – respondent from Hornsby.

⁴⁹⁸ Responses to online questionnaire – respondent from Lane Cove.

⁴⁹⁹ Public forum, Cr Carolyn Corrigan, 10 August 2015, p 9.

⁵⁰⁰ Submission 146, Wamboin Community Association, p 3.

⁵⁰¹ Submission 161, Ms Niki Huang, p 1.

⁵⁰² Public forum, Cr Helen McLucas, 10 August 2015, p 6.

⁵⁰³ Public forum, Cr Helen McLucas, 10 August 2015, p 6.

fence was fixed and her privacy restored.

Chris is an octogenarian and recently had a fall while sweeping up leaves on his footpath. We helped Chris clear away the leaves so his risk of another fall is minimised.

Newly arrived refugees and migrants in Strathfield who are non-English speaking attend council's locally run Conversation Club. The group meets weekly and learns conversational English, our culture and colloquialisms. The group is unique because it is cross-cultural and intergenerational. There is no other opportunity that we find in different cultural communities for this cross-cultural communication and working together over the longer term. Importantly, they are learning from each other about their cultural differences and they help each other with parenting, family and other issues. It is an empowered group.

8.9 In contrast to the above evidence, Associate Professor Roberta Ryan suggested that it is possible for large councils, such as Brisbane City Council, to effectively engage with their community:

I do not think people in Brisbane feel like they are less represented than people in a smaller council area.

There are lots of ways to ensure that communities have access and input into decision-making and that councils can act in strategic ways. It goes to one of the elements of strategic capacity that I think is really important—which is what you might call community governance or the way councils engage effectively. Large councils can be very engaged with their communities and can have very good input with a very good two-way process.⁵⁰⁴

Diversity of representation

8.10 Inquiry participants held divergent views on diversity of representation at local council level, and whether amalgamations would promote or hinder diversity.

8.11 The City of Sydney Council expressed the opinion that local government in New South Wales has long boasted a diversity of elected representation that encourages people from various community viewpoints to take up the opportunity to be elected to office. The Council also advised that local communities have voiced that 'party politics has no place in local government' and in some instances when major parties dominate 'the community elects non-party candidates to ensure alternative views are heard'.⁵⁰⁵

8.12 By way of contrast, the NSW and Sydney Business Chambers suggested further support is needed in attracting more diverse groups to local council and that the current structure lack representation from younger candidates and women, who represent only 27 per cent of councillors in New South Wales.⁵⁰⁶

⁵⁰⁴ Evidence, Associate Professor Roberta Ryan, Centre for Local Government, University of Technology Sydney, 27 July 2015, p 40.

⁵⁰⁵ Submission 181, City of Sydney Council, p 9.

⁵⁰⁶ Submission 88, NSW and Sydney Business Chambers, p 6.

- 8.13** Mr Paul Pearce noted that preferably the mix of people and interests within the community should be replicated on the local council and not dominated by major parties, wealthy individuals or self-seekers.⁵⁰⁷
- 8.14** Several inquiry participants raised concerns about the potential decline in the role of independents and smaller parties elected to local government, should amalgamation occur.
- 8.15** Marrickville Council expressed the view that council mergers will create ‘breeding grounds for the two major political parties’ and could cause a decline in the election of independents and smaller parties.⁵⁰⁸ Similarly, Mr Ian Hammerton claimed that the major political parties will have an advantage over independent and smaller groups, who are much more focused on local needs:
- The merging of councils will make it more difficult for small community groups and independent candidates to be elected to council. The major political parties are more suited to campaigning in large council areas than local community groups because of their structure, greater election campaign funds and expertise. Locally based community groups are born out of the residents' desire to have a greater input into decision made for their area. Local community groups are totally focused on their local area and have no aspirations to State or Federal politics, unlike many of the major political party councillors.⁵⁰⁹
- 8.16** The NSW and Sydney Business Chambers suggested improvements to the information provided to the voters about candidates during elections to differentiate between political parties:
- Far too often, candidates fail to provide contact information reducing opportunities for the press and the public to assess their suitability for office. Ballot papers often fail to properly disclose political affiliation, with many candidates standing as “independents” while still being a member of an established political group ... we strongly support requirements being introduced for all candidates to disclose information on their skills, experience and political affiliations to allow community members the opportunity to be properly informed when casting their ballot.
- 8.17** Several inquiry participants predicted that the cost of election campaigns would rise in amalgamated councils and could threaten the diversity of candidates. For example, Cr Peter White predicted the minimum cost of campaigning will rise to \$150,000 per candidate or more, which independents and smaller groups may not be able to afford.⁵¹⁰ Warriewood Residents Association also pointed to the ‘lax rules with no donation caps and inadequate disclosure requirements’ embedded in local government elections, posing a ‘huge risk’ that councils will become controlled by political and developer interests.⁵¹¹
- 8.18** Gwydir Shire Council expressed the view that the current model deters independents and smaller groups from being candidates through its difficult political donation requirements:

⁵⁰⁷ Submission 6, Mr Paul Pearce, p 1.

⁵⁰⁸ Submission 59, Marrickville Council, p 4.

⁵⁰⁹ Public forum, Mr Ian Hammerton, 10 August 2015, p 13.

⁵¹⁰ Submission 140, Cr Peter White, p 1.

⁵¹¹ Submission 150, Warriewood Residents Association, p 3.

An example is the onerous political donation requirements on Councillors who receive little or no external election funding, and simply have an annual 'nil' return but still require an agent; it is surely bureaucracy gone mad and appears to be designed to drive genuine 'independents' away from running for office.⁵¹²

- 8.19** Save our Strathfield encapsulated this debate with the question: 'how are persons without the big party machines and donations going to compete with the power and might of the major political parties?'.⁵¹³

Communicating with local government

- 8.20** Some participants emphasised the ease with which they can currently communicate with their local government representatives and raised concerns that this could be lost in larger councils.

- 8.21** For example, Ms Nella Gaughan of Save Our Councils Coalition told the committee that she can contact her local councillor and within 24 hours she can expect a reply or a visit. Ms Gaughan went on to make a comparison with contacting state members of Parliament, where she said that she may receive a reply from a chief of staff or not at all. Ms Gaughan questioned 'how can that be representation?'.⁵¹⁴

- 8.22** Mr Pearce reflected how people felt more comfortable approaching him as a councillor than as a state member of Parliament:

... I assure you that as a Councillor and/or Mayor the public were much more willing to 'front me up', than when I was the State Member. Basically this came down to a belief that a local councillor could assist with a local issue or policy, whereas a state member (whether a member of governing party or the opposition) was unlikely to be able to affect a change of an unacceptable state policy.⁵¹⁵

- 8.23** At a public forum, Mr Tony Abboud said that he did not want to lose the committed staff at his local council and 'go to a call centre approach to managing our city'.⁵¹⁶ Ms Huang advised the physical location of local government within their community enabled residents, who might not be comfortable with other forms of communication, such as email and phone, to 'easily engage face-to-face with staff members'.⁵¹⁷

- 8.24** Similarly, Ms Gaughan commented how some residents still require face-to-face access above other forms of communication methods:

My parents are in their sixties. They would not have a clue what a computer is. But I can tell you they know their local councillor's telephone number and they have spoken to councillors in their local area. You just cannot say that email or Facebook is the way to go. There are still elderly people that require a person to talk to at the local level.

⁵¹² Submission 91, Gwydir Shire Council, p 11.

⁵¹³ Submission 110, Save Our Strathfield, p 6.

⁵¹⁴ Evidence, Ms Nella Gaughan, Member, Save Our Councils Coalition, 10 August 2015, p 77.

⁵¹⁵ Submission 6, Mr Paul Pearce, p 4.

⁵¹⁶ Public forum, Mr Tony Abboud, 10 August 2015, p 12.

⁵¹⁷ Submission 161, Ms Niki Huang, p 1.

That is why we are here: for local representation, local residents. That is what local should be about.⁵¹⁸

8.25 In contrast, the NSW and Sydney Business Chambers informed the committee that the use of ‘twitter feeds for local debates, Facebook discussions, survey programs and establishing specific consultative groups’ are all appropriate options available to larger councils to enable effective communication and engagement with the local community.⁵¹⁹ Cr Ted Seng expressed the view that larger councils would have more capacity to engage with the local community through the use of ‘customer service request system, call centre, service levels management’ and ‘proactive maintenance scheduling’.⁵²⁰

8.26 Mr Des Bilske expressed support for structural reform and mergers of local councils and noted that the potential loss of the local voice could be overcome through different models of community engagement and participation, such as local committees and reference groups. Further, Mr Bilske expressed the view that local councils will continue to remain close to the people it serves and could see more council and community relationships than is currently being experienced.⁵²¹

Community decision making

8.27 A number of inquiry participants highlighted the importance of the community having a voice in local decision making. LGNSW said that this was demonstrated in the recent *Why Local Government Matters* social research report, which found that:

Australians want to be involved by government in making decisions about what services are delivered in their local area. Nearly all (93 per cent) want to be personally involved with over half (51 per cent) reporting they strongly agree that government should involve them in decision-making.⁵²²

8.28 The City of Sydney Council said that in order to keep the ‘local’ in local government it is essential that ‘diverse viewpoints of local communities are heard’ when decisions are made.⁵²³ Likewise, Cr Elizabeth Barlow of Rockdale City Council advised that residents want continued input into their local community and a voice that can influence ‘the future of their neighbourhood’.⁵²⁴

8.29 Mr Hammerton noted that when the community voice is heard by government, good decisions are made. Mr Hammerton went on to say that ‘more than ever, a large proportion of the community feels disenfranchised from the decision-making that occurs in government’

⁵¹⁸ Evidence, Ms Gaughan, 10 August 2015, p 77.

⁵¹⁹ Answers to questions on notice, NSW and Sydney Business Chambers, 20 August 2015, p 4.

⁵²⁰ Submission 73, Cr Ted Seng, p 3.

⁵²¹ Submission 123, Mr Des Bilske, pp 1-6.

⁵²² Roberta Ryan, Catherine Hastings, Ron Woods, Alex Lawrie and Blich Grant, ‘Why Local Government Matters’ (Research Report, Australian Centre of Excellence for Local Government, June 2015) 27, quoted in submission 142, Local Government NSW, p 25.

⁵²³ Submission 181, City of Sydney Council, p 9.

⁵²⁴ Submission 168, Cr Elizabeth Barlow, p 2.

and the ‘merging of local council will only make things worse’.⁵²⁵ Likewise, Save Our Strathfield raised concerns that the current community involvement in local decision making will be lost under proposed amalgamations.⁵²⁶

8.30 Kogarah Council claimed that in Queensland some of the most common reasons for de-amalgamation included the decline of service levels, loss of local representation and identity and the decline of community views represented in decision making.⁵²⁷

8.31 In addition to the above, particular concerns were raised by inquiry participants regarding the loss of community input in development applications.

8.32 Mr Abboud highlighted that local development applications need to be assessed locally by those who understand the community and expressed the view that ‘an outsider can never do this as effectively as our council can’.⁵²⁸ Similarly, Ms Jane Pistolese spoke about the process of opposing inappropriate development in residential areas and questioned whether this would be important to a ‘super council’ if it only affected a small percentage of the local government area.⁵²⁹

8.33 The NSW and Sydney Business Chambers provided examples of alternative localised decision making structures to ensure effective community engagement:

Auckland City Council has 21 local boards that are elected by the local community and allow the Council to engage with a broad cross section of residents.

In contrast, the City of Canada Bay uses a citizen's jury model where a group of paid individuals from the community sit for about six weeks and assist the council in its determinations and provide feedback. This is in significantly different to the self-selection that is usually a feature of community engagement.⁵³⁰

Regional communities

8.34 The committee heard that local government plays an especially important role in the lives of people living in regional communities.

8.35 Cr Patrick Bourke, Mayor, Urana Shire Council, advised that regional councils assist smaller towns and villages by maintaining and improving assets and services, providing employment and purchasing goods and services locally, amongst other things.⁵³¹ In their submission, Urana Shire Council advised that smaller rural communities rely on their councils who operate under a ‘tried, tested and respected model for ensuring local representation, Community involvement, and the needs of people are met’.⁵³²

⁵²⁵ Public forum, Mr Ian Hammerton, 10 August 2015, p 13.

⁵²⁶ Submission 110, Save Our Strathfield, p 16.

⁵²⁷ Submission 84, Kogarah Council, pp 11-12.

⁵²⁸ Public forum, Mr Tony Abboud, 10 August 2015, p 12.

⁵²⁹ Public forum, Ms Jane Pistolese, 10 August 2015, p 14.

⁵³⁰ Answers to questions on notice, NSW and Sydney Business Chambers, p 4.

⁵³¹ Evidence, Cr Patrick Bourke, Mayor, Urana Shire Council, 17 August 2015, p 71.

⁵³² Submission 82, Urana Shire Council, p 6.

- 8.36** Mr Phillip Pinyon, General Manager, Wagga Wagga City Council, highlighted that in regional and rural areas there is a much stronger link between individuals and the local government representatives, and this relationship is different to that in metropolitan areas.⁵³³ Mr Peter Stewart, General Manager, Guyra Shire Council, noted that the regional councillors are ‘either farmers or from the small local towns’ so have the knowledge needed to provide the unique services that are required in these rural communities.⁵³⁴
- 8.37** Cooma-Monaro Shire Council presented a key message that regional communities fear losing local representation in the event of a merger:
- A theme that was clearly evident from Cooma-Monaro, Bombala, and Snowy River’s public consultation sessions was that the projected savings from things like the reduction of Councillor numbers will be offset by the fear (real or perceived) that smaller communities will lose a level of representation.⁵³⁵
- 8.38** As noted in Chapter 6, another key concern in the event of council amalgamations is that potential job losses may impact heavily on regional communities. On this issue, Mr Max Eastcott, General Manager, Gwydir Shire Council, informed the committee that in ‘rural areas local government is usually the biggest employer’ and the outcome of merging could mean ‘significant social dislocation within those communities’.⁵³⁶
- 8.39** By way of contrast, Cr Russell Webb, Tamworth Regional Council, reflected on the amalgamation in 2004 forming the now Tamworth Regional Council where he said that the amalgamation has opened up new employment opportunities, staff promotions and better salaries. Cr Webb expressed positive views of amalgamation in regional communities, arguing that it has produced an ‘outstanding result for the wider community’.⁵³⁷

Mayoral elections

- 8.40** A portion of the evidence gathered during this inquiry focused on the election of mayors, councillors and ward systems. Here the committee explores participants’ opinions on how mayoral elections should be conducted to protect and deliver democratic structures for local government that ensure it remains close to the people it serves.
- 8.41** The *Local Government Act 1993* stipulates the manner in which mayors and councillors are to be elected. Elections are held every four years, unless a vacancy arises within the council and necessitates a by-election to be held. A council is either elected by the whole council electorate or is subdivided into wards, where an equal number of councillors are to be elected for each ward. The number of councillors elected differs across each council, ranging between 5 and 15 councillors. Councillors are elected for a four year term. There are two ways a mayor is elected; popular vote or councillor elected. Generally councillors elect the mayor but in some councils it has been decided by referendum that voters will elect the mayor. A mayor elected by the voters will serve a four year term and a mayor elected by the other councillors will serve

⁵³³ Evidence, Mr Phillip Pinyon, General Manager, Wagga Wagga City Council, 17 August 2015, p 72.

⁵³⁴ Evidence, Mr Peter Stewart, General Manager, Guyra Shire Council, 18 August 2015, p 3.

⁵³⁵ Submission 81, Cooma-Monaro Shire Council, p 18.

⁵³⁶ Evidence, Mr Max Eastcott, General Manager, Gwydir Shire Council, 18 August 2015, p 38.

⁵³⁷ Evidence, Cr Russell Webb, Tamworth Regional Council, 18 August 2015, pp 39-43.

a one year term.⁵³⁸ Currently there are 152 mayors across New South Wales of which 34 are popularly elected.⁵³⁹

Popular vote versus council elected mayors

- 8.42** Inquiry participants were divided on whether the mayor should be popularly elected by the voters or elected by their fellow councillors.
- 8.43** The Property Council expressed support of the election of mayors via popular vote and the enhancement of the status of mayors in general.⁵⁴⁰ Likewise, Mr Luke Aitken, Senior Manager, Policy and Advocacy, NSW Business Chamber, supported popular election of mayors, although he noted the differing views on how well a popularly voted mayor can function in a council with no support but suggested to ‘err on the side of people having the democratic opportunity’ to decide who is mayor in their community.⁵⁴¹
- 8.44** The Mayor of Hornsby Shire Council, Cr Steve Russell, told the committee how at Hornsby the mayor used to be elected by the councillors annually and commented that this system was ‘disgraceful’ and like ‘a circus’. Cr Russell advised that the council held a referendum in 1999 and the community decided that the council would have a popularly elected mayor and this has produced improved results, amongst a number of other changes.⁵⁴²
- 8.45** On the other side of the debate, Mr Greg Cummings, Mayor, Holroyd City Council, reflected on how he used to be in favour of mayors elected by the voters but has since changed his mind on the basis that wealthy candidates may have an unfair advantage:

I used to be in favour of popularly elected mayors but I have since reconsidered my position, because I can see that somebody walking in with a fistful of dollars can buy a mayoralty and could create quite a lot of damage in four years. Unfortunately, in my opinion—and it may be wrong—there is not enough community engagement to understand the best candidates who put themselves up prior to a general council election. Sometimes it has to be left to the wisdom of the chamber to pick who should lead them in the following year.⁵⁴³

- 8.46** A further issue raised by Cr Steven Issa, Deputy Lord Mayor, Parramatta City Council, regarding popularity voted mayor is that ‘they may be popular in the community’ but this does not necessarily mean they ‘have the support of the chamber’ making it hard to develop any initiatives.⁵⁴⁴

⁵³⁸ Electoral Commission NSW (24 June 2012), https://www.elections.nsw.gov.au/about_elections/Elections_for_each_level_of_government/loclo.

⁵³⁹ NSW Independent Local Government Review Panel, *Revitalising Local Government*, (October 2013), <http://www.dlg.nsw.gov.au/Index.asp?areaindex=LGR&index=49&acode=GL&mi=1>.

⁵⁴⁰ Submission 153, Property Council, p 8.

⁵⁴¹ Evidence, Mr Luke Aitken, Senior Manager, Policy and Advocacy, NSW Business Chamber, 10 August 2015, p 73.

⁵⁴² Evidence, Cr Steve Russell, Mayor, Hornsby Shire Council, 10 August 2015, p 47.

⁵⁴³ Evidence, Cr Greg Cummings, Mayor, Holroyd City Council, 10 August 2015, p 16.

⁵⁴⁴ Evidence, Cr Steven Issa, Deputy Lord Mayor, Parramatta City Council, 10 August 2015, p 17.

- 8.47** Cr Rochelle Porteous, Mayor, Leichhardt Municipal Council, informed the committee that one of the advantages of a council elected mayor is the requirement to work collaboratively with all councillors from all political parties.⁵⁴⁵
- 8.48** However, Cr Porteous acknowledged that ‘different councils will work differently’ and suggested leaving it up to the community to decide whether the mayor should be popularly elected by the voters or elected by fellow councillors.⁵⁴⁶ Likewise, Sydney Metropolitan Mayors also emphasised the issue of mayoral elections is ‘rightly one for local communities to decide’.⁵⁴⁷ In addition, the Minister at a later Budget Estimates hearing informed the committee that individual councils have the option to choose between popularly elected or council elected mayors.⁵⁴⁸

Mayoral terms

- 8.49** Another issue raised in evidence is the duration of a mayor’s term. Cr Russell noted that when a mayor is elected annually they have ‘hardly settled into the chair before lobbying began for the next term’.⁵⁴⁹ Cr Issa provided his personal view that ‘one year is too short a term’ and proposed a two year term to ensure the mayor has time to settle into the role and then start delivering to the community.⁵⁵⁰
- 8.50** Questioned about whether they would support the option of mayors elected by the council serving a two year term, Cr Cummings, Cr Issa and Mr Kerry Robinson, General Manager, Blacktown City Council, noted their agreement with this proposal.⁵⁵¹
- 8.51** The Property Council, however, recommended the consideration of mayors serving an even longer period of four years.⁵⁵² Ms Jude Munro advised that four year terms have shown the development of ‘great local leaders’ that are ‘seen to be the legitimate spokespeople and advocates’ for their communities.⁵⁵³
- 8.52** In a later Budget Estimates hearing, the Minister advised the committee the NSW Government’s plan to extend the term for mayors to two years:

We indicated that we would have two-year fixed terms for mayors ... It worries me that mayors change year after year. It means a lack of continuity and a lack of

⁵⁴⁵ Evidence, Cr Rochelle Porteous, Mayor, Leichhardt Municipal Council, 24 August 2015, p 24.

⁵⁴⁶ Evidence, Cr Porteous, 24 August 2015, p 25.

⁵⁴⁷ Submission 182, Sydney Metropolitan Mayors, p 10.

⁵⁴⁸ Evidence, the Hon Paul Toole MP, Minister for Local Government, General Purpose Standing Committee No. 6, Budget Estimates 2015-16, 4 September 2015, pp 17-18.

⁵⁴⁹ Evidence, Cr Russell, 10 August 2015, p 47.

⁵⁵⁰ Evidence, Cr Issa, 10 August 2015, p 17.

⁵⁵¹ Evidence, Cr Issa, 10 August 2015, p 18; Evidence, Cr Cummings, 10 August 2015, p 18; Evidence Mr Kerry Robinson, General Manager, Blacktown City Council, 10 August 2015, p 18.

⁵⁵² Submission 153, Property Council, p 8.

⁵⁵³ Submission 183, Ms Jude Munro, p 5.

decision-making in those communities. It is important for stakeholder relationships that that be changed to a two-year fixed term.⁵⁵⁴

- 8.53** A number of inquiry participants also suggested the consideration of changes to councillor and mayor working entitlements. Ms Patricia Forsythe, Executive Director, Sydney Business Chamber advised the committee that councillors should be elected to full-time paid positions to reflect the ‘greater responsibilities these officials will have in guiding the shape of our city’.⁵⁵⁵ Similarly, the Property Council supported consideration of improving the status of mayors by offering full-time, well paid positions as well as professional development and accreditation opportunities.⁵⁵⁶
- 8.54** Sydney Metropolitan Mayors advised in regards to recommendations for political leadership and good governance that ‘there is a diverse range of views, reflecting divergence in the ways local councils need to operate’ and given this they recommended further discussion and consultation is required.⁵⁵⁷

Committee comment

- 8.55** The committee acknowledges the important role that councils play within the local community, especially in regional areas. Local councils ensure that the community voice is heard and local interests are represented. We note inquiry participants’ fears that amalgamation of local councils could mean a loss of local identity, community uniqueness and local decision making. We acknowledge the importance of keeping the ‘local’ in local government to ensure it remains close to the people it serves.
- 8.56** A diverse range of views were received by the committee on whether mayors should be popularly elected by the voters or elected by the council. The committee believes that this decision should ultimately be up to the local community. We therefore recommend that each local council with a council-elected mayor initiates a referendum on whether the mayor should be popularly elected or elected by councillors.

Recommendation 13

That the Minister for Local Government encourage local councils with council-elected mayors to initiate a referendum on whether the mayor should be popularly elected or elected by councillors.

- 8.57** The committee agrees with the evidence from several inquiry participants that one year is too short for council elected mayors to be in office. Longer terms for elected mayors will mean improved stability and stakeholder relationships within local councils, thereby improving the

⁵⁵⁴ Evidence, the Hon Paul Toole MP, Minister for Local Government, General Purpose Standing Committee No. 6, Budget Estimates 2015-16, 4 September 2015, pp 17-18.

⁵⁵⁵ Evidence, Ms Patricia Forsythe, Executive Director, Sydney Business Chamber, 10 August 2015, p 71; Submission 88, NSW and Sydney Business Chambers, p 6.

⁵⁵⁶ Submission 153, Property Council, p 8.

⁵⁵⁷ Submission 182, Sydney Metropolitan Mayors, pp 19-20.

delivery of services to the community. We acknowledge the ministers commitment to increase the term for council elected mayors to a two-year fixed term and therefore recommend that the NSW Government amends the *Local Government Act 1993* to increase to two years the period a mayor elected by the councillors is to hold office.

Recommendation 14

That the NSW Government seek to amend the *Local Government Act 1993* to increase to two years the period a mayor elected by the councillors is to hold office.

- 8.58** Another issue raised by inquiry participants was the potential for increased costs of election campaigns in large councils created through amalgamation. The committee therefore proposes that the NSW Government consider amending the relevant electoral legislation to introduce donation and spending caps for candidates at local government elections.

Recommendation 15

That the NSW Government consider amending the electoral legislation to introduce donation and spending caps for candidates at local government elections.

Chapter 9 Cooperative models for local governance

This chapter outlines various cooperative models for local governance in New South Wales, including Regional Organisations of Councils (ROCs) and the Joint Organisations (JO) Pilot Program, as recommended by the Independent Local Government Review Panel (ILGRP). The Joint Regional Authority Model, which is proposed by some councils as an alternative to council amalgamations, is also examined. Lastly, questions about the proposed Greater Sydney Commission and its potential relationship with amalgamation are discussed.

Regional Organisations of Councils

- 9.1 In New South Wales, ROCs have been in operation since 1973.⁵⁵⁸ As voluntary bodies, they aim to facilitate collaboration between councils in the areas of regional planning, services and expenditure.
- 9.2 As Cr Paul Braybrooks, Chair of Riverina Eastern Regional Organisation of Councils (REROC) told the committee, the aim of ROCs is to assist:

council members to operate more efficiently and effectively, through working together to achieve economies of scale and scope, and present a better informed and representative voice for its membership.⁵⁵⁹

Positive aspects of ROCs

- 9.3 The committee also heard of the many positive aspects that ROCS offer for member councils and regions. According to Cr Braybrooks, the longevity and success of REROC, which has been operating since 1994, 'is proof of the value of cooperative models for local government'.⁵⁶⁰ This was due to the 'high levels of collaboration, a lot of trust between the member councils and a willingness to give and take'.⁵⁶¹
- 9.4 This was also the view of Mosman Council regarding its membership of Shore Regional Organisation of Councils (SHOROC), deeming the organisation as having successfully generated 'effective collaboration, cost savings, and regional planning and advocacy'.⁵⁶² Mosman Council told how, for over 15 years, SHOROC has demonstrated a 'strong history of achievement in regional advocacy and intergovernmental relations ... strategic planning and coordinating joint projects, [and] procurement and services'.⁵⁶³

⁵⁵⁸ Local Government and Shires Association of New South Wales, 'Voluntary structural reform in NSW local government', (Discussion Paper, 1997) p 8.

⁵⁵⁹ Evidence, Cr Paul Braybrooks, Chair, Riverina and Murray Regional Organisation of Councils, 17 August 2015, p 52.

⁵⁶⁰ Evidence, Cr Braybrooks, 17 August 2015, p 53.

⁵⁶¹ Evidence, Mrs Julie Briggs, Executive Officer, Riverina and Murray Regional Organisation of Councils, 17 August 2015, p 57.

⁵⁶² Submission 44, Mosman Council, pp 4-5.

⁵⁶³ Submission 44, Mosman Council, pp 4-5.

- 9.5** The submission from the Northern Sydney Regional Organisation of Councils (NSROC) explained that by working together, councils could increase efficiencies and meet regional objectives through the sharing of priorities and pooled resources.⁵⁶⁴ They also argued that ROCs provide opportunities for member councils ‘to increase regional cooperation ... and in doing so ... build strategic capacity’.⁵⁶⁵
- 9.6** This argument was supported by the Riverina and Murray Regional Organisation of Councils (RAMROC) who said that ROCs provided numerous benefits to member councils, ‘particularly in the area of regional advocacy, engagement with Federal and State Governments, shared services and resources and joint procurement’.⁵⁶⁶

Concerns about the operation of ROCs

- 9.7** According to a number of inquiry participants, there are a range of factors that can influence how successful a ROC is. Factors include the way a ROC is structured including the voting rights of constituent councils, commitment to collaborate and share services, and the working relationships between member council representatives.
- 9.8** Warringah Council, speaking of their experience with SHOROC, claimed that being involved with the ROC had ‘not always been in the best interest of the Warringah community’.⁵⁶⁷ Cr Michael Regan, Mayor of Warringah Council, was of the opinion that ‘the structure of Regional Organisations of Councils [ROCS] in its current form does not work for our community nor will it ever work in any form’.⁵⁶⁸
- 9.9** The structure of ROCs plays a role in determining if the organisation succeeds or fails. This is illustrated by the common ‘one council, one vote’ approach for member councils regardless of council size and resident population. In relation to the former New England Strategic Alliance of Councils (NESAC), Cr Herman Beyersdorf, Deputy Mayor, Armidale Dumaresq Council described the ‘one council, one vote’ policy as being ‘flawed’ due to Armidale only having a quarter of the representation and voting rights in NESAC ‘despite having two-thirds or 67 per cent of the population’.⁵⁶⁹
- 9.10** Similarly, Warringah Council argued that as a member of SHOROC, the council was disadvantaged by the voting approach as it ‘creates inequity and effectively reduces the value of Warringah residents’ votes’.⁵⁷⁰
- 9.11** A commitment to collaboration and sharing of services by member councils was another factor which could influence the success of a ROC. Cr Beyersdorf explained that in his

⁵⁶⁴ Submission 66, Northern Sydney Regional Organisation of Councils, p 4.

⁵⁶⁵ Submission 66, Northern Sydney Regional Organisation of Councils, p 3.

⁵⁶⁶ Submission 97, Riverina and Murray Regional Organisation of Councils, p 9.

⁵⁶⁷ Submission 69, Warringah Council, p 2.

⁵⁶⁸ Evidence, Cr Michael Regan, Mayor, Warringah Council, 24 August 2015, p 4.

⁵⁶⁹ Evidence, Cr Herman Beyersdorf, Deputy Mayor, Armidale Dumaresq Council, 18 August 2015, p 8. The New England Strategic Alliance of Councils (NESAC) was in operation from 2004 until 2009 and consisted of the following councils: Armidale Dumaresq, Guyra, Uralla and Walcha.

⁵⁷⁰ Submission 69, Warringah Council, p 2.

experience of NESAC there had been ‘a lot of cherrypicking’ in relation to service sharing.⁵⁷¹ He went on to say that:

... important services, large-scale services, which you think would be the prime targets for that—like water, sewerage, waste management—were never included in shared services in NESAC; it was whatever people thought might be good just to make it look good.⁵⁷²

9.12 In turn, the working relationships between member council representatives within a ROC have the potential to help or hinder the success of the ROC. This was highlighted by Cr Michael Pearce, Mayor of Uralla Shire Council who claimed the reason why NESAC failed was ‘because of the characters that were in play at the time, pure and simple’.⁵⁷³

9.13 Cr Regan argued that ‘ROCs rely on personalities’ with Warringah supposedly being excluded from decisions due to a lack of consensus among ROC representatives.⁵⁷⁴ Cr Regan referred to the instance of when SHOROC was seeking procurement services and refused Warringah Council’s offer to provide such services on their ROCs behalf, instead choosing an external provider:

...the ROC decided to call for a person to do this at \$120,000 as a corporate staff member, to be paid for by the four councils to do procurement. We put our hands up and said, "Well, we actually already do this, so why don't we do it on your behalf?" and they said, "No, anyone but Warringah" because ROCs rely on personalities. We said, "Well, we will appoint a staff member at half the price and dedicated 100 per cent to the three councils and nothing to do with Warringah"—not good enough; off they go.⁵⁷⁵

9.14 In contrast to Cr Regan’s views, other member councils contended that personalities had no bearing on the efficacy of SHOROC with Manly and Pittwater Councils disputing the assertions that ROCs rely on personalities.⁵⁷⁶ The general managers of both councils informed the committee that SHOROC ‘has been exemplary and has clearly worked for the community, [and] for councils’ as illustrated by the various policies of SHOROC being implemented.⁵⁷⁷

9.15 According to Pittwater Council, a tender process was conducted by SHOROC for joint procurement in 2009 and after ‘18 months of disrupting joint tender efforts’, Warringah Council withdrew from joint procurement.⁵⁷⁸ In February 2014, SHOROC members decided to ‘seed fund a joint procurement position in SHOROC and seek to partner with neighbouring NSROC to increase the scope of joint procurement across all councils of

⁵⁷¹ Evidence, Cr Beyersdorf, 18 August 2015, p 8.

⁵⁷² Evidence, Cr Beyersdorf, 18 August 2015, p 8.

⁵⁷³ Evidence, Cr Michael Pearce, Mayor, Uralla Shire Council, 18 August 2015, p 8.

⁵⁷⁴ Evidence, Cr Michael Regan, Mayor, Warringah Council, 24 August 2015, pp 4 and 10.

⁵⁷⁵ Evidence, Cr Regan, 24 August 2015, p 10.

⁵⁷⁶ Correspondence from Mr Henry Wong, General Manager, Manly Council, to committee, 8 September 2015; Correspondence from Mr Mark Ferguson, General Manager, Pittwater Council, to committee, 11 September 2015.

⁵⁷⁷ Correspondence from Mr Wong, to committee, 8 September 2015; Correspondence from Mr Ferguson, to committee, 11 September 2015.

⁵⁷⁸ Correspondence from Mr Ferguson, to committee, 11 September 2015.

northern Sydney'.⁵⁷⁹ Warringah Council offered to administer the joint tendering on behalf of SHOROC but the SHOROC joint procurement working group resolved that a 'centralised regional strategic procurement role at SHOROC' be trialled first 'for 12 months to ensure the full focus would be on providing this service to all councils'.⁵⁸⁰

Joint Organisations Pilot Program

9.16 A cooperative model of local governance proposed by the NSW Government in its 'Fit for the Future' agenda is the establishment of JO. This cooperative model is currently being piloted in New South Wales with inquiry participants discussing the differences between the existing Regional Organisation of Councils model and the new JO model. Those councils involved in the Pilot Program shared their experiences so far with the committee.

Establishment of Pilot Program

9.17 One of the terms of reference of the ILGRP was to identify governance models for local government in NSW.⁵⁸¹ In its 2013 report *Revitalising Local Government* the ILGRP recommended that Regional JO be established to help regional and rural councils:

... be more involved in planning the regional infrastructure that sustains their local economies ... strengthen opportunities for regional leadership and capacity building and ensure that people in regional communities have a strong advocate for their needs.⁵⁸²

9.18 There are currently five JOs being piloted across New South Wales in the Hunter, Illawarra, Central NSW, Namoi and Riverina regions.⁵⁸³ The ILGRP did not recommend that the Sydney metropolitan region, Central Coast and Far West be included in the Joint Organisation Pilot as the Panel found that these areas were in need of 'structural reform' before any cooperative models of governance can be implemented.⁵⁸⁴

9.19 Professor Graham Sansom, Chair of the ILGRP gave evidence that the Joint Organisation Pilot Program is founded upon research that indicates 'a very large number of councils in non-metropolitan NSW' are financially unstable, with the view that:

... [g]reatly enhanced regional collaboration, resource sharing, strategic procurement and shared services delivery could assist those councils to address the medium-long term financial pressures they face, and enable many smaller councils to remain 'stand-alone' entities (ie avoid amalgamations).⁵⁸⁵

⁵⁷⁹ Correspondence from Mr Ferguson, to committee, 11 September 2015.

⁵⁸⁰ Correspondence from Mr Ferguson, to committee, 11 September 2015.

⁵⁸¹ Submission 109, Office of Local Government, p 4.

⁵⁸² Submission 109, Office of Local Government, p 8.

⁵⁸³ Office of Local Government, *Regional Joint Organisations*, Fit for the Future, <http://www.fitforthefuture.nsw.gov.au/joint-organisations>.

⁵⁸⁴ Evidence, Ms Marcia Doheny, Chief Executive, Office of Local Government, 24 August 2015, p 50.

⁵⁸⁵ Submission 132, Professor Graham Sansom, p 14.

- 9.20** The Office of Local Government considered JO as the means for regional and rural councils to 'be stronger advocates to protect their positions and also to communicate better with State government agencies so that those decisions are not made without proper input from the councils'.⁵⁸⁶
- 9.21** In addition, the Office of Local Government stated, 'Regional Joint Organisations will help councils to be more involved in planning the regional infrastructure that sustains their local economies ... strengthen opportunities for regional leadership and capacity building and ensure that people in regional communities have a strong advocate for their needs'.⁵⁸⁷

Differences between ROCs and JO

- 9.22** A key difference between the cooperative models currently in place (ROCs) and those that are being trialled (JO) is conditions of membership. As we know, ROCs are voluntary bodies with member councils able to 'opt-in/opt out' as they please, whereas JO will be statutory bodies with 'membership and ongoing active participation by councils' being mandatory.⁵⁸⁸ The ILGRP 2013 report *Revitalising Local Government* recommended that JO be established to cover the entire state as shown on the following page, via 'individual proclamations negotiated under new provisions of the Local Government Act'.⁵⁸⁹ Thus, JO would not be ad hoc like existing ROCs. This was a point of discussion for council representatives in regional areas.

⁵⁸⁶ Evidence, Ms Doheny, 24 August 2015, p 59.

⁵⁸⁷ Submission 109, Office of Local Government, p 8.

⁵⁸⁸ Independent Local Government Report Panel, 'Revitalising Local Government', (Final Report, October 2013) pp 79 and 82.

⁵⁸⁹ Independent Local Government Report Panel, 'Revitalising Local Government', Final Report, October 2013) p 87.

Figure 9 Proposed Joint Organisation regions

Source: Independent Local Government Report Panel, 'Revitalising Local Government', (Final Report, October 2013) p 88.

9.23 Ms Julie Briggs, Executive Officer for REROC contended that JO, as statutory bodies, would probably have more 'legitimacy before State agencies that perhaps ROCs have not had'.⁵⁹⁰ She went on to say that this legitimacy would:

... probably increase the level of engagement. And it will perhaps increase the willingness of State agencies to devolve some activities to a regional organisation—or at least to collaborate a lot more.⁵⁹¹

9.24 However, she also questioned whether such organisations would operate as well as they had, once membership became mandatory:

Councils participate in ROC because they want to participate in ROC and because they want to see it as a success and they want to work together. When it is mandatory, will they have the same level of goodwill? I hope they do, but that is the interesting thing. When you tell somebody they have to do something, even if it is the same thing that they have been doing for 20 years, do they still want to do it as much?⁵⁹²

⁵⁹⁰ Evidence, Ms Julie Briggs, Executive Officer, Riverina and Murray Regional Organisation of Councils, 17 August 2015, p 57.

⁵⁹¹ Evidence, Ms Briggs, 17 August 2015, p 57.

⁵⁹² Evidence Ms Briggs, 17 August 2015, p 62.

9.25 In addition to mandatory membership, JO will also instigate three core functions: ‘Regional strategic planning and priority setting; Intergovernmental collaboration; [and] Regional leadership and advocacy’.⁵⁹³ These core functions will be complemented by ‘optional or non core functions’ which are deemed as priorities by member councils for that region.⁵⁹⁴ The Office of Local Government in its *Joint Organisations Pilot Mid Pilot Report July 2015* described these optional functions as being ‘broadly operational and [would] give practical effect to strategic decisions made by JOs’.⁵⁹⁵

9.26 According to Cr Rod Kendall, Mayor of Wagga Wagga City Council, the mandated functions of JO will mean ‘regional planning and regional collaborative planning will work much better ... and will allow councils to operate in a better, more formal collaborative manner’.⁵⁹⁶

9.27 Likewise, LGNSW noted that regional collaboration facilitated by legislated JO would ‘deliver solid, long-term gains’ for member councils as opposed to the ‘loose and purely voluntary (opt-in/opt-out) regional collaboration offered by ROCs’.⁵⁹⁷

Progress of Pilot Program to date

9.28 In July 2015, the Office of Local Government conducted a Mid Pilot Workshop involving councils from the five pilot Joint Organisation regions to discuss the ‘successes, challenges and learnings from the piloting of Joint Organisations thus far’.⁵⁹⁸

9.29 While participants of the workshop noted several achievements of the pilot program thus far, they also recognised various challenges arising from issues with:

- governance and consistent implementation,
- roll out to other councils that are not already yet functioning well regionally,
- how a JO is different to a ROC,
- inability to make major progress (tangible) in the absence of a legislative framework and with tight timelines,
- legitimacy as a regional voice, and
- coherence of differing views of JO model and role.⁵⁹⁹

9.30 For the model to operate effectively, current member councils argued that JO would need to have legal status if they were to be recognised as a legitimate regional planning entity, as well as be safeguarded against becoming a fourth tier of government.⁶⁰⁰

⁵⁹³ Office of Local Government, ‘Joint Organisation Pilot Mid Pilot Report’, (Report, Fit for the Future, July 2015) p 20.

⁵⁹⁴ Office of Local Government, ‘Joint Organisation Pilot Mid Pilot Report’, (Report, Fit for the Future, July 2015) p 20.

⁵⁹⁵ Office of Local Government, ‘Joint Organisation Pilot Mid Pilot Report’, (Report, Fit for the Future, July 2015) p 20.

⁵⁹⁶ Evidence, Cr Rodney Kendall, Mayor, Wagga Wagga City Council, 17 August 2015, p 77.

⁵⁹⁷ Submission 142, Local Government New South Wales, p 24.

⁵⁹⁸ Office of Local Government, ‘Joint Organisation Pilot Mid Pilot Report’, (Report, Fit for the Future, July 2015) pp 4 and 8.

⁵⁹⁹ Office of Local Government, ‘Joint Organisation Pilot Mid Pilot Report’, (Report, Fit for the Future, July 2015) p 14.

- 9.31** In September 2015, an Emerging Directions Paper was released by the Office of Local Government which briefly outlines the pilot progress to date with feedback on the emerging directions to ‘inform the further development of the Joint Organisation model’.⁶⁰¹ A concluding workshop and evaluation of the Joint Organisation Pilot Program is scheduled for December 2015, before the final Joint Organisation model design is launched in February 2016.⁶⁰²
- 9.32** Many positive aspects and benefits of the JO model were highlighted by those directly involved in the JO Pilots. Participants from the Riverina, Namoi and Illawarra pilots told the committee of the various outcomes JO’s had generated so far and the perceived reasons for why they were working so well.
- 9.33** According to Cr Braybrooks, REROC’s experience as a JO has been ‘quite positive’ attributing this to the fact that REROC was already a successful ROC and the increase of ‘direct involvement of discussion and, to some extent, decision-making with regional State Government departments’.⁶⁰³ He went on to add that he hoped such direct involvement would,
- bring forth some extra benefit to the regional organisation. There have been some positive trends but I have seen no positive outputs, as yet. We definitely have had the benefit of talking to regional people—senior bureaucrats—with respect to water and planning. As such, I think this liaison will have some positive benefits.⁶⁰⁴
- 9.34** Likewise, Mr Phil Pinyon, General Manager of Wagga Wagga City Council was of the view that since the pilot Joint Organisation had been formed, ‘there has been a noticeable change in the preparedness of agencies and departments to engage’ with the representative councils.⁶⁰⁵
- 9.35** Ms Briggs told the committee that the Riverina JO had ongoing communication with the Office of Local Government with ‘fortnightly teleconferences and reasonably regular meetings’, adding that Office of Local Government’s ‘commitment to the joint organisation process has been very strong’.⁶⁰⁶
- 9.36** Similarly, Ms Briggs expressed the view that because councils in the region had ‘embraced ROCs and now JOs, [it was] an indicator that they are willing to change, to try new ways of doing business, to look at new ways of delivering services, [and] to look for economies of scale and scope by working together’.⁶⁰⁷

⁶⁰⁰ Office of Local Government, ‘Joint Organisation Pilot Mid Pilot Report’, (Report, Fit for the Future, July 2015) p 16.

⁶⁰¹ Office of Local Government, ‘Joint Organisations Emerging Directions Paper’, (Research Paper, Fit for the Future, September 2015) p 6.

⁶⁰² Office of Local Government, ‘Joint Organisations Emerging Directions Paper’, (Research Paper, Fit for the Future, September 2015) p 6.

⁶⁰³ Evidence, Cr Braybrooks, 17 August 2015, p 54.

⁶⁰⁴ Evidence, Cr Braybrooks, 17 August 2015, p 56.

⁶⁰⁵ Evidence, Mr Phil Pinyon, General Manager, Wagga Wagga City Council, 17 August 2015, p 75.

⁶⁰⁶ Evidence, Ms Briggs, 17 August 2015, p 53.

⁶⁰⁷ Evidence, Ms Briggs, 17 August 2015, p 60.

- 9.37** While Cr Col Murray, Chair of Namoi Joint Organisation of Councils did acknowledge that before becoming a JO, Namoi ‘saw a lot of risks and what we perceive to be a lot of dangers in creating another big bureaucratic machine that is going to gobble up significant amounts of our limited resources’; the JO has subsequently led to ‘efficiencies ... better work methods’ and greater ‘interaction with other joint organisations and State Government agencies’.⁶⁰⁸

Is amalgamation necessary with JO?

- 9.38** Some participants suggested that as a result of the regional cooperation through the two main models in use – JO and ROCs – the NSW Government’s reform policy of amalgamating councils may not be necessary. As a result of the positive experiences and successes of these organisations as models of cooperation, inquiry participants expressed their doubts about the need to amalgamate as well as providing alternate ideas for the way forward.
- 9.39** Cr Murray was of the view that JO had ‘a very strong role ... to play’ as they provide a ‘very effective way of moving forward and countering some of the challenges’ posed by scale, capacity and finances of councils.⁶⁰⁹ He added that the model was ‘predicated on some very strong principles of not creating another level of governance [or] ... bureaucracy’ but rather to be a legitimate, standalone self-funding entity.⁶¹⁰
- 9.40** When questioned as to whether JO were just amalgamations by stealth, Cr Murray replied that the JO model ‘presents a credible alternative to amalgamation’.⁶¹¹
- 9.41** As the eight member councils stated in their submission, Namoi Councils is:
- ... a good example of an effectively operating regional organisation of councils with a high level of mutual trust, respect, confidence and collaboration among member Councils who are ready, willing and able to build and road test the joint organisation model.⁶¹²
- 9.42** The Namoi Councils argued that the Joint Organisation will ‘provide a vehicle for ... greater use of community strategic planning in relation to achieving regional priorities and goals, and more effective engagement and collaboration with Regional leadership groups and other State regional bodies’.⁶¹³
- 9.43** Similarly, Shellharbour City Council, which has entered into the pilot Illawarra Joint Organisation, claimed the JO model had proved successful so far with regards to

... establish[ing] the basis of a structured regionalism that has not been seen previously in the Illawarra and which will provide mutual benefits to the communities

⁶⁰⁸ Evidence, Cr Col Murray, Chair, Namoi Joint Organisation of Councils, 18 August 2015, pp 45-46.

⁶⁰⁹ Evidence, Cr Murray, 18 August 2015, p 39.

⁶¹⁰ Evidence, Cr Murray, 18 August 2015, p 39.

⁶¹¹ Evidence, Cr Murray, 18 August 2015, p 47.

⁶¹² Submission 87, Namoi Councils, p 15.

⁶¹³ Submission 87, Namoi Councils, p 7.

of the four member Councils, while contributing to each member council's sustainably.⁶¹⁴

- 9.44** Shellharbour City Council was a strong advocate of the JO model arguing that '[i]f co-operative models are implemented successfully ... forced amalgamations cease to need to be considered, as the supposed benefits of such amalgamations are able to be achieved through effective regionalism'.⁶¹⁵
- 9.45** This was also echoed by Lake Macquarie City Council, a member of the Hunter Incorporated Joint Organisation, which described JO as a 'practical and sensible solution ... that does not involve unnecessary amalgamation, and in many cases would be a far better solution, at lower cost, than amalgamation'.⁶¹⁶
- 9.46** Likewise, Leichhardt Municipal Council said they had 'long supported a Joint Organisation (JO) option for Sydney Metropolitan councils as an alternative approach to mergers'.⁶¹⁷
- 9.47** While Urana Shire Council, a member of the Riverina Joint Organisation, could understand why the NSW Government wanted to reduce the number of councils, especially when it came to 'broader strategic issues', they argued JO could solve such issues 'without the need for amalgamations'.⁶¹⁸
- 9.48** On a similar note, Blacktown City Council suggested that the current ROC model was an already working alternative to amalgamations recommending that 'an enhanced role' for ROCs would provide:

... a viable and less disruptive alternative to amalgamations in most situations. It carries the potential for significant savings through resource sharing, provides for a regional focus in strategic planning and allows easier engagement with the other levels of government. At the same time it allows for a continuation of the strong advocacy undertaken by ROCs...⁶¹⁹

Joint Regional Authorities

- 9.49** The committee was also informed of other cooperative models of governance and collaboration such as the Joint Regional Authority (JRA) formed by City of Ryde, Hunter's Hill and Lane Cove Councils (the three councils). The JRA is a metropolitan form of subregional collaboration with many similarities to that of the current regional JO Pilot Program. The three councils have proposed that the JRA be applied across metropolitan Sydney.

⁶¹⁴ Submission 57, Shellharbour City Council, p 6.

⁶¹⁵ Submission 57, Shellharbour City Council, p 6.

⁶¹⁶ Submission 65, Lake Macquarie City Council, p 9.

⁶¹⁷ Submission 23, Leichhardt Municipal Council, p 3.

⁶¹⁸ Submission 82, Urana Shire Council, p 3.

⁶¹⁹ Submission 72, Blacktown City Council, p 13.

- 9.50** The JRA proposes to ‘centralise subregional-scale planning and development functions, with a secondary focus on regional procurement and shared services’.⁶²⁰ Similar to the Joint Organisation model, membership and participation in the JRA will be mandatory for member councils.
- 9.51** However, for it to be legally recognised Cr Richard Quinn, Mayor of Hunter’s Hill Council did note that the current *Local Government Act 1993* would need to be amended in order to ‘empower local government to effectively partner with the NSW Government to secure the ongoing benefits that a JRA could provide’.⁶²¹
- 9.52** Despite being based on a ‘strong ethos of cooperation and shared outcomes’ like the current ROC model, the three councils argued the JRA will go further than this, providing ‘more practical benefits across several layers of government, by delivering subregional-scale planning and allowing joint representation to the NSW and Federal Governments’.⁶²²
- 9.53** The three councils also told the committee how the JRA would have the power to ‘make binding, strategic decisions on behalf of all participating Councils’.⁶²³ However, a key difference between the JRA and JO models is the structure of the entities. A key condition made by the founding councils is that the JRA model be administered ‘by a Board consisting of two elected representatives from each participating Council, with support by a General Managers’ Advisory Committee, and a suitably qualified Executive Director’.⁶²⁴ This organisational framework is very similar to the one being proposed by the NSW Government’s Joint Organisation Pilot.
- 9.54** Additionally, the JRA would be supported by a Charter which would ‘define its referral processes, accountability to member Councils and the community, and its relationship with State and Federal agencies’.⁶²⁵ It would also give representatives one vote and see board decisions made by unanimous voting agreement of its members and be funded membership fees based on equal proportions paid by each council.⁶²⁶
- 9.55** The three participating councils argued that the composition and authority of the JRA Board would ‘transcend local government boundaries and broaden the scope for high quality decision making’, with regular meetings between Mayors and General Managers generating ‘collective knowledge and expertise’.⁶²⁷

⁶²⁰ Submission 80, City of Ryde, Hunter’s Hill and Lane Cove Councils- Joint Submission, Attachment 1, p 13.

⁶²¹ Evidence, Cr Richard Quinn, Mayor, Hunter’s Hill Council, 24 August 2015, p 17.

⁶²² Submission 80, City of Ryde, Hunter’s Hill and Lane Cove Councils- Joint Submission, Attachment 1, p 14.

⁶²³ Submission 80, City of Ryde, Hunter’s Hill and Lane Cove Councils- Joint Submission, Attachment 1, p 37.

⁶²⁴ Submission 80, City of Ryde, Hunter’s Hill and Lane Cove Councils- Joint Submission, Attachment 1, p 13.

⁶²⁵ Submission 80, City of Ryde, Hunter’s Hill and Lane Cove Councils- Joint Submission, p 3.

⁶²⁶ Submission 80, City of Ryde, Hunter’s Hill and Lane Cove Councils- Joint Submission, pp 3-4.

⁶²⁷ Submission 80, City of Ryde, Hunter’s Hill and Lane Cove Councils- Joint Submission, p 14.

- 9.56** Cr Quinn described the JRA as ‘a bold, visionary and superior alternative’ that meets the criteria of the Fit for the Future reform ‘whilst also retaining local identity and communities of interests’.⁶²⁸ He pointed out that from the JRA, the three participating councils were ‘better, more efficient and [could] achieve a beneficial financial result through cooperation rather than through any disruptive process of forced amalgamations’.⁶²⁹
- 9.57** Cr Quinn outlined to the committee three reasons why the councils were against forced amalgamation: the costs of carrying out an amalgamation; the uncertainty if amalgamations will achieve forecast savings and concerns about the ‘level of representation our residents will receive under any proposed new mega council’.⁶³⁰
- 9.58** The three councils were also of the view that the JRA model offered an alternate cost effective and ‘customised solution’ for metropolitan councils.⁶³¹ Due to the JRA model encompassing functions that are ‘transferable’, the three councils strongly advocated for the model to be implemented across metropolitan Sydney’.⁶³²

Greater Sydney Commission

- 9.59** The formation of the Greater Sydney Commission was announced in June 2014 by the Premier Mike Baird MP and the then Minister for Planning, the Hon Pru Goward MP, with the media release noting that: ‘The establishment of a single agency, to be known as the Greater Sydney Commission, will streamline the way the NSW Government’s infrastructure and urban planning priorities are delivered’.⁶³³ The media release went on to state that the Premier had asked the Planning Minister to develop a detailed proposal for the Greater Sydney Commission for consideration by Cabinet.
- 9.60** In September 2015, the Minister for Planning the Hon Rob Stokes MP, declared the commission would be responsible for ‘delivery plans for each of Sydney’s six districts ... regular reviews of Council’s Local Environmental Plans and ... act[ing] as the decision maker on rezoning proposals currently undertaken by the Minister’.⁶³⁴
- 9.61** More specifically, the Commission will be tasked with:
- finalising district plans for each of Sydney’s six districts
 - taking on the current assessment and plan making functions of the Sydney Joint Regional Planning Panels, including pre-gateway reviews

⁶²⁸ Evidence, Cr Quinn, 24 August 2015, p 15.

⁶²⁹ Evidence, Cr Quinn, 24 August 2015, p 16

⁶³⁰ Evidence, Cr Quinn, 24 August 2015, 16.

⁶³¹ Submission 80, City of Ryde, Hunter’s Hill and Lane Cove Councils- Joint Submission, p 2.

⁶³² Submission 80, City of Ryde, Hunter’s Hill and Lane Cove Councils- Joint Submission, Attachment 1, p 15.

⁶³³ Media release, Hon Mike Baird MP, Premier and Minister for Western Sydney, ‘Greater Sydney Commission to transform our city’, 3 June 2014.

⁶³⁴ Media release, Hon Rob Stokes MP, Minister for Planning, ‘Greater Sydney Commission takes shape’, 8 September 2015.

- monitoring and reporting to NSW Government in implementation of actions in *A Plan for Growing Sydney*
- requiring councils to give effect to regional growth plans and district plans when amending their local plans.⁶³⁵

9.62 Some inquiry participants questioned whether any decisions should be made about council amalgamations, and therefore the planning framework for metropolitan Sydney, without knowing more about the role and functions of the Greater Sydney Commission. For example, Cr Mark Gardiner, Mayor of Marrickville Council told the committee that the council insufficient information about the commission and its purpose:

[w]e still do not know what its final form is going to be ... We do not yet know what its planning powers are going to be ... [or] what planning powers will be left to local government. We just do not know.⁶³⁶

9.63 Similar sentiments of uncertainty were shared by Ms Gail Connolly, General Manager of Ryde City Council, who said Ryde, like many other councils, had been waiting for details to be released about the Greater Sydney Commission, in particular when it would be enacted.⁶³⁷

9.64 Others speculated what the commission would entail. Ms Munro, consultant and member of the ILGRP, hoped the Greater Sydney Commission would incorporate other things apart from planning such as infrastructure, social and economic considerations of which 'local government ought to be part of those discussions'.⁶³⁸

9.65 Dr Tim Williams, Chief Executive Officer, Committee for Sydney, said that he understood the Greater Sydney Commission as being a body that would facilitate 'cross-government coordination and the management of growth' by involving 'a number of ... key delivery agencies' in discussions about future plans for Sydney.⁶³⁹

9.66 Associate Professor Roberta Ryan, Director of the Australian Centre of Excellence for Local Government spoke of the two debates surrounding metropolitan and non-metropolitan councils with regards to the Fit For The Future reforms, in particular, explaining how the 'debates around the functions of local government in the metropolitan area need to be thought about in the context of what the Government will want to do around the Greater Sydney Commission and what role and function it has'.⁶⁴⁰

9.67 Associate Professor Ryan expressed the view that the focus should not be on re-shaping metropolitan councils but on:

⁶³⁵ Department of Planning and Environment, *Greater Sydney Commission*, <http://www.planning.nsw.gov.au/Plans-for-Your-Area/Sydney/A-Plan-for-Growing-Sydney/Greater-Sydney-Commission>.

⁶³⁶ Evidence, Cr Mark Gardiner, Mayor, Marrickville Council, 27 July 2015, p 68.

⁶³⁷ Evidence, Ms Gail Connolly, General Manager, Ryde City Council, 24 August 2015, p 23.

⁶³⁸ Evidence, Ms Judith Munro, Consultant and non-executive board director, 27 July 2015, p 51.

⁶³⁹ Evidence Dr Tim Williams, Chief Executive Officer, Committee for Sydney, 27 July 2015, pp 89 and 96.

⁶⁴⁰ Evidence, Associate Professor Roberta Ryan, Centre for Local Government, University of Technology Sydney, 27 July 2015, p 34.

... linking discussions about reform of local government to thinking about the role of metropolitan governance and the role of the Greater Sydney Commission ... It might be that you make local governments larger, it might be that you make them smaller or it might be that they remain the same; but it is about role and function.⁶⁴¹

9.68 Further, Associate Professor Ryan questioned why amalgamation would be required if the commission was to take control of planning:

... if the Greater Sydney Commission was going to take over some of the substantial functions in terms of planning, strategic planning and land use planning, then there would be a question about what would be the rationale for consolidating local government.⁶⁴²

Committee comment

9.69 The committee endorses the aim of ROCs, which is to facilitate collaboration between councils. However the evidence indicated that while some ROCs are very successful, others are not. A range of factors can influence how successful a ROC is including the commitment to collaboration and working relationships between member councils.

9.70 The committee notes the promising signs shown by the Joint Organisation Pilot Program operating in five regional areas. Despite the ILGRP's recommendation that JO should not be rolled out across the state until council amalgamations had taken place, the committee believes in the reverse: that establishing JO state wide should have been the first step in reforming local government, before considering whether to proceed to costly and disruptive amalgamations.

9.71 In addition, the committee considers if JO were to exist in metropolitan areas this may have a significant impact on determining if metropolitan councils are 'fit for the future'. Indeed, the evidence received by the committee about regional cooperation through the two models in use – JO and ROCs – suggests that if these models work successfully, the NSW Government's reform policy of amalgamating councils may not be necessary.

9.72 The committee considers the JRA model to be very similar in structure and function to that of the NSW Government's Regional JO Pilot Program. The committee notes that the establishment of the JRA reflects the strong demand from metropolitan councils to engage in joint entities in the absence of the NSW Government's Joint Organisation Pilot Program in the metropolitan region.

9.73 The committee received no valid explanation from the NSW Government as to why such joint organisation models were not to be a key part of local government reform, not just in the regions, but also in Metropolitan Sydney.

9.74 The committee therefore recommends that the Office of Local Government offer the JO model to all councils in New South Wales based on the success the program has had in rural and regional New South Wales.

⁶⁴¹ Evidence, Associate Professor Ryan, Sydney, 27 July 2015, p 37.

⁶⁴² Evidence, Associate Professor Ryan, Sydney, 27 July 2015, p 38.

Recommendation 16

That the NSW Government make Joint Organisations available to all councils in New South Wales.

- 9.75** The committee was impressed by the presentation of the joint regional authority model from the Hunters Hill, Ryde and Lane Cove Councils and sees very real merit in this style of joint organisation being given statutory support in preference to forced amalgamations. This model achieved the desired outcomes of ‘strategic capacity’ and regional planning without losing local identity and without incurring the very large costs that accompany amalgamations.
-

Recommendation 17

That the NSW Government work with local government on a statutory model for Joint Organisations based on the Hunters Hill, Ryde and Lane Cove Council model as a cooperative and consensus model for local council reform in Metropolitan Sydney.

- 9.76** On the issue of the Greater Sydney Commission, the committee is unsure how the Commission will integrate with local governance structures in metropolitan Sydney, given the confusion expressed by inquiry participants about the Commission’s role.
- 9.77** The committee considers that there is a lack of information about the Commission’s role, and how it will relate to planning policies at the state and local levels. The committee believes the Minister for Planning should have outlined from the beginning what the form and functions of the Greater Sydney Commission would be and how it would impact on local governance in the Sydney region.

Appendix 1 Preferred merger options of the ILGRP and IPART's assessments

The following table provides details of the Independent Local Government Review Panel's preferred merger options and Independent Pricing and Regulatory Tribunal's assessment of councils as reported in IPART's Assessment of Council Fit for the Future Proposals Local Government — Final Report October 2015.

Summary

Assessment of councils: Metropolitan Sydney councils

Table 1 Metropolitan Sydney Merger Proposals

Councils	ILGRP preferred option	Assessment
Randwick City and Waverley	Merge to form a Global Sydney council	Fit
Auburn City Burwood City of Canada Bay	Auburn to merge with Holroyd, Parramatta, Ryde (part) and The Hills (part); Burwood and Canada Bay to merge with Ashfield, Leichhardt, Marrickville and Strathfield	Fit

Note: Bold indicates an ILGRP preferred option.

Table 2 Inner Metropolitan Sydney Councils

Region	ILGRP preferred option	Councils	Assessment
Global City	Amalgamate with Randwick City and Waverley Council	City of Botany Bay	Not fit
		City of Sydney	Not fit as a Global City Council
		Woollahra Municipal	Not fit
Inner West	Amalgamate with City of Canada Bay and Burwood	Ashfield	Not fit
		Leichhardt Municipal	Not fit
		Marrickville	Not fit
		Strathfield	Not fit
West Central	Amalgamate with Auburn, City of Ryde (part) and The Hills (part)	Holroyd City	Not fit
		Parramatta City	Not fit
Lower North Shore	Amalgamate	Hunter's Hill	Not fit
		Lane Cove	Not fit
		Mosman Municipal	Not fit
		North Sydney	Not fit
		City of Ryde	Not fit
		Willoughby City	Not fit
Northern Suburbs	Amalgamate	Hornsby Shire	Not fit
		Ku-ring-gai	Not fit
Northern Beaches	Amalgamate	Manly	Not fit
		Pittwater	Not fit
		Warringah	Not fit
South West	Amalgamate	Fairfield City	Not fit
		Liverpool City	Not fit
Southern	Amalgamate	City of Canterbury	Not fit
		Hurstville City	Not fit
		Kogarah City	Not fit
		Rockdale City	Not fit
Bankstown	No change	Bankstown City	Fit

Note: Bold indicates an ILGRP preferred option.

Table 3 Outer Metropolitan Sydney Councils

Council	ILGRP preferred option	Assessment
Blacktown City	No change	Not fit
Blue Mountains City	No change	Fit
Camden	No change	Fit
Campbelltown City	No change	Not fit
Hawkesbury	No change	Not fit
Penrith City	No change	Fit
Sutherland Shire	No change	Fit
The Hills Shire	No change	Fit
Wollondilly Shire	No change	Fit

Note: Bold indicates an ILGRP preferred option.

Assessment of councils: Non-metropolitan councils

Table 4 Non-metropolitan Merger Proposals

Councils	ILGRP preferred option	Assessment
Young Shire and Boorowa	Merge with Boorowa, Harden and Young	Fit
Cootamundra Shire and Harden Shire*	Merge with Boorowa and Young	Fit

Notes: Bold indicates an ILGRP preferred option. *The ILGRP did not have a preferred option for Cootamundra.

Summary

Table 5 Hunter, Central Coast and Illawarra Councils

Region	Council	ILGRP options	Assessment
Hunter	Cessnock City	Council in JO	Fit
	Dungog Shire	Merge with Maitland or Council in JO ^a	Not fit
	Lake Macquarie City	Amalgamate with Newcastle or Council in JO ^a	Not fit
	Maitland City	Merge with Dungog or Council in JO ^a	Not fit
	Muswellbrook Shire	Council in JO	Fit
	Newcastle City	Amalgamate with Lake Macquarie or Council in JO ^a	Not fit
	Port Stephens	Council in JO	Fit
	Singleton	Council in JO	Fit
	Upper Hunter Shire	Council in JO	Fit
Central Coast	Gosford City	Amalgamate with Wyong or a multi-purpose JO (no separate water corporation until other options properly evaluated)	Not fit
	Wyong City	Amalgamate with Gosford or a multi-purpose JO (no separate water corporation until other options properly evaluated)	Not fit
Illawarra	Kiama Municipal	Council in a JO (if future amalgamation – with Shoalhaven, noting its inclusion in South East-Tablelands region)	Not fit
	Shellharbour City	Council in a JO (amalgamate if future options need to be revisited)	Not fit
	Wollongong City	Council in a JO (amalgamate if future options need to be revisited)	Fit

^a Possible boundary change included.

Notes: Bold indicates an ILGRP preferred option. JO stands for Joint Organisation.

The ILGRP did not include a table of options for the Hunter, Central Coast and Illawarra regions. Instead, the ILGRP included a discussion of these councils in its report.

Table 6 Non-metropolitan councils¹⁵

Region	Council	ILGRP options	Assessment
Northern Rivers	Ballina Shire	Council in Northern Rivers JO	Fit
	Byron Shire	Council in Northern Rivers JO	Fit
	Lismore City	Council in Northern Rivers JO or merge with Kyogle	Fit
	Richmond Valley	Council in Northern Rivers JO or merge with Kyogle	Fit
	Tweed Shire	Council in Northern Rivers JO	Not fit
North Coast	Bellingen Shire	Council in North Coast JO	Not fit
	Clarence Valley	Council in North Coast JO	Not fit
	Coffs Harbour City	Council in North Coast JO	Fit
	Nambucca Shire	Council in North Coast JO	Fit
Mid-North Coast	Gloucester Shire	Council in Mid-North Coast JO or merge with Great Lakes and/or Greater Taree	Not fit
	Great Lakes Shire	Council in Mid-North Coast JO or merge with Gloucester	Fit
	Greater Taree City	Council in Mid-North Coast JO or merge with Gloucester	Not fit
	Kempsey Shire	Council in Mid-North Coast JO	Not fit
	Port Macquarie-Hastings	Council in Mid-North Coast JO	Fit
New England	Amidale Dumaresq	Council in New England JO or merge with Guyra	Not fit
	Glen Innes Severn	Council in New England JO	Fit
	Inverell Shire	Council in Namoi JO	Fit
	Tenterfield Shire	Council in New England JO	Not fit
	Uralla Shire	Council in New England JO or merge with Walcha	Not fit
Namoi	Gunnedah Shire	Council in Namoi JO	Fit
	Gwydir Shire	Council in Namoi JO or merge with Moree Plains	Not fit
	Liverpool Plains Shire	Council in Namoi JO or merge with Gunnedah	Not fit
	Moree Plains Shire	Council in Namoi JO or merge with Gwydir	Fit
	Narrabri Shire	Council in Namoi JO	Fit
	Tamworth Regional	Council in Namoi JO	Fit
Orana	Dubbo City	Council in Orana JO or merge with Wellington and/or Narromine	Fit
	Narromine Shire	Council in Orana CC or merge with Dubbo	Not fit
	Warrumbungle Shire	Council in Orana JO	Not fit
	Wellington	Council in Orana JO or merge with Dubbo	Not fit

¹⁵ This excludes Rural Council Proposals and councils in the Hunter, Central Coast and Illawarra.

Summary

Region	Council	ILGRP options	Assessment
Central West	Bathurst Regional	Council in Central West JO or merge with Oberon	Fit
	Blayney Shire	Council in Central West JO or merge with Orange	Not fit
	Cabonne	Council in Central West JO or merge with Orange	Not fit
	Cowra	Council in Central West JO or merge with Weddin	Fit
	Forbes Shire	Council in Central West JO; merge with Weddin	Not fit
	Lachlan Shire	Council in Central West JO or merge with Parkes	Not fit
	Lithgow City	Council in Central West JO	Not fit
	Mid-Western Regional	Council in Central West JO	Not fit
	Oberon	Council in Central West JO or merge with Bathurst	Not fit
	Orange City	Council in Central West JO or merge with Cabonne and/or Blayney	Not fit
	Parkes Shire	Council in Central West JO or merge with Lachlan	Fit
Tablelands	Goulburn Mulwaree	Council in Tablelands JO	Not fit
	Upper Lachlan Shire	Council in Tablelands JO or merge with Goulburn-Mulwaree	Not fit
	Wingecarrambee Shire	Council in Tablelands JO	Fit
	Yass Valley	Council in Tablelands JO	Not fit
Riverina	Bland Shire	Council in Riverina JO or merge with Coolamon and/or Temora	Not fit
	Junee Shire	Council in Riverina JO or merge with Cootamundra	Not fit
	Temora Shire	Council in Riverina JO or merge with Coolamon and/or Bland	Not fit
	Tumut Shire	Council in Riverina JO or merge with Gundagai and Tumbarumba	Not fit
	Wagga Wagga City	Council in Riverina JO or merge with Lockhart	Fit
Murrumbidgee	Griffith City	Council in Murrumbidgee JO or merge with Murrumbidgee	Not fit
	Leeton Shire	Council in Murrumbidgee JO or merge with Narrandera	Fit
	Narrandera Shire	Council in Murrumbidgee JO or merge with Leeton	Not fit
Mid-Murray	Berrigan Shire	Council in Mid-Murray JO or merge with Jerilderie	Not fit
	Deniliquin Shire	Council in Mid-Murray JO or merge with Conargo/Murray and Wakool	Not fit
	Murray Shire	Council in Mid-Murray JO or merge with D'quin/Conargo and Wakool	Not fit

Region	Council	ILGRP options	Assessment
Upper Murray	Albury City	Council in Upper Murray JO or merge with Greater Hume (part or all)	Fit
	Corowa Shire	Council in Upper Murray JO or merge with Urana	Not fit
	Greater Hume Shire	Council in Upper Murray JO or merge part or all with Albury	Fit
South East	Bega Valley Shire	Council in South East JO	Fit
	Cooma-Monaro Shire	Council in South East JO or merge with Bombala and Snowy River	Not fit
	Eurobodalla Shire	Council in South East JO	Fit
	Palerang	Council in South East JO or merge with Queanbeyan	Not fit
	Queanbeyan City	Council in South East JO or merge with Palerang	Not fit
	Shoalhaven City	Council in South East JO	Fit
	Snowy River Shire	Council in South East JO or merge with Bombala/Cooma-M	Not fit

Note: Bold indicates an ILGRP preferred option. JO stands for Joint Organisation.

Summary

Table 7 Rural Council Proposals

Region	Council	ILGRP options	Assessment
Northern Rivers	Kyogle ^a	Council in Northern Rivers JO or merge with Lismore or Richmond Valley	Not fit
New England	Guyra Shire	Council in New England JO or merge with Armidale	Not fit
	Walcha Shire	Merge with Uralla or Rural Council in New England JO	Not fit
Orana	Bogan Shire	Rural Council in Orana JO or merge with Warren	Fit as a Rural Council
	Coonamble Shire	Rural Council in Orana JO or merge with Gilgandra	Fit as a Rural Council
	Gilgandra Shire	Rural Council in Orana JO or merge with Coonamble	Fit as a Rural Council
	Warren Shire	Rural Council in Orana JO or merge with Bogan	Fit as a Rural Council
Central West	Weddin Shire	Rural Council in Central West JO or merge with Forbes or Cowra	Not fit
Riverina	Coolamon Shire	Rural Council in Riverina JO or merge with Bland and/or Temora	Fit as a Rural Council
	Gundagai Shire	Merge with Tumut or Rural Council in Riverina CC	Not fit
	Lockhart Shire	Rural Council in Riverina JO or merge with Wagga Wagga	Fit as a Rural Council
	Tumbarumba Shire	Rural Council in Riverina JO or merge with Tumut/Gundagai	Fit as a Rural Council
Mid-Murray	Conargo Shire	Merge with Deniliquin and Murray or Rural Council in Mid-Murray JO	Not fit
	Jerilderie Shire	Merge with Berrigan or Rural Council in Mid-Murray JO	Not fit
	Wakool Shire	Rural Council in Mid-Murray JO or merge with Murray/Conargo/Deniliquin	Fit as a Rural Council
Murrumbidgee	Carrathool Shire	Rural Council in Murrumbidgee JO or merge with Griffith	Fit as a Rural Council
	Hay Shire	Rural Council in Murrumbidgee JO	Not fit
	Murrumbidgee Shire	Merge with Griffith or Rural Council in Murrumbidgee JO	Not fit
Upper Murray	Urana Shire	Merge with Corowa or Rural Council in Upper Murray JO	Not fit
South East	Bombala	Merge with Cooma-M and Snowy R or Rural Council in South East JO	Not fit

^a Kyogle submitted a Rural Council Proposal. However, the ILGRP did not identify this as one of the options for the council. We assess Kyogle as not fit as a Rural Council nor fit as a stand-alone council.

Note: Bold indicates an ILGRP preferred option. JO stands for Joint Organisation.

Appendix 2 Media release



Tuesday 20 October 2015

FIT FOR THE FUTURE: \$2 BILLION COMMUNITY WINDFALL BY MERGING UNFIT COUNCILS

Almost two-thirds of NSW councils are not fit for the future, according to a new report by the Independent Pricing and Regulatory Tribunal (IPART) released today by NSW Premier Mike Baird and Local Government Minister Paul Toole.

The IPART report found reducing waste and red tape through local government mergers could free up to \$2 billion over the next 20 years for NSW ratepayers, which could stabilise council rates and fund better services and new infrastructure for communities.

The NSW Government today also announced a new Stronger Communities Fund, providing each new council up to \$15 million to invest in community infrastructure projects such as sporting fields, libraries, and parks and funding of up to \$10 million for each new council to ensure ratepayers do not pay for the up-front costs of merging. This funding will be available to those mergers agreed to by councils and the NSW Government.

"Four years of independent research, analysis and NSW Government consultation with councils and the community has shown that the current system of local government is not working as well as it should be," Mr Baird said.

"With 60 per cent of councils not fit for the future, this IPART report shows the situation is now critical and that action is needed to ensure ratepayers get value for money and the services and infrastructure they deserve."

"For many councils this is a final opportunity to do the right thing for the future of their communities, which in many cases may include merging with neighbouring councils."

The NSW Government will now give councils a 30-day consultation opportunity to inform the Government's position on local government reform and respond to these IPART findings.

IPART found that:

- 71 per cent of councils in metropolitan Sydney are 'not fit', primarily because councils did not propose a merger despite clear benefits; and
- 56 per cent of councils in regional NSW are 'not fit', due to not proposing a merger despite clear benefits, ongoing deficits or both.

Mr Toole said that despite numerous council-commissioned business cases showing these benefits, most councils had resisted change and many councils had proposed rate increases to improve their financial performance. Thirty two councils proposed a rate rise to get fit, with 15 councils proposing rises above 30%.

"I urge councils to consider these IPART findings for their council and hold discussions with neighbouring councils and the NSW Government so they can deliver better value for money for ratepayers now and into the future," Mr Toole said.

"The \$2 billion in savings and Stronger Communities Fund will enable each council to make a decision on whether to invest their extra funds into better services, more infrastructure or lower rates for their community.

"Under this plan, waste and red tape will be reduced and local representation will be maintained."

Eight far west NSW councils were not included in the IPART review as their unique challenges are being addressed through the Far West Initiative.

The IPART report can be found here: www.ipart.nsw.gov.au

**MEDIA: Mark Tobin | 0417 497 368 | Premier
Antonia Morrow | 0419 468 235 | Minister Toole**

Appendix 3 Submission list

No	Author
1	Mr Alex Jewson
2	Ms Roberta Burke
3	Professor Brian Dollery
3a	Professor Brian Dollery
4	Confidential
5	Percy Allan & Associates Pty Ltd
6	Mr Paul Pearce
7	Clarence Environment Centre
8	Central NSW Councils (Centroc)
9	Mr Jim Angel
10	Mrs Hylda Rolfe
11	Professor Brian Dollery and Dr Joseph Drew
12	Name suppressed
13	Mr Robert Dunn
14	Building Professionals Board
15	Clareville and Bilgola Plateau Residents Association Inc (CABPRA)
16	Save Hunters Hill Municipality Coalition (SHHMC)
17	Mr Frederick Bruce Fitzgerald
18	Tweed Shire Council
19	Name suppressed
20	Albury Council
21	Name suppressed
22	Braidwood Greens and Queanbeyan-Monaro Greens
23	Leichhardt Municipal Council
24	Cobar Shire Council
25	Mrs Jane Harris
26	Ashfield Council
27	Name suppressed
28	The Development and Environmental Professionals' Association
29	Mr Ian Naylor
30	Ms Suzanne Leslie
31	Mrs Khushrukh Pai

No	Author
32	Mrs Jessica Prochazkova
33	Name suppressed
34	Dr Peter Mitchell
35	Coonamble Shire Council
36	Wyong Shire Council
37	North Sydney Council
38	Mr Warren Price
39	The City of Newcastle
40	Name suppressed
41	Mr Gerry Nolan
42	Greater Taree City Council
43	Mr Johannes Jan Nicolaas de Voogd
44	Mosman Council
45	Local Government Engineers' Association of New South Wales
46	Wollongong City Council
47	Bega Valley Shire Council
48	Dr Fergus Fricke
49	Gloucester Shire Council
50	Tamworth Regional Council
51	Bankstown City Council
52	Canberra Region Joint Organisation
53	Name suppressed
54	Nambucca Shire Council
55	Maitland City Council
56	Mr Bob Fawcett
57	Shellharbour City Council
58	Confidential
59	Marrickville Council
60	City of Canterbury
61	Newport Residents Association
62	Kiama Municipal Council
63	Pittwater Forever
64	Warrumbungle Shire Council
65	Lake Macquarie City Council
66	Northern Sydney Regional Organisation of Councils

No	Author
67	Boorowa Council
68	Muswellbrook Shire Council
69	Warringah Council
70	Willoughby City Council
71	Holroyd City Council
72	Blacktown City Council
73	Cr Ted Seng
74	Efron Media Group
75	Gosford City Council
76	Wagga Wagga City Council
77	Port Macquarie-Hastings Council
78	Shoalhaven City Council
79	Fourth Ward Combined Progress Association
80	City of Ryde, Hunter's Hill and Lane Cove Councils
81	Cooma-Monaro Shire Council
82	Urana Shire Council
83	Cr Irene Doutney
84	Kogarah Council
85	Pittwater Council
86	Rockdale City Council
87	Namoi Councils
88	NSW and Sydney Business Chambers
89	Cr Tony Bowen
90	Penrith City Council
91	Gwydir Shire Council
92	The Hills Shire Council
93	Manly Council
94	Housing Industry Association Limited
95	City of Canada Bay Council
96	Woollahra Municipal Council
97	Riverina and Murray Regional Organisation of Councils (RAMROC)
98	Fairfield City Council
99	Orange City Council
100	Urban Taskforce Australia
101	Coffs Harbour City Council

No	Author
102	Shore Regional Organisation of Councils (SHOROC)
103	Small Business Commission
104	Bellingen Shire Council
105	Lismore City Council
106	The Palm Beach and Whale Beach Association
107	Central Coast Greens
108	Ryde Hunters Hill Flora and Fauna Preservation Society
109	NSW Government
110	Save Our Strathfield
111	Burwood Community Voice
112	Ku-ring-gai Council
113	Broken Hill City Council
114	Riverina Eastern Regional Organisation of Councils (REROC)
115	Palerang Council
116	Save our Councils Coalition
117	Hornsby Shire Local Government Committee - Australian Labor Party (NSW)
118	Strathfield Council
119	Cr Kathy Neilson
120	Mr Chris Maltby
121	Bungendore Residents Group Inc
122	Serving Mosman
123	Mr Des Bilske
124	United Services Union
125	The Greens NSW
126	Cr Lesley Furneaux-Cook
127	Confidential
128	Hunter's Hill Council
129	IPWEA (NSW)
130	Local Government Professionals Australia, NSW
131	Goulburn Mulwaree Council
132	Prof Graham Sansom
132a	Prof Graham Sansom
133	Dungog Shire Council
134	Parramatta City Council
135	Mr David Rawlings

No	Author
136	Wollondilly Shire Council
137	Waverley Council Labor Councillors
138	Mr Brian Halstead
139	Community Voice - Hornsby Shire
140	Cr Peter White
141	Blue Mountains City Council
142	Local Government NSW
143	Mr Robert Bagnall
143a	Mr Robert Bagnall
144	Lane Cove Bushland and Conservation Society
145	Hornsby Shire Council
146	Wamboin Community Association Inc.
147	Mr Jim Beale
147a	Mr Jim Beale
148	Mr Gary M Rodgers and Mark Wheeler
149	Independent Pricing and Regulatory Tribunal
150	Warriewood Residents Association
151	The Council of the Shire of Bourke
152	Unions NSW
153	Property Council
154	Brisbane City Council
155	Mr Robert T. Dunn
156	Name suppressed
157	Ms Janet Forrester
158	Mr James Dolton
159	Mr Raffaele Catanzariti
160	Mr Harold O'Keeffe
161	Ms Niki Huang
162	Mr Peter Mayman
163	Name suppressed
164	Dr Rosemary Kinne
165	Ms Diane Jogia
166	Mr Nigel Cadogan
167	Name suppressed
168	Cr Elizabeth Barlow

No	Author
169	Dr Jayasooriah
170	Confidential
171	Ms Margery Whitehead
172	Ms Patricia Keith
173	Ms Lynne Joslyn and Ms Mora Main
174	Confidential
175	Name suppressed
176	Ms Yvonne Jayawardena
177	Ms Adrienne Shilling
178	Name suppressed
179	Ms Virginia Milson
180	Mr Shailesh Kantawala
181	City of Sydney Council
182	Sydney Metropolitan Mayors
183	Ms Jude Munro
184	NSW Farmers' Association
185	Kensington & West Kingsford Precinct
186	Jeff Tate Consulting
187	Ms Mary Shackman
188	Transport for NSW
189	Holroyd Christian Ministers' Fellowship
190	Ms Margaret Hogg
191	Ms Lauren Paul
192	Name suppressed
193	Confidential
194	Mrs Mariko Smith
195	Name suppressed
196	Mr Phillip Ward
197	Name suppressed
198	Mr Martin Przybylski
199	Mr Richard Biggs
200	Ms Sarah McCarthy
201	Local Government Managers Australia National
202	Centre for Local Government, University of New England
203	Mr Brian Halstead

No	Author
204	Eurobodalla Shire Council
205	Bogan Shire Council
206	Mr Cameron Way

Pro forma A – 2 responses

The Director
General Purpose Standing Committee No. 6
Parliament House
Macquarie St
Sydney NSW 2000
Fax: (02) 9230 2981

Dear Madam/Sir

Parliamentary Inquiry into the State Government's Fit for the Future Local Government Reform Agenda

In my local government area of **Lane Cove** the State Government is proposing that our Council be merged with Hunter's Hill, Mosman, North Sydney, Willoughby and two-thirds of Ryde.

I support what my local Council is proposing: for Lane Cove to stand alone and continue to deliver local services and address local issues, in addition to working in partnership with neighbouring Councils, City of Ryde and Hunter's Hill on regional matters to achieve efficiencies through shared services.

I support this **Joint Regional Authority** approach for the following reasons:

- It is a superior alternative to a one-size fits all model;
- A Joint Regional Authority would mean local issues stay local and regional matters are dealt with at the regional level by the three Councils working together;
- The State Government will achieve the capacity it wants, which is to deal with one organisation on subregional matters instead of three, with local government working together in planning and identifying priorities for the region;
- Through a regional partnership with City of Ryde and Hunter's Hill the community will get a more powerful voice to advocate on critical regional planning and infrastructure matters like schools, hospitals and transport issues;
- A regional partnership also means that Councils could share delivery of some services and save money.
- Above all it means we can keep the local in local government and can continue to be represented with quality services at a local level

I believe that the Committee should consider the benefits of this alternate model, a model which was only made available to regional councils.

Regards,

Pro forma B – 27 responses

City of Ryde to Stand Alone and establish a
Regional Partnership with neighbouring Councils

The Director
General Purpose Standing Committee No. 6
Parliament House
Macquarie St
Sydney NSW 2000
Fax: (02) 9230 2981

Dear Madam/Sir

Parliamentary Inquiry into the State Government's Fit for the Future Local Government Reform Agenda

In my local government area of Ryde the State Government is proposing:

1. That Ryde be split with one third going to Parramatta, Auburn and Holroyd to make a mega Council for reasons including:
 - The new Council will have a projected 2031 population of 558,500;
 - Close functional interaction and economic/social links between these councils;
 - Need for stronger unified local government to develop Parramatta as the second CBD;
 - Parramatta's northern boundary is very close to its CBD; relocation to M2 would facilitate planning and improve socio-economic mix and community linkages; and
 - Incorporating part of Ryde would strengthen link between Parramatta and 'Global Sydney Corridor' and improve scope for integrated planning around Epping station.
2. Amalgamation of the remaining two thirds of Ryde with Hunter's Hill, Lane Cove, Mosman, North Sydney and Willoughby Councils for reasons including:
 - The new Council will have a projected 2031 population of 365,400;
 - Close functional interaction and economic/social links between these Councils;
 - Need for integrated planning for major centres, Sydney Harbour foreshores, etc ; and
 - 3 of these Councils are projected to have fewer than 50,000 people in 2031.

I **disagree** with this approach of the State Government to split the City of Ryde and force amalgamations.

I **support** what my local Council, the City of Ryde is proposing: for Ryde to stand alone and continue to deliver local services and address local issues, in addition to working in partnership with neighbouring Councils, Lane Cove and Hunters Hill on regional matters to achieve efficiencies through shared services.

I support the City of Ryde's approach for these reasons:

- It is a win-win solution for local communities and the State Government;

City of Ryde to Stand Alone and establish a
Regional Partnership with neighbouring Councils

- Instead of one-size-fits-all, the regional partnership model would mean local issues stay local and regional matters are dealt with at the regional level by the three Councils working together;
- This solution is a much cheaper option, not confusing or disrupting for ratepayers and we get to keep our high level of access to our local representatives and be able to participate in local decisions that affect our neighbourhoods and suburbs;
- It would also mean that Ryde is not split and keeps its local identity and its proud heritage does not disappear;
- The State Government will get what it wants, which is to deal with one organisation on subregional matters instead of three, with local government working together in planning and identifying priorities for the region;
- Through a regional partnership with Lane Cove and Hunters Hill the community will get a more powerful voice to advocate on critical regional planning and infrastructure matters like schools, hospitals and transport issues;
- A regional partnership also means that Councils could share delivery of some services and save money. It means that they can gain more buying power in the market, all of this will save the ratepayer money;
- Local Councils are supposed to be local, being close to the people and working with communities to plan for neighbourhoods and town centres;
- If Ryde is split and divided into two mega Councils, the residents will lose and not get the proper services and representation they deserve;
- Ryde has no close ties to Parramatta and does not share the same community of interest; the western part of Ryde is separated from Parramatta geographically with the Parramatta River and the Main North Rail Line;
- The Government's proposed split will dissect Macquarie Park, NSW's second largest commercial centre that continues to grow in economic output and jobs growth for Sydney and NSW. The City of Ryde has carefully planned this commercial centre and this will be jeopardised if it is divided between two mega Councils. The proposed splitting of Ryde seriously puts into question the continuation of the sustained and planned growth that has been achieved under the City Ryde's stewardship of Macquarie Park.

The Government has not provided any evidence that amalgamations will benefit communities, especially in non-financial ways.

I believe that the Committee should consider the benefits of partnerships and the joint collaboration model as proposed by the City of Ryde in preference to using amalgamations as a one size-fits-all solution, as bigger is not always better.

Pro forma C – 6 responses

Most council amalgamations do not provide good outcomes. The cost of amalgamations is huge involving rebranding, rate hikes, loss of employment opportunities, asset sales, loss of local and corporate understanding of areas.

I am opposed to Strathfield Council being forced to become part of an Inner West Super Council because the NSW Government has not provided any evidence that shows how I would be better off in a Super Council. One size does not fit all.

The Fit for the Future process is designed to make Councils fail, to justify forcing amalgamations of Sydney's councils. This is not fair. Decisions involving changing community governance dating back more than 100 years should involve communities it affects. This process does not take into consideration its community and their views.

Pro forma D – 3 responses

I am opposed to Strathfield Council being forced to become part of an Inner West Super Council, forced into mergers with other councils or having parts of Strathfield Council's area transferred to other councils.

The NSW Government has not provided any evidence that shows how I would be better off in a "Super Council". Evidence across the country has shown time and time again that bigger is not always better.

I am very concerned that the Fit for the Future process is deeply flawed, is focused on population sizes and 'certain' financial indicators, so that many Councils fail. I note that this process does not take into consideration its community and their views.

Why does any council need to be about 500,000 residents in size? Councils are not state or regional governments.

Strathfield Council is effective and financially viable, it does not need to be amalgamated.

Amalgamations do not provide good outcomes, there is plenty of evidence that amalgamations cost a lot and alienate communities. Why not learn from past experiences and not make the same mistakes.

Pro forma E – 11 responses

I work in the Strathfield Council area and am concerned that this and other councils may be forced into amalgamations.

The local council is focused entirely on providing services for the Strathfield area and its communities. The council is small enough that residents feel that they have a voice and get heard, but large enough to be effective and financially viable organisation..

There is no evidence that amalgamations are cost effective or provide benefits to their communities. The cost of amalgamations is huge involving loss of employment, loss of local and corporate knowledge

I am opposed to my local Council being forced to become part of an Inner West Super Council, forced into mergers with other councils or having parts of Strathfield Council's area transferred to other councils.

The NSW Government has not provided any evidence that shows how I would be better off in a Super Council.

I am very concerned that the Fit for the Future process is deeply flawed, is focused on population sizes and 'certain' financial indicators, so that many Councils fail. I note that this process does not take into consideration its community and their views.

People in NSW need 'local' government, they don't need massive regional governments. Both State and Federal Governments operate at a higher level, we don't need another tier of government too far removed from its residents.

Pro forma F – 12 responses

Support for my local Council to stand alone

The Director
 General Purpose Standing Committee No. 6
 Parliament House
 Macquarie St
 Sydney NSW 2000
 Fax: (02) 9230 2981

Dear Madam/Sir

Parliamentary Inquiry into the State Government's Fit for the Future Local Government Reform Agenda

In my local government area of Ryde the State Government is proposing:

1. That Ryde be split with one third going to Parramatta, Auburn and Holroyd to make a mega Council for reasons including:
 - The new Council will have a projected 2031 population of 558,500;
 - Close functional interaction and economic/social links between these councils;
 - Need for stronger unified local government to develop Parramatta as the second CBD;
 - Parramatta's northern boundary is very close to its CBD; relocation to M2 would facilitate planning and improve socio-economic mix and community linkages; and
 - Incorporating part of Ryde would strengthen link between Parramatta and 'Global Sydney Corridor' and improve scope for integrated planning around Epping station.
2. Amalgamation of the remaining two thirds of Ryde with Hunter's Hill, Lane Cove, Mosman, North Sydney and Willoughby Councils for reasons including:
 - The new Council will have a projected 2031 population of 365,400;
 - Close functional interaction and economic/social links between these Councils;
 - Need for integrated planning for major centres, Sydney Harbour foreshores, etc ; and
 - 3 of these Councils are projected to have fewer than 50,000 people in 2031.

I **disagree** with the State Government's approach of forced amalgamations and to split the City of Ryde for these reasons:

- Amalgamations cost a lot of money, and it is the ratepayers who will have to pay;
- The Government has not provided any evidence that amalgamations will benefit communities;
- The Government has not undertaken any community consultation and is not taking community feedback seriously;
- Amalgamations will be confusing and distracting, and while the new Council is focussing on making it work, local issues and customer service to ratepayers will suffer;

Support for my local Council to stand alone

- Ryde has no close ties to Parramatta and does not share the same community of interest; the western part of Ryde is separated from Parramatta geographically with the Parramatta River and the Main North Rail Line;
- The Government's proposed split will dissect Macquarie Park, NSW's second largest commercial centre that continues to grow in economic output and jobs growth for Sydney and NSW. The City of Ryde has carefully planned this commercial centre and this will be jeopardised if it is divided between two mega Councils. The proposed splitting of Ryde seriously puts into question the continuation of the sustained and planned growth that has been achieved under the City Ryde's stewardship of Macquarie Park;
- Ryde has a proud history, it is the third oldest local government area in Australia and its heritage should be respected enough not to be split and merged;
- Local Councils are supposed to be local, being close to the people and working with communities to plan for neighbourhoods and town centres;
- If Ryde is split and divided into two mega Councils, the residents will lose and not get the proper services and representation they deserve;
- In addition all residents' access to their Councillors will be reduced, so for Ryde residents this means even less say in our local community;
- An amalgamation will bring the 6 different local council areas together, that are so different it will mean that the communities will get a one size-fits-all services, instead of services that are customised for each community of interest;
- City of Ryde is providing the services that the community needs and expects;
- City of Ryde is financially sound, so why is there a need to amalgamate; and
- Residents have excellent access to our 12 Councillors now and they focus on the City of Ryde. We will not have this close relationship under an amalgamation.

I believe that State Government should work with councils to find a better way to solve problems and to address future goals, instead of using amalgamations as a one size- fits- all solution, as bigger is not always better.

If amalgamations do occur, it will be local ratepayers and residents that are expected to pay higher rates, accept reduced access to councillors and have less say in what happens in their neighbourhoods.

I urge the Committee to give these matters close consideration during its deliberations.

Regards

Pro forma G – 7 responses

Support for Local Council Amalgamations

The Director
 General Purpose Standing Committee No. 6
 Parliament House
 Macquarie St
 Sydney NSW 2000
 Fax: (02) 9230 2981

Dear Madam/Sir

Parliamentary Inquiry into the State Government's Fit for the Future Local Government Reform Agenda

In my local government area of Ryde the State Government is proposing:

1. That Ryde be split with one third going to Parramatta, Auburn and Holroyd to make a mega Council for reasons including:
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 - Close functional interaction and economic/social links between these councils;
 - Need for stronger unified local government to develop Parramatta as the second CBD;
 - Parramatta's northern boundary is very close to its CBD; relocation to M2 would facilitate planning and improve socio-economic mix and community linkages; and
 - Incorporating part of Ryde would strengthen link between Parramatta and 'Global Sydney Corridor' and improve scope for integrated planning around Epping station.
2. Amalgamation of the remaining two thirds of Ryde with Hunter's Hill, Lane Cove, Mosman, North Sydney and Willoughby Councils for reasons including:
 - The new Council will have a projected 2031 population of 365,400;
 - Close functional interaction and economic/social links between these Councils;
 - Need for integrated planning for major centres, Sydney Harbour foreshores, etc ; and
 - 3 of these Councils are projected to have fewer than 50,000 people in 2031.

I agree with this approach of the State Government for Ryde for these reasons:

- Amalgamations are likely to make councils more financially efficient in the long run;
- Amalgamations will provide one big Council with a bigger rate base that can employ more staff to provide more services as a Council;
- I support Parramatta to become a better performing Council and CBD, which is to everyone's benefit;
- I am hopeful that my rates will reduce;
- Whilst an amalgamated Council will reduce Councillor representation, a bigger Council can do more at the regional level and form stronger partnerships with State Government; and
- I believe that State Government has the right solution and it should be supported.

Pro forma H – 133 responses

City of Ryde to Stand Alone and establish a
Regional Partnership with neighbouring Councils

The Director
General Purpose Standing Committee No. 6
Parliament House
Macquarie St
Sydney NSW 2000
Fax: (02) 9230 2981

Dear Madam/Sir

Parliamentary Inquiry into the State Government's Fit for the Future Local Government Reform Agenda

In my local government area of Ryde the State Government is proposing:

1. That Ryde be split with one third going to Parramatta, Auburn and Holroyd to make a mega Council for reasons including:
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 - Close functional interaction and economic/social links between these Councils;
 - Need for integrated planning for major centres, Sydney Harbour foreshores, etc ; and
 - 3 of these Councils are projected to have fewer than 50,000 people in 2031.

I **disagree** with this approach of the State Government to split the City of Ryde and force amalgamations.

I **support** what my local Council, the City of Ryde is proposing: for Ryde to stand alone and continue to deliver local services and address local issues, in addition to working in partnership with neighbouring Councils, Lane Cove and Hunters Hill on regional matters to achieve efficiencies through shared services.

I support the City of Ryde's approach for these reasons:

- It is a win-win solution for local communities and the State Government;
- Instead of one-size-fits-all, the regional partnership model would mean local issues stay local and regional matters are dealt with at the regional level by the three Councils working together;

City of Ryde to Stand Alone and establish a
Regional Partnership with neighbouring Councils

- ☒ This solution is a much cheaper option, not confusing or disrupting for ratepayers and we get to keep our high level of access to our local representatives and be able to participate in local decisions that affect our neighbourhoods and suburbs;
- ☒ It would also mean that Ryde is not split and keeps its local identity and its proud heritage does not disappear;
- ☒ The State Government will get what it wants, which is to deal with one organisation on subregional matters instead of three, with local government working together in planning and identifying priorities for the region;
- ☒ Through a regional partnership with Lane Cove and Hunters Hill the community will get a more powerful voice to advocate on critical regional planning and infrastructure matters like schools, hospitals and transport issues;
- ☒ A regional partnership also means that Councils could share delivery of some services and save money. It means that they can gain more buying power in the market, all of this will save the ratepayer money;
- ☒ Local Councils are supposed to be local, being close to the people and working with communities to plan for neighbourhoods and town centres;
- ☒ If Ryde is split and divided into two mega Councils, the residents will lose and not get the proper services and representation they deserve;
- ☒ Ryde has no close ties to Parramatta and does not share the same community of interest; the western part of Ryde is separated from Parramatta geographically with the Parramatta River and the Main North Rail Line;
- ☒ The Government's proposed split will dissect Macquarie Park, NSW's second largest commercial centre that continues to grow in economic output and jobs growth for Sydney and NSW. The City of Ryde has carefully planned this commercial centre and this will be jeopardised if it is divided between two mega Councils. The proposed splitting of Ryde seriously puts into question the continuation of the sustained and planned growth that has been achieved under the City of Ryde's stewardship of Macquarie Park.

The Government has not provided any evidence that amalgamations will benefit communities, especially in non-financial ways.

I believe that the Committee should consider the benefits of partnerships and the joint collaboration model as proposed by the City of Ryde in preference to using amalgamations as a one size-fits-all solution, as bigger is not always better.

Regards,

Appendix 4 Participants at public forum

Date	Name	Position and Organisation
Monday 10 August 2015 Parliament House	Mr Chris Johnson	Urban Taskforce
	Mr Raffaele Catanzariti	Individual
	Ms Helen McLucas	Individual
	Dr Jayasooriah	Individual
	Ms Rosemary Mackenzie	Individual
	Ms Carolyn Corrigan	Councillor, Mosman Council
	Ms Glenda Gartell	Individual
	Ms Charlotte Hudson	Individual
	Mr Tony Abboud	Ryde Business Forum
	Mr Ian Hammerton	President, Burwood Community Voice
	Ms Jane Pistolese	Individual
	Mr Peter White	Councillor, Mosman Council
	Tuesday 18 August 2015 Armidale City Bowling Club Armidale	Mr Cameron Way
Cr Margaret O'Connor		Councillor, Armidale Dumaresq Council
Ms Maria Hitchcock		Chair, Armidale Dumaresq Ratepayers Association
Professor Hani Soliman		Individual
	Ms Isabel Strutt	Councillor, Uralla Shire Council

Appendix 5 Witnesses at hearings

Date	Name	Position and Organisation
Monday 27 July 2015 Macquarie Room Parliament House	Cr Keith Rhoades	President, Local Government NSW
	Ms Donna Rygate	Chief Executive, Local Government NSW
	Mr Shaun McBride	Senior Strategy Manager, Local Government NSW
	Associate Professor Roberta Ryan	Director, Centre for Local Government, University of Technology Sydney
	Ms Jude Munro	Former member, Independent Local Government Review Panel
	Professor Graham Sansom	Former Chair, Independent Local Government Review Panel
	Cr Peter Abelson	Mayor, Mosman Council
	Mr Tom Sherlock	Councillor, Mosman Council
	Ms Amanda Bray	Director Corporate Governance, Fairfield City Council
	Ms Rhonda Tyne	Director, Community Outcomes, Fairfield City Council
	Cr Mark Gardiner	Mayor, Marrickville Council
	Ms Simone Schwarz	General Manager, Marrickville Council
	Mr Jeff Tate	Director, Jeff Tate Consulting Pty Ltd
	Dr Tim Williams	Chief Executive Officer, The Committee for Sydney
	Mr Eamon Waterford	Head of Strategy and Advocacy, Committee for Sydney
Ms Marcia Doheny	Chief Executive, NSW Office of Local Government	
Mr Steven Orr	Deputy Chief Executive, NSW Office of Local Government	

Date	Name	Position and Organisation
Friday 10 August 2015 Macquarie Room Parliament House	Mr Tim Butler	Director of Corporate & Financial Services, Holroyd Council
	Cr Greg Cummings	Mayor, Holroyd City Council
	Mr Greg Dyer	Chief Executive Officer, Parramatta City Council
	Cr Steven Issa	Deputy Lord Mayor , Parramatta City Council
	Mr Kerry Robinson	General Manager, Blacktown City Council
	Mr Wayne Rogers	Director Corporate Services, Blacktown City Council
	Mr Mark Dunstan	Legal Special Projects Officer, United Services Union
	Mr Stephen Hughes	Manager - North, United Services Union
	Mr Anthony Pizzuto	Vice President, Local Government Professionals Australia NSW
	Mr Barry Smith	President, Local Government Professionals Australia NSW
	Mr Jim Montague PSM	General Manager, Canterbury City Council
	Mr Russell Pigg	General Manager, Shoalhaven City Council
	Cr Steve Russell	Mayor, Hornsby Shire Council
	Cr John Wells	Deputy Mayor, Shoalhaven City Council
	Mr Luke Aitken	Senior Manager, Policy and Advocacy, NSW Business Chamber
	The Hon Patricia Forsythe	Executive Director, Sydney Business Chamber
	Ms Nella Gaughan	Member, Save Our Councils Coalition
	Mr Brian Halstead	Member, Save Our Councils Coalition
	Mr Phil Jenkyn	Member, Save Our Councils Coalition

Date	Name	Position and Organisation
Monday 17 August 2015	Cr Lilliane Brady OAM	Mayor, Cobar Shire Council
Cobar Bowling and Golf Club Cobar	Mr Ross Earl	General Manager, Bourke Shire Council
	Cr Andrew Lewis	Mayor, Bourke Shire Council
	Mr Gary Woodman	General Manager, Cobar Shire Council
	Mr Derek Francis	General Manager, Bogan Shire Council
	Cr Jim Hampstead OAM	Deputy Mayor, Bogan Shire Council
	Ms Therese Manns	General Manager, Broken Hill City Council
	Cr Bill McAnally	Chair, Orana Regional Organisation of Councils (OROC)
	Cr Rex Wilson OAM	Board member, Orana Regional Organisation of Councils (OROC)

Date	Name	Position and Organisation
Monday 17 August 2015 Wagga Wagga RSL Club Wagga Wagga	The Hon Paul Toole MP	Minister for Local Government,
	Ms Corin Moffat	Special Advisor to the Minister for Local Government
	Cr Paul Braybrooks OAM	Chair, Riverina Eastern Regional Organisation of Councils (REROC)
	Mrs Julie Briggs	Executive Officer, Riverina Eastern Regional Organisation of Councils (REROC)
	Cr Terence Hogan	Chair, Riverina and Murray Regional Organisation of Councils (RAMROC)
	Mr Ray Stubbs	Executive Officer, Riverina and Murray Regional Organisation of Councils (RAMROC)
	Mr Desmond Bilske	General Manager, Deniliquin Council
	Cr Ashley Hall	Deputy Mayor, Deniliquin Council
	Mr Anthony McMahon	General Manager, Boorowa Council
	Cr Wendy Tuckerman	Mayor, Boorowa Council
	Cr Patrick Bourke	Mayor, Urana Shire Council
	Mr Adrian Butler	General Manager, Urana Shire Council
Cr Rod Kendall	Councillor, Wagga Wagga City Council	
Mr Phil Pinyon	General Manager, Wagga Wagga City Council	

Date	Name	Position and Organisation
Tuesday 18 August 2015 Armidale City Bowling Club Armidale	Cr Herman Beyersdorf	Deputy Mayor, Armidale Dumaresq Council
	Cr Laurie Bishop	Mayor, Armidale Dumaresq Council
	Mr Damien Connor	General Manager, Uralla Shire Council
	Cr Simon Murray	Councillor, Guyra Shire Council
	Cr Michael Pearce	Mayor, Uralla Shire Council
	Mr Peter Stewart	General Manager, Guyra Shire Council
	Professor Brian Dollery	Director, Centre for Local Government, University of New England
	Dr Joseph Drew	Research Fellow in Local Government, University of New England Business School
	Mr Michael Coulter	General Manager, Nambucca Shire Council
	Mr Scott Greensill	General Manager, Clarence Valley Council
	Cr Rhonda Hoban	Mayor, Nambucca Shire Council
	Mr Steve McGrath	General Manager, Coffs Harbour City Council
	Cr Mark Troy	Mayor, Bellingen Shire Council
	Mr Chris Hodge	Chief Financial Officer, Bellingen Shire Council
Mr Max Eastcott	General Manager, Gwydir Shire Council	
Cr Catherine Egan	Deputy Mayor, Gwydir Shire Council	
Cr Col Murray	Chair, Namoi Councils Joint Organisation	
Cr Russell Webb	Councillor, Tamworth Regional Council	

Date	Name	Position and Organisation
Monday 24 August 2015 Macquarie Room Parliament House	Mr Ray Brownlee	General Manager, Randwick City Council
	Mr Rik Hart	General Manager, Warringah Council
	Mr Michael McDermid	Corporate Planner, Warringah Council
	Cr Clover Moore	Mayor, City of Sydney
	Ms Monica Barone	Chief Executive Officer, City of Sydney
	Cr Michael Regan	Mayor, Warringah Council
	Cr Ted Seng	Mayor, Randwick City Council
	Cr Lindsay Brown	Mayor, Eurobodalla Shire Council
	Dr Catherine Dale	General Manager, Eurobodalla Shire Council
	Ms Gail Connolly	General Manager, City of Ryde Council
	Mr Peter Head	General Manager, Leichhardt Municipal Council
	Ms Rochelle Porteous	Mayor, Leichhardt Municipal Council
	Cr Richard Quinn	Mayor, Hunter's Hill Council
	Mr Craig Wrightson	General Manager, Lane Cove Municipal Council
	Mr Peter J Boxall AO	Chairman, Independent Pricing and Regulatory Tribunal
	Mr John Comrie	Tribunal member, Independent Pricing and Regulatory Tribunal
	Mr Hugo Harmstorf	Chief Executive Officer, Independent Pricing and Regulatory Tribunal
Ms Lucy Garneir	Executive Director, Independent Pricing and Regulatory Tribunal	
Ms Robyn Hobbs	NSW Small Business Commissioner	
Ms Marcia Doheny	Chief Executive, Office of Local Government	
Mr Steve Orr	Deputy Chief Executive, Office of Local Government	

Appendix 6 Tabled documents

Monday 27 July 2015

Parliament House

1. Presentation 'Why Local Government matters', *tendered by Associate Professor Roberta Ryan, Centre for Local Government, University of Technology Sydney*
2. Presentation 'Role and Future of Local Government: Core Questions and Answers', *tendered by Cr Peter Abelson, Mayor, Mosman Council*
3. Opening statement, *tendered by Ms Simone Schwarz, Director, Community Services, Marrickville Council*
4. 'Understanding communities of interest', *tendered by Ms Simone Schwarz, Director, Community Services, Marrickville Council*
5. 'Evidence to inquiry into local government in NSW', *tendered Dr Tim Williams, Chief Executive Officer, Committee for Sydney*

Monday 10 August 2015

Parliament House

6. The development of the new Local Government Act - Phase 1 Amendments, *tendered by Mr Stephen Hughes, Manager – North, United Services Union*
7. Opening statement *tendered by Mr Barry Smith, President, Local Government Professionals Australia NSW*
8. Opening statement, *tendered by Cr John Wells, Deputy Mayor, Shoalhaven City Council*
9. Fit for the Future impact of rates document, *tendered by Cr John Wells, Deputy Mayor, Shoalhaven City Council*
10. Opening statement and USBs with video footage of Save Our Councils Coalition rally and other meetings, *tendered by Ms Nella Gaughan, Save Our Councils Coalition*
11. Additional information *tendered by Rosemary Mackenzie (public forum speaker)*

Monday 17 August 2015

Cobar Golf and Bowling Club

12. Orana Regional Organisation of Councils – Cost Shifting Results 2012, *tendered by Mr Ross Earl, General Manager, Bourke Shire Council.*
13. Warren Shire Council commentary on Fit for the Future initiative, *tendered by Cr Rex Wilson OAM, Orana Regional Organisation of Councils*

Monday 17 August 2015

Wagga Wagga RSL Club

14. Answer to question on notice, question 172, *tabled by Hon Paul Toole MP, Minister for Local Government*
15. Letters from Deniliquin Shire Council, Temora Shire Council and Harden Shire Council complimenting the opportunities provided by the Fit for the Future initiative, *tabled by Hon Paul Toole MP, Minister for Local Government*
16. Opening statement, *tendered by Mr Ray Stubbs, Executive Officer, Riverina and Murray Regional Organisation of Councils*
17. Opening statement and further information to the inquiry, *tendered by Wagga Wagga City Council*

18. Media release by Municipal Association of Victoria about rates prices, *tendered by Mr Desmond Bilske, General Manager, Deniliquin Council*
19. Wagga Wagga Economic Snapshot 2015, *tendered by Mr Phil Pinyon, General Manager, Wagga Wagga City Council*

Tuesday 18 August 2015**Armidale City Bowling Club**

20. Opening statement and Fit for the Future Council Improvement Proposal, *tendered by Cr Laurie Bishop, Mayor, Armidale Dumaresq Council*
21. Graphs demonstrating means efficiency of councils *tendered by Dr Joseph Drew, University of New England Business School*
22. Opening statement, *tendered by Cr Col Murray, Chair, Namoi Councils Joint Organisation*
23. Opening statement, *tendered by Mr Max Eastcott, General Manager, Gwydir Shire Council*
24. Armidale Dumaresq core services to Guyra Council, *tendered by Cr Margaret O'Connor*

Monday 24 August 2015**Parliament House**

25. Correspondence to Premier Mike Baird MP from Sydney Metropolitan Mayors, dated 6 August 2015, *tendered by Cr Clover Moore, Mayor, City of Sydney*
26. Additional information to committee about Vision 2036, *tendered by Mr Peter Head, General Manager, Leichhardt Municipal Council*
27. Two graphs depicting total corporate services percentages of selected Councils and data on the \$1 million a day question for councils, *tendered by Mr Craig Wrightson, General Manager, Lane Cove Municipal Council*
28. List of small business friendly participating councils, *tendered by Ms Robyn Hobbs, Commissioner, Small Business Commission*

Appendix 7 Answers to questions on notice

The committee received answers to questions on notice from the following:

- Committee for Sydney
- Local Government NSW
- NSW Business Chamber and Sydney Business Chamber
- Marrickville Council
- Associate Professor Roberta Ryan
- Parramatta City Council
- Office of Local Government
- Nambucca Shire Council
- Save Our Councils
- Oran Regional Organisation of Councils
- Hornsby Shire Council
- Local Government Professionals Australia (NSW)
- Holroyd City Council
- Office of the NSW Small Business Commissioner
- Shoalhaven City Council
- Coffs Harbour City Council
- Armidale Dumaresq Council
- Bogan Shire Council
- Boorowa Council
- Bellingen Shire Council
- Tamworth Regional Council
- Riverina Eastern Regional Organisation of Councils
- Minister for Local Government
- Randwick City Council
- Warringah Council
- Leichhardt Municipal Council
- City of Sydney
- Independent Pricing and Regulatory Tribunal
- Broken Hill City Council

Appendix 8 Online questionnaire evaluation report

Background

As part of its Inquiry into local government in New South Wales, General Purpose Standing Committee No. 6 trialled an online questionnaire, providing an innovative method for gathering public feedback in relation to a number of matters relevant to the inquiry.

The rationale for conducting an online questionnaire was twofold – first, it would provide a more efficient and effective use of committee resources by reducing the administrative burden of processing submissions; second, it would allow individuals an easily accessible means of participating in the inquiry and informing the committee of their views on local government reform.

The strategy to use online questionnaires for committee inquiries was developed in response to the increasing number of inquiries receiving a high volume of submissions. The majority of submissions for high-volume inquiries are from individual members of the public. These submissions can be very short and often address only one or two matters of interest to the inquiry. The existing practice of processing all such submissions creates an administrative strain on the department.

This method of collecting evidence was innovative for Legislative Council committees, though similar questionnaires have been used previously in the Australian Parliament for committee inquiries.

The online questionnaire did not replace the usual submission process, which was still available for those individuals and organisations who wished to make longer and more detailed responses to the inquiry's terms of reference.

The questionnaire

The online questionnaire consisted of 31 questions drafted by the committee and comprised a mix of multiple choice and open-ended questions. The final list of questions was developed after deliberation by committee, with some discussion about the content and inclusion of various questions. The figure below shows an excerpt from the questionnaire.

Figure 1: Sample questions from the online questionnaire

Online questionnaire for inquiry into local government in NSW

Local councils in NSW and the 'Fit for the Future' reform program

In September 2014, the NSW Government released its 'Fit for the Future' reform program for local government. The 'Fit for the Future' reform package responds to the final recommendations of the Independent Local Government Review Panel and the Local Government Acts Taskforce.

The reforms seek to create councils that are sustainable and efficient; can effectively manage infrastructure and services; and have the scale and capacity to deliver the housing, jobs and local infrastructure people in NSW need.

As part of the program, each local council is required to prepare a 'Fit for the Future' proposal by 30 June 2015 showing how the council will achieve appropriate scale and capacity, and improve its performance against the 'Fit for the Future' benchmarks. The Independent Pricing and Regulatory Tribunal (IPART) has been appointed to undertake the review of councils' proposals and make recommendations to the Minister for Local Government on whether each council is 'Fit for the Future'.

4. Do you support the NSW Government's 'Fit for the Future' reform program?

Yes

No

I don't know

5. Do you think the deadline for councils' submissions to the 'Fit for the Future' reform program is appropriate?

Too short

Appropriate

Too long

I don't know

6. Do you think that the methodology being used by IPART to assess whether a council is 'fit' or 'unfit' is valid and reliable?

Once agreed to, the questionnaire was made live via the Survey Monkey website, with links to the questionnaire posted on the Inquiry's webpage and the Legislative Council's twitter account. The secretariat also provided the link to the questionnaire to Local Government NSW and other major stakeholders for dissemination.

The questionnaire was open from 24 June 2015 until 19 July 2015. The opening date for the questionnaire was somewhat later than the call for submissions, which opened on 28 May 2015.

Responses received

The committee received 795 responses to the questionnaire. Respondents were required to provide name and address details in response to the first question of the questionnaire. Responses that did not meet this requirement were considered invalid and not included in the summary report.

A significant number of respondents did not complete all of the questions. For example, for many of the multiple choice questions there were between 180 and 220 respondents who skipped the question. For a number of the open-ended questions the response rate was lower again.

Not a representative sample

The committee is clear that the online questionnaire was not a statistically valid, random survey. Respondents were self-selected, in that they chose to participate, and therefore may not be considered a representative sample of the population (in the same way that submission authors are self-selected).

Any results from the questionnaire that are included in the committee's report will include this caveat.

Responses to multiple choice questions

A summary report of responses to the multiple choice questions was published on the committee's website.⁶⁴³ The summary report was generated through the Survey Monkey website and outlined the responses for each answer of the multiple choice questions – presenting the information in both graph and table form. The report provided a clear, simple representation of the responses received and was generated with minimal administrative effort required by the secretariat.

Some of the key results from the multiple choice questions are outlined below.

Responses about Fit for the Future and council amalgamations in general

The respondents to the survey appeared to have a reasonable understanding of the Government's Fit for the Future reform package, with 72 per cent of responses claiming to understand the package well or very well.

A slight majority of respondents (57 per cent) stated that they did not support the Fit for the Future reforms and a similar percentage (59 per cent) did not consider the methodology being used by IPART to assess whether councils are 'fit' or unfit' to be valid and reliable.

The majority of respondents (74 per cent) did not support the forced amalgamation of local councils if IPART found that they did not have sufficient scale and capacity.

However, despite the above results, there was significant support for the reform of local government, with 65 per cent of respondents stating that they supported local government reform. The majority of respondents (75 per cent) also considered that councils should make a stronger contribution to regional issues, planning and infrastructure delivery, while 47 per cent of respondents supported further council boundary changes to reflect how communities have changed over time.

Responses relating to the respondent's own council

The responses to question 20 showed that a large proportion of respondents had had some form of contact with their local council in the previous 12 months, with only 11 per cent indicating they had no contact.

Many respondents were satisfied with the functioning and services of their local council, with 48 per cent of respondents providing a rating of satisfied or highly satisfied, 12 per cent were neutral, while 19 per cent were dissatisfied or highly dissatisfied.

⁶⁴³ See

www.parliament.nsw.gov.au/prod/parlament/committee.nsf/0/8BC356B1B716725CCA257E90000F83DF

The majority of respondents (76 per cent) considered that their local council was financially sustainable moving into the future and a similar percentage (75 per cent) believed that amalgamation would not improve their council's financial sustainability.

Responses to open-ended questions

Eight of the questions in the questionnaire sought open-ended responses. The entire collection of responses was provided to the committee on 22 July 2015. A selection of these responses, grouped thematically, is set out on the following pages. The authors of these responses are not identified, other than via their local government area, which is included in brackets following each quote.

Responses relating to the 'Fit for the Future' process

Positive aspects of the Fit for the Future process

- 'Overall, a good initiative to make Councils workable - with fewer elected - but full time Councillors and fewer senior staff- allowing more expertise in new Councils.' (Sutherland)
- 'I support the program in principle, so that Councils can prove their viability, but do not believe they should be forced to amalgamate with other adjoining Councils.' (Holroyd)

Criticism of methodology/focus

- 'The methodology does not appear to take into account community consultation results or anything community focused, like services offered vs need. The way in which councils will be judged is purely on whether or not they are putting in a submission in line with IPART's original recommendations or if they are 'Financially fit' (Holroyd)
- 'A heavy focus on amalgamation as a cure-all. I want my Council to fit its actions and policies to the individual and unique nature of our Shire.' (Kempsey)
- 'It has not been conducted in democratic way. Not enough consultation and simplified information for community members to assess' (Randwick)
- 'This programme is substantially geared to economic considerations which, without close scrutiny could conflict with the central purpose of local Government which is primarily to serve local community needs which remote bodies, however well intentioned, cannot reasonably be expected so to do.' (Pittwater)

Responses relating to the financial sustainability of local councils

Revenue sources

- 'The key issue is the mismatch between the needs and demands of communities and the resources to meet these. It has always been thus: demands are infinite while resources are finite' (Pittwater)
- '[Local governments face] lack of appropriate state and federal funding' (Gwydir)
- 'The lack of a stable, functional, structural strategic planning process or framework through which State and local government collaborate and co-ordinate to develop and modify the strategic plan for NSW ' (Hunters Hill)

Rate pegging

- '[Challenges local government face include] cost shifting from state and federal government on to local government, rate pegging in NSW, poor quality leadership and planning from State Government, [and] loss of well-run council services when they are shut down or privatised' (Canada Bay)
- 'Infrastructure backlog largely as a result of rate pegging which significantly restricts council's ability to generate sufficient income and cost shifting from State Government' (Willoughby)
- '[Challenges facing local governments include] ageing assets and population requiring support with a limited income stream' (Dubbo)

Financial Assistance Grants

- 'Financial sustainability is dependent upon FAGS and no amalgamation with neighbours changes this. Larger scale amalgamations (beyond neighbours) destroys the local in local government' (Jerilderie)
- 'Reform FAGs to ensure funds go where they are needed - should not be population-based. Adequate and reliable funding of infrastructure and maintenance and renewal' (Kyogle)
- 'Non-economic factors are not given the consideration they deserve and appreciate the value residents place them.' (Ku-ring-ai)

Responses relating to council amalgamations***Benefits of amalgamation***

- 'Less duplication, more efficiency' (Willoughby)
- 'Less senior staff - more service delivery' (Sutherland)
- 'Benefits mean more centralised services - more collaboration, not just in the utilities area of waste and roads but in community services as well.' (Lane Cove)
- 'In LGAs where populations are reducing and/or aging there may be some advantages in sharing corporate services and this could provide less cost and impact to businesses and be advantageous for ratepayers. Collaborative marketing etc. could be better for the community and businesses in the entire region.' (Broken Hill)
- '[The] ability to pay fewer staff more money may attract better qualified/experienced staff. Logistical benefits, sharing of knowledge particularly strategic planning/plans across the board. Improved compliance with all types of legislation.' (Kempsey)
- 'More effective use of resources, less duplication and more consistency in the application of planning processes and controls.' (Waverley)
- 'Cheaper to run and more money for community projects' (Waverley)
- 'Scale and capacity in terms of buying power' (Lane Cove)
- 'Would lead to better planning outcomes and more uniform approaches to development' (Hornsby)
- 'More consistent services at reduced costs' (Lane Cove)

Lack of evidence about financial benefits of amalgamation

- ‘From what I have read, interstate experience of amalgamation has not saved money for councils. Amalgamation has also resulted in the need to set up 'parish' councils in some amalgamated councils in order to deal with local affairs. The reduced number of councillors per head of population diminishes representation and is undemocratic.’ (Willoughby)
- ‘There is no evidence to suggest that amalgamations have resulted in improved services or cost savings to rate payers’ (Lake Macquarie)

Costs of amalgamation***Loss of local identity***

- ‘Community would definitely lose out with a large Council where smaller matters will be lost in the administration and each area will be competing for resources with the area with most representation winning out.’ (Lane Cove)
- ‘Each council governs their area according to the needs and wants of their citizens, creating unique communities across Sydney and NSW. Amalgamating these councils dilutes the individuality of some of these areas and could altogether dissolve what makes them appealing in the first place. Additionally, most councils can only support one 'CBD' area - amalgamating smaller councils will make it harder to support multiple commerce areas which impacts both local business owners and provision of services to the community.’ (Lane Cove)
- ‘Reduced local representation, increased middle management costs, poorer understanding of local issues within a super council’ (Balranald)

High establishment costs

- ‘Higher rates, large administration costs in changeover. Little savings in service delivery outcomes. Loss of jobs and intellectual property. Loss of social capital in job losses’ (Lake Macquarie)
- ‘Loss of autonomy, cost of local jobs, waste of currently owned machinery which will become redundant’ (Coffs Harbour)
- ‘Instability of programs and departments that are already working well, danger of "one size fits all" approach for unique issues’ (Hornsby)
- ‘Higher costs. Reduced services. Slower response times.’ (Marrickville)
- ‘Merged Councils will take years to work through the changes with no guarantee of improved services, financial efficiency or improved civic leadership. The costs are a certainty and the benefits a promise.’ (Randwick)

Regional impacts

- ‘Small councils are the major employer in remote communities. Amalgamation usually results in a reduction of staff in the smaller towns with the resultant financial back lash on business, schools and community services in these areas’ (Gwydir)
- ‘It will be the beginning of the end, less jobs, down turn of the real estate market, younger families forced to move or not looking to the region for relocation, lack of consistent supervision for amalgamated council work force in remote location/towns - poor services to our people.’ (Northern Tablelands)

- ‘Allowance should be made for rural and remote local government areas with large areas and small populations. Amalgamation is not the answer. Mergers with a larger regional centre would leave vast areas without adequate representation or key services such as roads’ (Carrathool)
- ‘Having seen the amalgamation of smaller councils into the Tamworth Regional Council I can only see that the larger centres are the only ones who benefit from such amalgamations. As any monies and other assets held by the smaller councils are chewed up by the regional centre. There is a loss of jobs in the smaller centre even if this is not immediate it does happen over time and results in the businesses in the smaller centres having less income and leading to closures in many instances or at the very least a reduction in services.’ (Uralla)
- ‘Councils with small rate bases and large geographical areas (this cannot be solved by shifting boundaries, it just makes it a larger regional council's problem)’ (Greater Hume)
- ‘From personal observation, consequences of amalgamation are: loss of staff in smaller satellite towns, loss of funds available for essential maintenance of infrastructure, focus on larger town, loss of services to outlying areas [and] loss of local service by Councils’ (Gwydir)

Responses relating to the importance of local representation

- ‘[Amalgamation could lead to] lack of access to local agencies, a bit like dealing with state government, distant and unresponsive’ (Wingecaribee)
- ‘[Regarding the impacts of amalgamation] Communities will lose their local voice.’ (Strathfield)
- ‘Council offers a personal service to the residents. Is Government trying to turn it into a faceless beast like itself? Everything online or over the phone? This just isn't good enough. Why are we trying to make the government inaccessible to the common man on the street?’ (Canterbury)
- ‘Maintaining heritage and environmental values, preventing over-development, keeping rates affordable, maintaining the character of our suburbs, giving the community a voice’ (Strathfield)
- ‘I would like to see more genuine representation of the community and its diversity’ (Kogarah)

Some observations of themes and patterns in the survey

- Randwick, Lane Cove, Strathfield and City of Sydney LGAs had a significant response from their residents, who were generally supportive of their local councils and against amalgamation.
- Respondents from rural LGAs were generally against amalgamation. Gwydir, Urana, Walcha had significant response rates.

Use of responses in the committee’s report

It is anticipated that responses to the online questionnaire will feature in the committee’s final report for the inquiry. For multiple choice questions, this would include excerpts of the summary report providing the aggregate responses to relevant questions. For open-ended questions, this would include selected quotes from the responses where relevant.

Evaluation of the online questionnaire process

The committee held a deliberative meeting to discuss the content and number of questions to be included in the questionnaire. An important lesson from this exercise is that framing the questions is an

important part of any online questionnaire or survey process and it was important for the committee to dedicate time to this part of the process early in the inquiry.

The number of responses to the online questionnaire – 795, compared with 204 submissions received – indicates that the questionnaire was a success in terms of reducing the administrative burden of processing submissions, given that past inquiries with similarly high levels of public interest have received significantly higher numbers of submissions.

The questionnaire may have also captured the views of some individuals who might not otherwise have participated in the inquiry, by providing an alternative means for these people to inform the committee of their views.

As the questionnaire was released almost a month after the opening date for submissions, it is possible that some early submission authors would have made use of the online questionnaire instead of making submissions, if it was available earlier.

The summarised report on responses to multiple choice questions provided the committee with a straightforward overview of the responses received. However, the committee must use caution when referring to the percentage results from the report, as the results may not be statistically valid or representative of general population views.

Appendix 9 Minutes

Minutes No. 1

Wednesday 27 May 2015

General Purpose Standing Committee No. 6

Members' Lounge, Parliament House, Sydney, at 2pm

1. **Members present**

Mr Green, *Chair*

Mr Amato, *Deputy Chair*

Ms Cusack

Mr Farlow

Mr Mookhey

Mr Shoebridge

Mr Wong

2. ***

3. ***

4. ***

5. ***

6. ***

7. **Inquiry into local government in New South Wales**

7.1 **Terms of reference**

The committee noted the following terms of reference referred by the House on 27 May 2015:

1. That General Purpose Standing Committee No. 6 inquire into and report on local government in New South Wales and in particular:
 - (a) the New South Wales Government's 'Fit for the Future' reform agenda,
 - (b) the financial sustainability of the local government sector in New South Wales, including the measures used to benchmark local government as against the measures used to benchmark State and Federal Government in Australia,
 - (c) the performance criteria and associated benchmark values used to assess local authorities in New South Wales,
 - (d) the scale of local councils in New South Wales,
 - (e) the IPART role in reviewing the future of local government in New South Wales, assisted by a South Australian commercial consultant,
 - (f) the appropriateness of the deadline for 'Fit for the Future' proposals,
 - (g) costs and benefits of amalgamations for local residents and businesses,
 - (h) evidence of the impact of forced mergers on council rates drawing from the recent Queensland experience and other forced amalgamation episodes,
 - (i) evidence of the impact of forced mergers on local infrastructure investment and maintenance,

- (j) evidence of the impact of forced mergers on municipal employment, including aggregate redundancy costs,
 - (k) the known and or likely costs and benefits of amalgamations for local communities,
 - (l) the role of co-operative models for local government including the 'Fit for the Futures' own Joint Organisations, Strategic Alliances, Regional Organisations of Councils, and other shared service models, such as the Common Service Model,
 - (m) how forced amalgamation will affect the specific needs of regional and rural councils and communities, especially in terms of its impact on local economies,
 - (n) protecting and delivering democratic structures for local government that ensure it remains close to the people it serves,
 - (o) the impact of the 'Fit for the Future' benchmarks and the subsequent Independent Pricing and Regulatory Tribunal performance criteria on councils' current and future rate increases or levels, and
 - (p) any other related matter.
2. That with the agreement of the committee participating members' travel costs be covered by the committee.
 3. That the committee report by Monday 17 August 2015, unless the committee resolves to table at a later date.

7.2 Closing date for submissions

Resolved, on the motion of Mr Shoebridge: That the closing date for submissions be Sunday, 5 July 2015.

7.3 Hearing dates

Resolved, on the motion of Mr Shoebridge: That the dates for hearings and site visits be determined by the Chair, after consultation with members regarding their availability, with a view to conducting two Sydney hearings and two regional hearings, subject to receipt of submissions.

7.4 Stakeholder list

Resolved, on the motion of Mr Shoebridge: That the secretariat email members with a list of stakeholders to be invited to make written submissions, and that members have until 12pm, Monday 1 June 2015 to nominate additional stakeholders. In addition, a stakeholder letter should be sent to every local council within New South Wales with a request that the letter be forwarded to every councillor.

7.5 Advertising

Resolved, on the motion of Mr Shoebridge: That the committee advertise the inquiry through twitter, stakeholder letters, and a media release distributed to all media outlets in New South Wales.

8. Next meeting

The committee adjourned at 2.20 pm, *sine die*.

Madeleine Foley
Committee Clerk

Minutes no. 2

Monday 22 June 2015
General Purpose Standing Committee No. 6
Room 1136, Parliament House, Sydney at 12 pm

1. Members present

Mr Green, *Chair*

Mr Amato, *Deputy Chair*

Ms Cusack

Mr Franklin (substituting for Mr Farlow for the duration of the Inquiry into local government in NSW)

Mr Primrose (substituting for Mr Mookhey for the duration of the Inquiry into local government in NSW)

Mr Shoebridge (via teleconference)

Mr Wong

2. Previous minutes

Resolved, on the motion of Mr Wong: That draft Minutes No. 1 be confirmed.

3. Correspondence

The Committee noted the following items of correspondence:

Received:

- 28 May 2015 – Email from the Opposition Whip to the Director advising that Mr Primrose will be substituting for Mr Mookhey, and that Ms Cotsis will be a participating member, both for the duration of the Inquiry into local government in NSW.
- 10 June 2015 – Letter from Dr Fran Flavel, Corporate Strategy and Planning Manager, Port Stephens Council, to the Director advising that Port Stephens Council will not be making a submission to the inquiry.
- 18 June 2015 – Letter from Government Whip to the Director advising that Mr Franklin will be substituting for Mr Farlow for the duration of the Inquiry into local government in NSW.

4. Inquiry into local government in NSW

4.1 Online questionnaire

The committee considered a proposal to trial an online questionnaire for the inquiry, to provide an alternative way for individuals to participate in the inquiry process.

Mr Shoebridge moved: That the committee proceed with the trial of an online questionnaire for the inquiry.

Question put.

The committee divided.

Ayes: Mr Green, Mr Primrose, Mr Shoebridge and Mr Wong

Noes: Mr Amato, Ms Cusack, Mr Franklin

Question resolved in the affirmative.

The committee considered the Chair's draft list of questions for the online questionnaire, including amendments proposed prior to the meeting by members.

Resolved, on the motion of Mr Shoebridge: That the proposed questions, as amended by the committee, be endorsed for inclusion in the online questionnaire, with a closing date of 19 July 2015.

4.2 Inquiry timeline

The committee considered the timeline of activities planned for the inquiry into local government in NSW, and noted that submission extensions would be granted on a discretionary basis, in line with standard practice.

4.3 Site visit locations

Resolved, on the motion of Mr Franklin: That the committee conduct site visits to:

- Cobar and Wagga Wagga on 17 August 2015
- Armidale on 18 August 2015.

5. Adjournment

The committee adjourned at 1.04 pm until 9.30 am on Wednesday, 24 June 2015.

John Miller
Clerk to the Committee

Minutes no. 3

Wednesday 24 June 2015
 General Purpose Standing Committee No. 6
 Waratah Room, Parliament House, Sydney at 9.35 am

1. Members present

Mr Green, *Chair*
 Mr Amato, *Deputy Chair*
 Mr Borsak (participating member)
 Ms Cotsis (participating member)
 Ms Cusack
 Mr Franklin
 Mr Primrose
 Mr Shoebridge
 Mr Wong

2. Inquiry into local government in NSW

2.1 Briefing by the Office of Local Government

The committee was briefed by the following staff of the Office of Local Government, who provided background information on the issues being considered in the inquiry:

- Ms Marcia Doheny, Chief Executive,
- Mr Steve Orr, Deputy Chief Executive,
- Mr Keith Baxter, Manager Innovation.

2.2 Draft hearing schedule for 27 July 2015

The committee considered a draft hearing schedule for 27 July 2015 and agreed to consider the nomination of additional witnesses via email after the meeting.

3. Adjournment

The meeting adjourned at 10.35 am, *sine die*.

John Miller
Clerk to the Committee

Minutes no. 5

Monday 27 July 2015
 General Purpose Standing Committee No. 6
 Macquarie Room, Parliament House, Sydney at 9.00 am

1. Members present

Mr Green, *Chair*
 Mr Amato, *Deputy Chair*
 Mr Borsak (participating member)
 Ms Cotsis (participating member) (from 10.00am to 2.30pm)

Mr Franklin
Mrs Maclaren-Jones (substituting for Ms Cusack)
Mr Primrose
Mr Shoebridge
Mr Wong (until 3.45 pm)

2. Inquiry into local government in NSW – Public hearing

Witnesses, the public and the media were admitted.

The Chair made an opening statement regarding the broadcasting of proceedings and other matters.

The following witnesses were sworn and examined:

- Ms Marcia Doheny, Chief Executive, Office of Local Government
- Mr Steve Orr, Deputy Chief Executive, Office of Local Government.

Ms Cotsis joined the meeting.

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Cr Keith Rhoades, President, Local Government NSW
- Ms Donna Rygate, Chief Executive, Local Government NSW
- Mr Shaun McBride, Senior Strategy Manager, Local Government NSW.

The evidence concluded the witnesses withdrew.

The following witness was sworn and examined:

- Associate Professor Roberta Ryan, Centre for Local Government, University of Technology, Sydney.

Dr Ryan tendered the following document:

- ‘Why local government matters: Presented by Associate Professor Roberta Ryan’.

The evidence concluded and the witness withdrew.

The following witnesses were sworn and examined:

- Professor Graham Sansom, former Chair, Independent Local Government Review Panel
- Ms Jude Munro, former member, Independent Local Government Review Panel.

The evidence concluded and the witnesses withdrew.

3. Inquiry into local government in NSW – Deliberative meeting

3.1 Previous minutes

Resolved, on the motion of Mr Wong: That draft minutes nos. 2 and 3 be confirmed.

3.2 Correspondence

The Committee noted the following items of correspondence:

Received:

- 29 June 2015 – Email from Mr Stephen Town, Chief Executive, Auckland Council to the Director advising that Auckland Council would not be making a formal submission, but providing background information about the formation of Auckland Council.
- 7 July 2015 – Email from Mr John Comrie declining invitation to make a submission.

- 14 July 2015 – Email from Government Whip to the Director advising that Mrs Maclaren-Jones will be substituting for Ms Cusack for 27 July 2015.
- 15 July 2015 – Email from Mr Garry McDouall, Bingara & District Vision2020 enclosing copy of their submission to IPART.
- 17 July 2015 – Emails from Office of Local Government enclosing information requested by the committee at 24 June briefing.

Resolved, on the motion of Mr Primrose: That the committee authorise the publication of correspondence from the Office of Local Government received 17 July 2015.

3.3 Participating members

The inquiry terms of reference provide for participating members' travel costs to be covered, with the agreement of the committee.

Resolved, on the motion of Mr Shoebridge: That, as participating members for the duration of the inquiry into local government in NSW, Mr Borsak and Ms Cotsis:

- have their travel expenses relating to the site visit on 17/18 August 2015 covered by the committee; and
- be provided with unpublished submissions and meeting papers during the inquiry.

3.4 Travel by charter plane

The committee is conducting site visits to Cobar/Wagga Wagga on 17 August and Armidale on 18 August 2015.

The secretariat has compared the feasibility of travelling via commercial flights and by charter plane for each of these site visits. Due to the multiple stop nature of the site visits commercial planes either do not service the required or nearby airports or do not service the sequence of stops.

Travelling on charter plane also allows for the possibility of officers from the Legislative Council's Training and Research section to accompany the committee to conduct educational outreach activities with local school students in Armidale.

Preliminary quotes for the total charter cost of the three site visits range from \$21,900 to \$23,777. The committee will depart from Bankstown Airport to avoid potential delays at Mascot.

Resolved, on the motion of Mr Primrose: That the committee authorise the use of a charter plane for the site visits to Cobar, Wagga Wagga and Armidale.

3.5 Public forums

Resolved, on the motion of Mr Shoebridge: That the committee hold public forums following the public hearings in Sydney on 10 August, Wagga Wagga on 17 August and Armidale on 18 August 2015; and that in relation to the public forums:

- forum participants should pre-register with the secretariat prior to the hearing dates;
- each participant be allocated up to five minutes to speak, and if the participant runs overtime they will be given an opportunity to incorporate the remainder of their statement in the transcript;
- participants will be sworn;
- members are requested not to ask questions of participants as the forums are intended to allow people to have their say on the matter; and
- if the number of registered participants exceeds the time available for the forums, the secretariat will propose a selection of participants to the committee, taking into account a variety of factors.

3.6 Public submissions

The following submissions were published by the committee clerk under the authorisation of the resolution appointing the committee: submission nos. 1-3, 5-11, 13-18, 20, 22-26, 29-32, 34-39, 41-57, 59-109, 111-126, 128-155, 157-160, 181-183, 186 and 132a.

3.7 Partially confidential submissions – name suppressed

The following submissions were partially published by the committee clerk under the authorisation of the resolution appointing the committee: submission nos. 12, 19, 21, 27, 33, 40 and 156.

Resolved, on the motion of Mr Shoebridge: That the committee keep the following information confidential, as per the request of the author: names and/or identifying and sensitive information in submissions nos. 12, 19, 21, 27, 33, 40 and 156.

3.8 Partially confidential submissions – for consideration

Resolved, on the motion of Mr Shoebridge: That the committee authorise the publication of:

- submission no. 110, with the exception of the last paragraph of page 1 and first 4 paragraphs of page 2, as per the request of the author;
- submission no. 28, with the exception of potential adverse mention which is to remain confidential, as per the recommendation of the secretariat.

3.9 Confidential submissions

Resolved, on the motion of Mr Shoebridge: That the committee keep submission nos 4, 58 and 127 confidential, as per the request of the author

3.10 Report on online questionnaire

Resolved, on the motion of Mr Shoebridge: That the committee publish the summary report of responses to the multiple choice questions in the online questionnaire and make the report available on the website.

3.11 Declaration

Mr Amato noted that he is currently a serving a councillor on Wollondilly Shire Council. Mr Amato informed the committee that he had sought advice from the Clerks and had been advised that as the inquiry is on a matter of State policy this does not represent a direct pecuniary interest under Standing Order 210 (10).

4. Inquiry into local government in NSW – Public hearing

The following witnesses were sworn and examined:

- Ms Amanda Bray, Director, Corporate Governance, Fairfield City Council
- Ms Rhonda Tyne, Director, Community Outcomes, Fairfield City Council
- Cr Mark Gardiner, Mayor, Marrickville Council
- Ms Simone Schwarz, Director, Community Services, Marrickville Council
- Cr Peter Abelson, Mayor, Mosman Council
- Cr Tom Sherlock, Mosman Council.

Ms Schwarz tendered the following documents:

- ‘Marrickville Council: Understanding communities of interest, Attachment 6a’
- Opening statement.

Cr Abelson tendered the following document:

- ‘Role and Future of Local Government: Core Questions and Answers – Presentation to Legislative Council Inquiry into Local Government’.

Ms Cotsis left the meeting.

The evidence concluded and the witnesses withdrew.

The following witness was sworn and examined:

- Mr Jeff Tate, Director, Jeff Tate Consulting and former consultant, Independent Local Government Review Panel.

The witness withdrew.

The following witness was sworn and examined:

- Dr Tim Williams, Chief Executive Officer, Committee for Sydney.
- Mr Eamon Waterford, Head of Strategy and Advocacy, Committee for Sydney

Dr Williams tendered the following document:

- 'Evidence to inquiry into local government in NSW'.

The evidence concluded and the witness withdrew.

5. Inquiry into local government in NSW – Deliberative meeting

5.1 Additional witness

Resolved, on the motion of Mr Franklin: That Clarence Valley Council, and a local community group from the Clarence Valley, be invited to the public hearing in Armidale on 18 August 2015.

5.2 Tended documents

Resolved, on the motion of Mrs Maclaren Jones: That the committee accept and publish the following documents tendered during the hearing:

- Presentation 'Why Local Government matters' - Associate Professor Roberta Ryan, Centre for Local Government, University of Technology Sydney
- Presentation 'Role and Future of Local Government: Core Questions and Answers – Cr Peter Abelson, Mayor, Mosman Council
- Opening statement - Ms Simone Schwarz, Director, Community Services, Marrickville Council
- 'Understanding communities of interest' - Ms Simone Schwarz, Director, Community Services, Marrickville Council
- 'Evidence to inquiry into local government in NSW' – Committee for Sydney

6. Adjournment

The committee adjourned at 5.40 pm until 10 August 2015.

John Miller

Clerk to the Committee

Minutes no. 6

Monday 10 August 2015

General Purpose Standing Committee No. 6

Macquarie Room, Parliament House, at 9.36 am

1. Members present

Mr Green, *Chair*

Mr Amato, *Deputy Chair*

Ms Cotsis (participating member, arrived 6.05 pm)

Ms Cusack

Mr Franklin

Mr Primrose

Mr Shoebridge

Mr Wong (arrived 9.45 am)

Mr Borsak (participating member)

2. Previous minutes

Resolved, on the motion of Mr Amato: That draft minutes no. 5 be confirmed.

3. Correspondence

The committee noted the following items of correspondence:

Received:

- 3 August 2015 - The Hon. Shaoquett Moselmane MLC, Opposition Whip advising he will be substituting for Mr Ernest Wong on the site visit to Cobar, Wagga Wagga and Armidale on 17 and 18 August 2015
- 3 August 2015 Email from Barry Smith, General Manager, Hunters Hill Council, Craig Wrightson, General Manager, Lane Cove Council and Gail Connelly, General Manager, Ryde City Council requesting to appear at hearing and enclosing information on the proposed Joint Regional Authority
- 28 July 2015 Email from Ms Laura Clarke, Office of the Minister for Regional Development, Skills, Small Business, forwarding list of witnesses to accompany the Minister to the Budget Estimates hearing on 4 September 2015
- 30 July 2015 Email from Ms Katrina Carlon, Office of the Minister for Local Government, forwarding list of witnesses accompany the Minister to the Budget Estimates hearing on 4 September 2015
- 31 July 2015 Email from Ms Sara Potts, Office of the Minister for Corrections, Emergency Services, Veterans Affairs, forwarding list of witnesses to accompany the Minister to the Budget Estimates hearing on 4 September 2015
- 31 July 2015 Email from Mr Tom Green, Office of the Minister for Innovation and Better Regulation, forwarding list of witnesses to accompany the Minister to the Budget Estimates hearing on 3 September 2015

Sent:

- 24 July 2014 – Letter from Committee Director to the Hon Victor Dominello MP, Minister for Innovation and Better Regulation, inviting the Minister to the Budget Estimates 2015-2016 hearings
- 24 July 2014 – Letter from Committee Director to the Hon Paul Toole MP, Minister for Local Government, inviting the Minister to the Budget Estimates 2015-2016 hearings
- 24 July 2014 – Letter from Committee Director to the Hon John Barilaro MP, Minister for Regional Development, Minister for Skills and Minister for Small Business, inviting the Minister to the Budget Estimates 2015-2016 hearings
- 24 July 2014 – Letter from Committee Director to the David Elliot MP, Minister for Corrections, Minister for Emergency Services and Minister for Veterans Affairs, inviting the Minister to the Budget Estimates 2015-2016 hearings.

4. ***

5. Inquiry into local government in New South Wales

5.1 Site visit to Cobar, Wagga Wagga and Armidale on 17 and 18 August

The committee noted the departure time of 7.30 am from Bankstown airport on Monday, 17 August 2015.

5.2 Public submissions

The committee noted that the following submissions were published by the committee clerk under the authorisation of the resolution appointing the committee: submission nos. 161, 162, 164-166, 168, 169, 171-173, 177, 179 -191, 194, 196, and 198-200.

5.3 Partially confidential submissions

Resolved, on the motion of Mr Primrose: That the committee keep the following information confidential, as per the request of the author: names and/or identifying and sensitive information in submissions nos. 53, 163, 167, 175, 178.

5.4 Confidential submissions

Resolved, on the motion of Ms Cusack:

- That the committee keep submission no. 170 and 193 confidential, as per the request of the author;
- That the committee keep submission no. 174 confidential, as per the recommendation of the secretariat, as it contains potential adverse mention.

5.5 Pro forma submissions

Resolved, on the motion of Mr Franklin: That the committee publish one copy of each pro forma on its website, noting the number of copies that have been received.

5.6 Answers to questions on notice and supplementary questions

The committee noted the following answers to questions on notice and supplementary questions published by the committee clerk under the authorisation of the resolution appointing the committee:

- answers to questions on notice from Ms Toni Allan, Local Government NSW, received 27 July 2015.

5.7 Reporting date

Resolved, on the motion of Mr Shoebridge: That the committee extend the reporting date to Friday, 30 October 2015, noting that it is not the committee's present intention to hold additional hearings after 24 August 2015.

5.8 Public hearing

Witnesses, the public and media were admitted.

The Chair made an opening statement regarding the broadcasting of proceedings and other matters.

The following witnesses were sworn and examined:

- Mr Kerry Robinson, General Manager, Blacktown City Council
- Mr Wayne Rogers, Director of Corporate Services, Blacktown City Council
- Cr Greg Cummings, Mayor, Holroyd City Council
- Mr Tim Butler, Director of Corporate and Financial Services, Holroyd City Council
- Cr Steven Issa, Deputy Lord Mayor, Parramatta City Council
- Mr Greg Dyer, General Manager, Parramatta City Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Mark Dunstan, Legal Special Projects Officer, United Services Union
- Mr Stephen Hughes, Manager – North, United Services Union

Mr Hughes tendered the following document:

- The development of the new Local Government Act - Phase 1 Amendments

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Barry Smith, President, Local Government Professionals Australia NSW
- Mr Anthony Pizzuto, Vice President, Local Government Professionals Australia NSW

Mr Smith tendered the following document:

- Opening statement

Mr Franklin tabled the following document:

- Correspondence from Chief Executive Officer Local Government Professionals Australia, NSW to Minister for Local Government, dated 5 September 2014.

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Cr Steve Russell, Mayor, Hornsby Shire Council
- Mr Russell Pigg, General Manager, Shoalhaven City Council
- Cr John Wells, Deputy Mayor, Shoalhaven City Council
- Mr Jim Montague PSM, General Manager, Canterbury City Council

Cr Wells tendered the following documents:

- Opening statement
- Fit for the Future impact on rates

Ms Cusack tabled the following document:

- Information sheet from Canterbury Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Luke Aitken, Senior Manager, Policy and Advocacy, NSW Business Chamber
- The Hon Patricia Forsythe, Executive Director, Sydney Business Chamber

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Ms Nella Gaughan, Member, Save Our Councils Coalition
- Mr Brian Halstead, Member, Save Our Councils Coalition
- Mr Phill Jenkyn, Member, Save Our Councils Coalition

Ms Gaughan tabled the following documents:

- A copy of opening statement and nine USBs providing information about Save Our Councils Coalition

The evidence concluded and the witnesses withdrew.

The public and the media withdrew.

The public hearing concluded at 5.40 pm.

5.9 Public forum

The public forum commenced at 6.00 pm.

Ms Cotsis joined the meeting.

The Chair made an opening statement regarding the broadcasting of proceedings and the procedures applying to the public forum.

The following persons appeared before the committee:

- Mr Chris Johnson, Urban Taskforce
- Mr Raffaele Catanzariti
- Ms Helen McLucas
- Dr Jayasooriah
- Ms Rosemary Mackenzie
- Ms Carolyn Corrigan, Councillor, Mosman Council
- Ms Glenda Gartell
- Ms Charlotte Hudson
- Mr Tony Abboud, Ryde Business Forum
- Mr Ian Hammerton, President, Burwood Community Voice
- Ms Jane Pistolese
- Mr Peter White, Councillor, Mosman Council

Ms Mackenzie tabled the following documents:

- Additional information provided by Ms Mackenzie

The public forum concluded at 7.10 pm.

6. Adjournment

The committee adjourned at 7.10 pm, until Monday 17 August 2015, 7.30 am, Bankstown Airport (site visit).

John Miller
Clerk to the Committee

Minutes no. 9

Tuesday 18 August 2015

General Purpose Standing Committee No. 6

Tops Room, Armidale City Bowling Club, Armidale, at 11.00 am

1. Members present

Mr Green, *Chair*

Mr Amato, *Deputy Chair*

Ms Cusack (until 3.40 pm)

Mr Franklin

Mr Primrose

Mr Shoebridge

Mr Moselmane (substituting for Mr Wong 17 and 18 August 2015)
Mr Borsak (participating member)

2. Inquiry into local government in New South Wales

2.1 Public hearing – Armidale

Witnesses, the public and media were admitted.

The Chair made an opening statement regarding the broadcasting of proceedings and other matters.

The following witnesses were sworn and examined:

- Cr Laurie Bishop, Mayor, Armidale Dumaresq Council
- Cr Herman Beyersdorf, Deputy Mayor, Armidale Dumaresq Council
- Mr Damien Connor, General Manager, Uralla Shire Council
- Cr Michael Pearce, Mayor, Uralla Shire Council
- Mr Peter Stewart, General Manager, Guyra Shire Council
- Cr Simon Murray, Councillor, Guyra Shire Council

Cr Bishop tendered the following document:

- Opening statement and Fit for the Future Council Improvement Proposal

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Professor Brian Dollery, University of New England (via Skype)
- Dr Joseph Drew, Research Fellow in Local Government, University of New England Business School

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Scott Greensill, General Manager, Clarence Valley Council
- Mr Michael Coulter, General Manager, Nambucca Shire Council
- Cr Rhonda Hoban, Mayor, Nambucca Shire Council
- Mr Steve McGrath, General Manager, Coffs Harbour City Council
- Mr Chris Hodge, Chief Financial Officer, Bellingen Shire Council
- Cr Mark Troy, Mayor, Bellingen Shire Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Cr Col Murray, Chair, Namoi Councils Joint Organisation
- Mr Max Eastcott, General Manager, Gwydir Shire Council
- Cr Catherine Egan, Deputy Mayor, Gwydir Shire Council
- Cr Russell Webb, Councillor, Tamworth Regional Council

The evidence concluded and the witnesses withdrew.

The public hearing concluded at 3.35 pm.

Ms Cusack left the meeting.

2.2 Public forum

The public forum commenced at 3.42 pm.

The Chair made an opening statement regarding the broadcasting of proceedings and the procedures applying to the public forum.

The following persons appeared before the committee:

- Mr Cameron Way
- Cr Margaret O'Connor, Armidale Dumaresq Council
- Ms Maria Hitchcock, Armidale Dumaresq Ratepayers Association Inc.
- Prof. Dr. Hani Soliman
- Cr Isabel Strutt, Uralla Shire Council

Cr O'Connor tendered the following document:

- Armidale Dumaresq core services to Guyra Council

The public forum concluded at 4.14 pm.

The public and media withdrew.

2.3 Tendered documents during the hearing

Resolved, on the motion of Mr Franklin: That the committee accept and publish the following documents tendered during the public hearing:

- Opening statement and Fit for the Future Council Improvement Proposal, tendered by Cr Laurie Bishop, Mayor, Armidale Dumaresq Council
- Armidale Dumaresq core services to Guyra Council, tendered by Cr Margaret O'Connor

2.4 Office of Local Government appearance on 24 August

Resolved, on the motion of Mr Shoebridge: That the committee allocate 1 hour and 15 minutes to the Office of Local Government at the public hearing on 24 August.

3. Adjournment

The committee adjourned at 4.20 pm, until 9.30 am, Monday 24 August 2015 (public hearing).

John Miller

Clerk to the Committee

Minutes no. 10

Monday 24 August 2015

General Purpose Standing Committee No. 6

Macquarie Room Parliament House, at 9.50 am

1. Members present

Mr Green, *Chair*

Mr Amato, *Deputy Chair*

Ms Cusack

Mr Franklin

Mr Primrose (until 3.30 pm)

Mr Shoebridge

Mr Wong

Mr Borsak (participating member)

2. Previous minutes

Resolved, on the motion of Mr Franklin: That draft minutes nos. 8 and 9 be confirmed.

3. Correspondence

The committee noted the following item of correspondence:

Received:

- 14 August 2015 – Ms Lynne Czinner, former Pittwater councillor, commenting on evidence given at the hearing on 10 August 2015.

4. Inquiry into local government in New South Wales

4.1 Public submissions

The following submissions were published by the committee clerk under the authorisation of the resolution appointing the committee: submission nos. 203, 204 and 205.

4.2 Answers to questions on notice

The following answers to questions on notice and supplementary questions were published by the committee clerk under the authorisation of the resolution appointing the committee:

- Answers to questions on notice from NSW Business Chamber and Sydney Business Chamber, received 20 August 2015
- Answers to supplementary questions from Marrickville City Council, received 21 August 2015
- Answers to supplementary questions from Office of Local Government, received 22 August 2015.

The committee noted email correspondence from Mr Mark Kay, Executive Officer, Office of Local Government, dated 22 August 2015 providing the answers to supplementary questions and advising that the answers to questions on notice would be tabled during the hearing on 24 August 2015. The committee noted that the answers to supplementary questions had been provided a day after the due date.

Resolved, on the motion of Mr Shoebridge: That the committee note that the failure of the Office of Local Government (OLG) to provide the answers to questions on notice by the requested date is grossly unsatisfactory, and that the committee request that OLG provide the answers without delay. Further, if the delay in providing the answers compromises the committee's capacity to ask questions of OLG witnesses during today's hearing, the committee may decide to recall the witnesses. The committee requested that the secretariat inform the OLG of this resolution as soon as possible.

5. Potential site visit to Auckland

Resolved, on the motion of Ms Cusack: That:

- the committee note its in-principle support for visiting Auckland, New Zealand, subject to the secretariat providing the committee with a cost analysis for the committee's consideration
- pending the committee's approval of potential costs, the chair, as required under Standing Order 208(d), seek the authorisation of the House and the approval of the President to travel outside Australia
- the committee note the purpose of the visit will be to meet with representatives from Auckland Council and others, in order to gain evidence on the process and outcomes of the amalgamation of councils in Auckland into a unitary authority in 2010.

6. Correspondence regarding submission no. 190

Resolved, on the motion of Mr Shoebridge: That in response to the email from Ms Margaret Hogg, the author of submission no. 190, the committee write to the person who contacted Ms Hogg regarding her submission to suggest that he raise any concerns directly with the committee rather than with the submission author.

7. **Public hearing**

Witnesses, the public and media were admitted.

The Chair made an opening statement regarding the broadcasting of proceedings and other matters.

The following witnesses were sworn and examined:

- Mr Rik Hart, General Manager, Warringah Council
- Mr Michael McDermid, Corporate Planning Manager, Warringah Council
- Cr Michael Regan, Mayor, Warringah Council
- Cr Ted Seng, Mayor, Randwick City Council
- Mr Ray Brownlee, General Manager, Randwick City Council
- Cr Clover Moore, Mayor, City of Sydney Council
- Ms Monica Barone, Chief Executive Officer, City of Sydney Council

Cr Moore tendered the following document:

- Correspondence to Premier Mike Baird MP from Sydney Metropolitan Mayors, dated 6 August 2015.

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Peter Head, General Manager, Leichhardt Municipal Council
- Ms Rochelle Porteous, Mayor, Leichhardt Municipal Council
- Cr Richard Quinn, Mayor, Hunter's Hill Council
- Mr Craig Wrightson, General Manager, Lane Cove Municipal Council
- Ms Gail Connolly, General Manager, City of Ryde Council
- Cr Lindsay Brown, Mayor, Eurobodalla Shire Council
- Dr Catherine Dale, General Manager, Eurobodalla Shire Council

Mr Head tendered the following document:

- Additional information to committee about Vision 2036

Mr Wrightson tendered the following documents:

- Two graphs depicting total corporate services percentages of selected Councils and data on the \$1 million a day question for councils

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Dr Peter J Boxall AO, Chairman, Independent Pricing and Regulatory Tribunal
- Mr John Comrie, Tribunal member, Independent Pricing and Regulatory Tribunal

- Mr Hugo Harmstorf, Chief Executive Officer, Independent Pricing and Regulatory Tribunal
- Ms Lucy Garnier, Executive Director, Local Government, Independent Pricing and Regulatory Tribunal

The evidence concluded and the witnesses withdrew.

The following witness was sworn and examined:

- Ms Robyn Hobbs, Commissioner, Small Business Commission

Ms Hobbs tendered the following document:

- List of small business friendly participating councils

The evidence concluded and the witness withdrew.

The following witnesses were examined under a former oath:

- Ms Marcia Doheny, Chief Executive, Office of Local Government
- Mr Steve Orr, Deputy Chief Executive, Office of Local Government

Mr Primrose left the hearing.

The evidence concluded and the witnesses withdrew.

The public hearing concluded at 4.10 pm.

The public and media withdrew.

7.1 Tendered documents

Resolved, on the motion of Ms Cusack: That the committee accept and publish the following documents tendered during the hearing:

- Correspondence to Premier Mike Baird MP from Sydney Metropolitan Mayors, dated 6 August 2015, tendered by Cr Clover Moore, Mayor, City of Sydney
- Additional information to committee about Vision 2036, tendered by Mr Peter Head, General Manager, Leichhardt Municipal Council
- Two graphs depicting total corporate services percentages of selected Councils and data on the \$1 million a day question for councils, tendered by Mr Craig Wrightson, General Manager, Lane Cove Municipal Council
- List of small business friendly participating councils, tendered by Ms Robyn Hobbs, Commissioner, Small Business Commission

8. Adjournment

The committee adjourned at 4.15 pm, until 11 September 2015 (regional site visit for VET inquiry).

John Miller
Clerk to the Committee

Draft minutes no. 22

Thursday 22 October 2015

General Purpose Standing Committee No. 6

Room 1254, Parliament House, at 9.35 am

1. Members presentMr Green, *Chair*Mr Amato, *Deputy Chair*

Ms Cusack

Mr Donnelly (substituting for Mr Wong, from 12pm)

Mr Franklin

Mr Primrose

Mr Shoebridge

Mr Wong (until 12pm)

Mr Borsak (participating member)

2. Previous minute

Resolved, on the motion of Mr Amato: That draft minutes no. 10 be confirmed.

Correspondence

The committee noted the following items of correspondence:

Received

- 17 August 2015 – Cr Keith Rhoades, President, Local Government NSW, commenting on evidence given at the hearing on 17 August 2015
- 24 August 2015 – Mrs Julie Briggs, Executive Officer, Riverina Eastern Regional Organisation of Councils, providing publication that outlines activities conducted by regional collaboration
- 24 August 2015 – Cr Clover Moore, Mayor, City of Sydney, providing Fit for the Future submission to IPART
- 26 August 2015 – Cr Keith Rhoades, President, Local Government NSW, commenting on evidence given at the hearing on 24 August 2015
- 27 August 2015 – Mr Denis Smith, expressing views on the impact of the Fit for the Future reform on Urana Shire Council
- 3 September 2015 – Cr Peter Abelson, Mayor, Mosman Council, providing additional information to the committee
- 8 September 2015 – Cr Laurie Bishop, Armidale Dumaresq Council, regarding correction to transcript of 18 August 2015
- 8 September 2015 – Mr Henry Wong, General Manager, Manly Council, commenting on evidence given at the hearing on 24 August 2015
- 11 September 2015 – Mr Gavin Butler, Secretary, Pittwater Forever Voice, providing additional information to the committee
- 11 September 2015 – Mr Mark Ferguson, General Manager, Pittwater Council, commenting on evidence given at the hearing on 24 August 2015
- 15 September 2015 – Cr Peter Abelson, Mayor, Mosman Council, providing additional information to the committee.

Sent:

- 24 August 2015 – Letter to Mr Ray Brownlee, General Manager, Randwick City Council concerning e-mail from Ms Margaret Hogg, author of submission 190.

Resolved, on the motion of Mr Shoebridge: That the committee note that the following correspondence was published on the committee's website:

- Cr Keith Rhoades, President, Local Government NSW, commenting on evidence given at the hearing on 24 August 2015, dated 26 August 2015
- Mr Henry Wong, General Manager, Manly Council, commenting on evidence given at the hearing on 24 August 2015, dated 8 September 2015
- Mr Mark Ferguson, General Manager, Pittwater Council, commenting on evidence given at the hearing on 24 August 2015, dated 11 September 2015.

3. Inquiry into local government in New South Wales

3.1 Public submissions

The committee noted the following submissions were published by the committee clerk under the authorisation of the resolution appointing the committee: submission nos. 201, 202 and 206.

3.2 Partially confidential submissions – name suppressed

Resolved, on the motion of Mr Franklin: That the committee keep the following information confidential, as per the request of the author: names and/or identifying and sensitive information in submissions nos. 192, 195 and 197.

3.3 Partially confidential submissions

Resolved, on the motion of Mr Shoebridge: That the committee keep the following information confidential, as per the request of the author: potential adverse mention in submission no. 176.

3.4 Attachments to submissions

Resolved, on the motion of Mr Shoebridge: That the committee authorise the publication of the following attachments:

- Attachments A, B and C, Submission 109
- Attachment 1, Submission 80.

3.5 Answers to questions on notice and supplementary questions

The committee noted the following answers to questions on notice and supplementary questions were published by the committee clerk under the authorisation of the resolution appointing the committee:

- answers to questions on notice and supplementary questions from Associate Professor Roberta Ryan, Australian Centre of Excellence for Local Government, received 19 August 2015
- answers to questions on notice from Ms Jane Mills, Chief Operating Officer, Parramatta City Council, received 24 August 2015
- answers to questions on notice from Mr Mark Kay, Executive Officer, Office of Local Government received 24 August 2015
- answers to questions on notice from Mr Michael Coulter, General Manager, Nambucca Shire Council, received 26 August 2015
- answers to questions on notice from Mr Phil Jenkyn OAM, General Manager, Nambucca Shire Council, received 26 August 2015
- answers to questions on notice from Ms Belinda Barlow, Executive Officer, Orana Regional Organisation of Councils and Bourke Shire Council, received 2 September 2015
- answers to questions on notice from Mr Gary Bensley, Acting General Manager, Hornsby Shire Council, received 3 September 2015
- further answers to questions on notice from Mr Eamon Waterford, Head of Strategy and Advocacy, Committee for Sydney, received 3 September 2015
- answers to questions on notice from Mr Barry Smith, President, Local Government Professionals Australia (NSW), received 3 September 2015
- answers to questions on notice from Mr Merv Ismay, General Manager, Holroyd City Council, received 4 September 2015

- answers to questions on notice from Ms Abby Gray, Executive Officer, Office of the NSW Small Business Commissioner, received 4 September 2015
- answers to questions on notice from Mr Russ Pigg, General Manager, Shoalhaven City Council, received 4 September 2015
- answers to questions on notice from Mr Steve McGrath, General Manager, Coffs Harbour City Council, received 7 September 2015
- answers to questions on notice from Cr Laurie Bishop, Mayor, Armidale Dumaresq Council, received 8 September 2015
- answers to questions on notice from Mr Derek Francis, General Manager, Bogan Shire Council, received 9 September 2015
- answers to question on notice from Mr Anthony, McMahon, General Manager, Boorowa Council, received 14 September 2015
- answers to question on notice from Ms Maxine Compton, Project Coordinator Organisational Sustainability, Bellingen Shire Council, received 15 September 2015
- answers to question on notice from Mr Paul Bennett, General Manager, Tamworth Regional Council, received 15 September 2015
- answers to questions on notice from Mrs Julie Briggs, Executive Officer, Riverina Eastern Regional Organisation of Councils, received 16 September 2015
- answers to questions on notice from Ms Katrina Carlon, Advisor, Minister for Local Government, received 16 September 2015
- answers to questions on notice from Cr Ted Seng, Mayor, Randwick City Council, received 16 September 2015
- answers to questions on notice from Mr Mark Kay, Executive Officer, Office of Local Government, received 17 September 2015
- answers to questions on notice from Mr Rik Hart, General Manager, Warringah Council, received 17 September 2015
- answers to questions on notice from Cr Rochelle Porteous, Mayor, Leichhardt Municipal Council, received 17 September 2015
- answers to questions on notice from Cr Clover Moore, Mayor, City of Sydney, received 17 September 2015
- answers to questions on notice from Mr Hugo Harmstorf, Chief Executive Officer, IPART, received 21 September 2015
- answers to questions on notice from Ms Therese Manns, General Manager, Broken Hill City Council, received 30 September 2015.

Resolved, on the motion of Mr Franklin: That the committee authorise the publication of answers to questions on notice from Mr Russ Pigg, General Manager, Shoalhaven City Council, received 4 September 2015, with the exception of pages 2 and 3 which are to remain confidential, as per the request of the author.

3.6 Transcript corrections

Resolved, on the motion of Mr Shoebridge: That the committee authorise the insertion of a footnote to page 8 of the transcript of evidence from 18 August 2015, as requested by Cr Laurie Bishop of Armidale Dumaresq Council, regarding number of number of council staff: ‘The figure should be amended from three hundred and sixty to two hundred and thirty-one.’

3.7 Tended documents

Resolved, on the motion of Mr Amato: That the committee accept and publish the following documents tendered during the public hearing on 18 August 2015:

- Graphs demonstrating means efficiency of councils, tendered by Dr Joseph Drew, University of New England Business School

- Opening statement, tendered by Cr Col Murray, Chair, Namoi Councils Joint Organisation
- Opening statement, tendered by Mr Max Eastcott, General Manager, Gwydir Shire Council.

3.8 Evaluation report of online questionnaire

Resolved, on the motion of Mr Shoebridge: That the committee:

- provide the Chairs' Committee with a copy of the evaluation report on the online questionnaire
- inform the Chairs' Committee that the trial of the online questionnaire during the inquiry into local government in NSW suggests that it may be appropriate to use online questionnaires in future inquiries
- publish the evaluation report as an appendix to the committee's report entitled *Local Government in New South Wales*.

3.9 Consideration of Chair's draft report

The chair submitted his draft report entitled *Local Government in New South Wales* which, having been previously circulated, was taken as being read.

Chapter 1

Resolved, on the motion of Mr Amato: That Chapter 1 be adopted.

Chapter 2

Resolved, on the motion of Mr Shoebridge: That the following new paragraph be inserted after paragraph 2.28:

‘The report put forward some proposals on council amalgamations that the panel noted had not adequately been tested or subjected to consultation. The report stated:

“As far as its own task is concerned, the Panel wishes to emphasise that setting out desirable options for boundary changes is NOT the same as recommending forced amalgamations. Moreover, under the current provisions of the Local Government Act, amalgamations and boundary changes cannot occur without a further process after the Panel completes its work, and would involve the Boundaries Commission... thus whether and when the Panel's options are pursued is entirely a matter for the State government and the councils and communities involved.”

The panel said that the Boundaries Commission process should be further strengthened before any of its tentative proposals are considered. It suggested, among other things, that these additional matters be included in the Boundaries Commission process. It also suggested that if the amalgamation proposal proceeded to the commission, the commission should be required to prepare a public information report setting out the arguments for and against amalgamations. It also proposed retaining the current provisions for inquiries, surveys and polls, but removing the Minister's power to decide whether an inquiry is warranted. In addition, in every case of amalgamation the commission should be required to conduct a survey or polls of all residents and ratepayers in the areas affected unless two or more councils have proposed a voluntary merger and the commission is satisfied that those councils have already undertaken adequate community consultation.’

Resolved, on the motion of Mr Shoebridge: That new paragraphs be inserted after paragraph 2.39, based on relevant evidence identified by the secretariat, potentially from the Mayors of Mosman and Gwydir Councils.

Resolved, on the motion of Mr Shoebridge: That the box entitled ‘Responses to online questionnaire: the need for reform’ after paragraph 2.39 be amended by inserting the following paragraphs after the final bullet point.

Despite these results, many respondents were satisfied with the functioning and services of their local council, with 48 per cent of respondents providing a rating of satisfied or highly satisfied, 12 per cent were neutral, while 19 per cent were dissatisfied or highly dissatisfied.

The majority of respondents (76 per cent) considered that their local council was financially sustainable moving into the future and a similar percentage (75 per cent) believed that amalgamation would not improve their council's financial sustainability.

Resolved, on the motion of Mr Shoebridge: That paragraph 2.40 be amended by inserting at the end of the paragraph: 'As will be seen from the balance of this report, the primary reform focus of the local government sector was not on boundary changes, but rather on addressing structural funding issues facing local government. This can be summarised by the call to 'fix the funding first.'

Resolved, on the motion of Mr Wong: That Chapter 2, as amended, be adopted.

Chapter 3

Resolved, on the motion of Mr Franklin: That the following new paragraph be inserted after paragraph 3.2: 'It was the view of the Office of Local Government: "It is commendable that the NSW Government – unlike its counterparts in other states – has taken Local Government along as a partner on the reform journey. It is equally true that many councils have benefited from the FFTF process, in that it has necessitated greater scrutiny and understanding of financial factors. [Evidence, Office of Local Government]"'

Resolved, on the motion of Mr Shoebridge: That paragraph 3.10 be amended by omitting 'the Independent Local Government Review Panel's (ILGRP) recommendations for mergers' and inserting instead 'the Independent Local Government Review Panel's (ILGRP) proposals for mergers'.

Resolved, on the motion of Mr Franklin: That paragraph 3.64 be amended by inserting 'More importantly, under the model we have proposed, it is an opportunity to deliver more and better services in an expanded Parramatta-based local government area.' to the end of the quote from Parramatta City Council after 'the future of local government in NSW.'

Resolved, on the motion of Mr Primrose: That the following new section be inserted after paragraph 3.59:

Summary of IPART's findings

On 16 October 2015, IPART provided its report to the NSW Government, as required under its terms of reference. Four days later, on 20 October, the Government released IPART's report. [FOOTNOTE: Media release, Independent Pricing and Regulatory Tribunal, 'Fit for the future assessments complete', 16 October 2015; 'Fit for the Future assessments released', 20 October 2015.]

IPART's report contained its assessment of 139 proposals from 144 councils, which included four merger proposals (involving nine councils), 115 council improvement proposals and 20 rural council proposals. [FOOTNOTE: Independent Pricing and Regulatory Tribunal, *Assessment of Council Fit for the Future Proposals*, October 2015, p 1.]

IPART found 52 of the 139 proposals (37 per cent) to be 'fit for the future'. [FOOTNOTE: Independent Pricing and Regulatory Tribunal, *Assessment of Council Fit for the Future Proposals*, October 2015, p 2.] The remaining 87 proposals were deemed 'not fit' and of these:

- 60 failed to meet the scale and capacity criterion, but did meet the financial criteria
- 18 did not meet the financial criteria, but were assessed as having sufficient scale and capacity
- nine failed to meet both the scale and capacity and the financial criteria. [FOOTNOTE: Independent Pricing and Regulatory Tribunal, *Assessment of Council Fit for the Future Proposals*, October 2015, p 2.]

There was some variation between Sydney metropolitan councils and regional councils in regards to the proportion of councils found 'not fit' and the reasons for not meeting the criteria. For Sydney

metropolitan councils, 29 out of 38 proposals (76 per cent) were found to be ‘not fit’. All but three failed because they did not meet the scale and capacity criterion. [FOOTNOTE: Independent Pricing and Regulatory Tribunal, *Assessment of Council Fit for the Future Proposals*, October 2015, pp 9-10.]

For regional councils, 58 out of 101 proposals (56 per cent) were found to be ‘not fit’. Of these councils, 34 failed to meet the scale and capacity criterion, 15 failed to meet the financial criteria and nine failed to meet either of these criteria. [FOOTNOTE: Independent Pricing and Regulatory Tribunal, *Assessment of Council Fit for the Future Proposals*, October 2015, pp 14-17.]

IPART did not make any merger recommendations, but rather ‘assessed each council’s proposal as either “fit” “not fit”’. [FOOTNOTE: Media release, ‘Fit for the Future assessments released’, 20 October 2015.] Nonetheless, IPART’s report did include information about the potential savings that could be achieved if the preferred merger options of the ILGRP were implemented, finding that ‘savings of up to \$1.95 billion would be made over the next 20 years if the ILGRP merger recommendations were to be adopted. [FOOTNOTE: Media release, Independent Pricing and Regulatory Tribunal, ‘Fit for the Future assessments released, 20 October 2015.]

On the same day that IPART’s report was published, the Office of Local Government released details of the next steps in the Fit for the Future process. Councils were encouraged to review IPART’s assessment and provide their feedback to the NSW Government within 30 days, by 18 November 2015. For those councils that were assessed as being ‘not fit’ due to insufficient scale or capacity, or who neighbour a council that was ‘not fit’ due to scale or capacity, the Office of Local Government stated that the Government ‘would also like to know... the merger preferences of these councils’. [FOOTNOTE: Fit for the Future website, *Fact Sheet – Next Steps*, 20 October 2015, <<http://www.fitforthefuture.nsw.gov.au/sites/default/files/Fact Sheet- next steps. pdf>>]

The Premier, the Hon Mike Baird MP, also announced that funding would be available for mergers agreed to by councils and the Government:

The NSW Government today also announced a new Stronger Communities Fund, providing each new council up to \$15 million to invest in community infrastructure projects such as sporting fields, libraries and parks and funding of up to \$10 million for each new council to ensure ratepayers do not pay for the up-front costs of merging. The funding will be available to those mergers agreed to by councils and the NSW Government. [FOOTNOTE: Media release, Premier of NSW, ‘Fit for the Future: \$2 billion community windfall by merging unfit councils’, 20 October 2015.]

The Office of Local Government further advised that by the end of 2015, ‘the Government will consider responses from councils, decide on next steps and inform councils and the community.’ [FOOTNOTE: Fit for the Future website, *Fact Sheet- Next Steps*, 20 October 2015, <<http://www.fitforthefuture.nsw.gov.au/sites/default/files/Fact Sheet- next steps. pdf>>.] The Premier underscored the Government’s determination to act, when he announced the release of IPART’s report:

Ultimately, what we want in the first instance is for councils to act but we are determined to get on with this, we are determined to do what is right, we are determined to act. [FOOTNOTE: Adam Bell, ‘Premier Mike Baird gives deadline as IPART report deems majority of Sydney councils not Fit for the Future’, *Daily Telegraph*, 20 October 2015.]

When addressing the Local Government NSW annual conference on 13 October 2015, the Minister for Local Government stressed the Government’s intention to complete the process by the end of 2015, telling the assembled councillors, ‘Every council in NSW will know where it stands before the end of the year. That is my commitment to you.’ [FOOTNOTE: Adam Bell, ‘Minister Paul Toole give councils “one last chance” to volunteer for amalgamation at Local Government Conference’, *Daily Telegraph*, 13 October 2015.]

Resolved, on the motion of Mr Shoebidge: That a new section be interested after paragraph 3.70 comprising two new tables to reflect IPART’s assessment of each council. The secretariat should draft the new section as follows:

- comprise a table of Sydney metropolitan councils and a table of non-metropolitan councils
- for each council, show the population and IPART's assessment of whether the council was found to be 'fit' or 'unfit' against the criteria relating to council finances and scale and capacity.

Resolved, on the motion of Mr Shoebridge: That the box entitled 'Responses to online questionnaire: the need for reform' after paragraph 3.66 be amended by:

- omitting 'positive comments' from the title and inserting instead 'comments', and that 'positive' or 'negative' be omitted from the headings of any subsequent boxes reflecting the results of the online questionnaire
- inserting responses to the online questionnaire that did not support the Fit for the Future process.

Mr Shoebridge moved: That paragraph 3.77 be amended by omitting the first sentence 'Despite these reservations, the committee considers, on the whole, that IPART's appointment to fulfil the role of Expert Advisory Panel was appropriate.' and inserting instead:

'IPART clearly has capacity to analyse and assess council finances, indeed this is one of their core skills and competencies. However it is equally clear that IPART was not an appropriate body to assess the overall future of local government or the overall fitness of local councils as democratically responsible government institutions with a remit that goes well beyond a narrow financial obligation to residents.'

Further, that a new Finding be inserted following paragraph 3.77

'Finding X

While IPART has significant capacity to analyse the finances of local government it does not have the demonstrated skills or capacity to assess the overall 'fitness' of councils as democratically responsible local bodies.'

Question put.

The committee divided.

Ayes: Mr Green, Mr Primrose, Mr Shoebridge, Mr Wong.

Noes: Mr Amato, Ms Cusack, Mr Franklin.

Question resolved in the affirmative.

Mr Shoebridge moved: That the following new paragraphs and recommendation be inserted after Finding 1, together with a new appendix:

'The committee believes it is unfair and misleading for IPART to label 71 per cent of councils in metropolitan Sydney and 56 per cent of regional councils as 'unfit' and considers the Premier's statement highlighting this finding left an indelible mark on the reputation of those councils. The terms of reference provided to IPART by the NSW Government were designed to achieve a certain outcome and councils were set up to fail.

The committee calls on the Premier and the NSW Government to withdraw the statement that these councils are 'unfit'. The committee considers that many of these councils should not have been found unfit and should not be labelled as such.

Recommendation X

That the Premier and NSW Government withdraw the statements that 71 per cent of councils in metropolitan Sydney and 56 per cent of regional councils as 'unfit.'

New appendix: Media release, Premier of NSW, 'Fit for the Future: \$2 billion community windfall by merging unfit councils,' 20 October 2015.

Question put.

The committee divided.

Ayes: Mr Green, Mr Primrose, Mr Shoebridge, Mr Wong.

Noes: Mr Amato, Ms Cusack, Mr Franklin.

Question resolved in the affirmative.

Resolved, on the motion of Mr Primrose: That Finding 3 be amended by:

- a) omitting 'long term sustainability' and inserting instead 'long term financial sustainability'
- b) inserting ' , but the methodology prescribed by the government was too restrictive and rushed for councils to take full advantage of the process.' after the word 'performance'.

Ms Cusack moved: That Finding 1 be omitted.

Question put.

The committee divided.

Ayes: Mr Amato, Ms Cusack, Mr Franklin.

Noes: Mr Green, Mr Primrose, Mr Shoebridge, Mr Wong.

Question resolved in the negative.

Ms Cusack moved: That paragraph 3.83 and Recommendation 1 be omitted.

Question put.

The committee divided.

Ayes: Mr Amato, Ms Cusack, Mr Franklin.

Noes: Mr Green, Mr Primrose, Mr Shoebridge, Mr Wong.

Question resolved in the negative.

Resolved, on the motion of Mr Primrose: That chapter 3, as amended, be adopted.

Chapter 4

Resolved, on the motion of Mr Shoebridge: That paragraph 4.13 be amended by inserting 'largest' before 'metropolitan councils'.

Resolved, on the motion of Mr Franklin: That the following new section be inserted after paragraph 4.68:

Water utilities

The committee heard that for many councils, particularly those in rural and regional areas, water utilities play an important role in ensuring the financial sustainability of the council. For example, Mr Gary Woodman, General Manager of Cobar Shire Council, noted the impact that removing water utilities would have on council finances, not only for his own council but for almost all rural councils:

Mr WOODMAN: We are the provider of water services. Bulk water supply is through the Cobar Water Board but we are the administrator contract.

The Hon. ROBERT BORSAK: If the provision of water services was stripped out from the council what impact would that have on your bottom line?

Mr WOODMAN: It would completely make us unsustainable.

...

The Hon. ROBERT BORSAK: The State Government might be considering amalgamating all water services and then privatising them.

Mr WOODMAN: If they do that it would make almost every rural council in New South Wales completely unsustainable. [Evidence, Mr Gary Woodman, General Manager, Cobar Shire Council, 17 August 2015, p 10.]

LGNSW further explained the role that water utilities play in many regional councils' budgets, and how this income underpins many other services provided by councils:

Water supply and sewerage services are a major part of most regional councils' operations often making up a quarter or more of councils' annual budget and employing a significant number of their workforce. Water supply and sewerage services enhance the robustness of councils' revenue base, their ability to undertake major projects, to employ a wider range of skilled staff, and to undertake strategic planning and foster knowledge, creativity and innovation, as well as the ability to achieve effective regional collaboration and be a capable partner for agencies of the NSW Government and the Australian Government.[Submission 142, Local Government NSW, p 13.]

Resolved, on the motion of Mr Shoebridge: That paragraph 4.71 be amended by:

- a) omitting 'parlous financial state' and inserting instead 'challenging financial state'
- b) omitting 'reviews by the ILGRP' and inserting instead 'reviews by IPART, the ILGRP'
- c) inserting a final sentence: 'This demonstrates the need for a mature discussion on local council funding that honestly grapples with the issues of rate pegging, redistribution of grant monies, rating structures and cost shifting.'

Mr Primrose moved: That Recommendation 2 be amended by omitting 'remove rate pegging, and' after 'the NSW Government'.

The committee divided.

Ayes: Mr Amato, Ms Cusack, Mr Franklin, Mr Primrose, Mr Wong.

Noes: Mr Green, Mr Shoebridge.

Question resolved in the affirmative.

Mr Primrose moved: That Recommendation 2 be amended by:

- a) inserting 'evaluate the option of the removal of rate pegging' after 'the NSW Government'
- b) inserting 'and demonstrated community support' after 'conditional on the delivery of a local works plan outlining the expenditure associated with the proposed rate increase'.

The committee divided.

Ayes: Mr Green, Mr Primrose, Mr Shoebridge, Mr Wong.

Noes: Mr Amato, Ms Cusack, Mr Franklin.

Question resolved in the affirmative.

Mr Shoebridge moved: That Recommendation 2 be amended by inserting 'Provide a more equitable model for rating of apartments that considers factors in addition to the unimproved land value.' after 'and demonstrated community support'.

Question put and negated.

Resolved, on the motion of Mr Shoebridge: That paragraph 4.78 be amended by omitting 'and calls on the Minister to liaise further' and inserting instead 'and calls on the Minister to join with local government to liaise further'.

Resolved, on the motion of Mr Shoebridge: That Recommendation 3 be amended by amended by omitting 'That the Minister for Local Government petition the Australian Government to' and inserting

instead 'That the Minister for Local Government work cooperatively with the NSW local government sector to petition the Australian Government to'.

Mr Shoebridge moved: That Recommendation 4 be amended by:

- a) omitting 'That the NSW Government consult with the Australian Government' and inserting instead 'That the Minister for Local Government work cooperatively with the NSW local government sector to petition the Australian Government to'
- b) inserting ', provided councils with the capacity to raise additional local revenue are able to do so.' after 'councils with the greatest needs'.

The committee divided.

Ayes: Mr Green, Mr Primrose, Mr Shoebridge, Mr Wong.

Noes: Mr Amato, Ms Cusack, Mr Franklin.

Question resolved in the affirmative.

Resolved, on the motion of Mr Primrose: That the following new paragraph and recommendation be inserted after paragraph 4.83:

'The committee notes the important role that water utilities play in ensuring the financial sustainability of many local councils, particularly those in regional areas. Water utilities are a core piece of the puzzle in regards to council finances and play an important part in securing the services that councils provide to their communities. The committee therefore recommends that those water utilities that are currently operated by local councils remain under the control of those councils.'

Recommendation X

That the NSW Government ensure that those water utilities that are currently operated by local councils remain under the control of those councils.'

Resolved, on the motion of Mr Wong: That Chapter 4, as amended, be adopted.

Chapter 5

Resolved, on the motion of Mr Shoebridge: That paragraph 5.3 be amended by inserting 'apart from scale and capacity' after 'IPART did not require councils to meet all of the above benchmarks immediately'.

Mr Shoebridge moved: That Finding 4 be amended by inserting 'and accordingly assessments of councils' fitness based on this threshold criteria are not well-founded.' after 'That the scale and capacity criterion was a flawed criterion and it should not have been included in the Fit for the Future assessment criteria'.

The committee divided.

Ayes: Mr Green, Mr Primrose, Mr Shoebridge, Mr Wong.

Noes: Mr Amato, Ms Cusack, Mr Franklin.

Question resolved in the affirmative.

Ms Cusack moved: That Finding 4, as amended, be omitted.

The committee divided.

Ayes: Mr Amato, Ms Cusack, Mr Franklin.

Noes: Mr Green, Mr Primrose, Mr Shoebridge, Mr Wong.

Question resolved in the negative.

Resolved, on the motion of Mr Shoebridge: That Recommendation 6 be amended by inserting 'and considers councils' priorities for the condition of the infrastructure.' after 'a depreciation methodology that more closely correlates with the actual condition of deterioration'.

Mr Franklin moved: That Finding 5 be omitted.

The committee divided.

Ayes: Mr Amato, Ms Cusack, Mr Franklin.

Noes: Mr Green, Mr Primrose, Mr Shoebridge, Mr Wong.

Question resolved in the negative.

Resolved, on the motion of Mr Wong: That chapter 5, as amended, be adopted.

Chapter 6

Resolved, on the motion of Mr Franklin: That the following quotes be inserted in Chapter 6, with the secretariat to finalise the appropriate placement and draft an introductory sentence:

‘After paragraph 6.39: ‘We would like to see fewer but stronger councils with more resources, powers and capacity, some form of metropolitan governance for Sydney, with greater co-ordination between councils and State government at the greater Sydney level, because we think there are serious challenges which cannot be addressed by a fractured local government system.’ [Evidence, Dr Tim Williams – CEO, Committee for Sydney]

After paragraph 6.39: ‘We believe that size equals strength and we see many benefits in joining our neighbours through amalgamation.’ [Evidence, Steve Russell, Mayor of Hornsby]

After paragraph 6.43: ‘If we have 41 metropolitan councils we will have 41 sets of fees and 41 sets of policies. That is not making it easy for small businesses to thrive.’ [Evidence, Small Business Commissioner Robyn Hobbs]

After paragraph 6.47: ‘In metropolitan Brisbane, effectively there are five or six major local government areas – Brisbane, Redlands, Logan, Ipswich and Moreton Bay. Really, if the Premier wants to have a discussion about issues, they are not meeting with 32, 50 or 17 or larger numbers. Those mayors are able to talk with some depth and knowledge about the really critical issues that are affecting those communities.’ [Evidence, Jude Munro – Independent Panel member]’

Mr Shoebridge moved: That the quote from Mr Tim Williams previously inserted by Mr Franklin, be amended to include evidence on the OECD data regarding the average population size of councils.

The committee divided.

Ayes: Mr Green, Mr Primrose, Mr Shoebridge, Mr Wong.

Noes: Mr Amato, Ms Cusack, Mr Franklin.

Question resolved in the affirmative.

Resolved, on the motion of Mr Shoebridge: That a new paragraph be inserted after Table 6: ‘This data would be of significantly more assistance if it was accompanied by detail of the increased rates in the 11 other entities that are not included in this list.’

Resolved, on the motion of Mr Amato: That paragraph 6.94 and Recommendation 8 be omitted:

‘The committee therefore proposes that the Government adopt a policy of no forced amalgamations of councils, unless a council is demonstrably financially unsustainable, unable to provide services or dysfunctional, such as councils that can be suspended under the *Local Government Act 1993*.

Recommendation 8

That the NSW Government commit to a policy of no forced amalgamations of local councils, except in circumstances where it can be established that a council is financially unsustainable, unable to maintain an acceptable level of service provision, or suspendable under Chapter 13, Part 7 of the *Local Government Act 1993*.

Further, that the following paragraph and recommendation be inserted instead:

The committee therefore proposes that the Government adopt a policy of no forced amalgamations of councils, unless a council is shown to be severely financially unsustainable or unable to provide an acceptable level of service. The committee notes that councils should only be considered to be severely financially unsustainable if they are bankrupt or on the imminent verge of bankruptcy.

Recommendation 8

That the NSW Government commit to a policy of no forced amalgamations of local councils, except in circumstances where it can be established that a council is severely financially unsustainable to the point of bankruptcy or unable to maintain an acceptable level of service provision.

Mr Franklin moved: That the amended Recommendation 8 be amended by inserting ‘or where there are clear financial benefits to the community’ after ‘or unable to maintain an acceptable level of service provision’.

The committee divided.

Ayes: Mr Amato, Ms Cusack, Mr Franklin.

Noes: Mr Green, Mr Primrose, Mr Shoebridge, Mr Wong.

Question resolved in the negative.

Resolved, on the motion of Mr Shoebridge: That Recommendation 7 be amended by inserting ‘before any further steps are taken by the government in relation to council amalgamations’. after ‘and ensure a robust and consultative process is in place to consider council amalgamation proposals’.

Mr Shoebridge moved: That Recommendation 7, as amended, be adopted.

The committee divided.

Ayes: Mr Green, Mr Primrose, Mr Shoebridge, Mr Wong

Noes: Mr Amato, Ms Cusack, Mr Franklin

Question resolved in the affirmative.

Resolved, on the motion of Mr Wong: That Chapter 6, as amended, be adopted.

Chapter 7

Resolved, on the motion of Mr Franklin: That the following quote and an introductory sentence be inserted after paragraph 7.27, with the secretariat to draft an introductory sentence:

‘There was a fax received, all the councillors were sacked and effectively an administrator started the next day with an interim general manager. There was no financial support nor were there guidelines for the councils to follow, so the processes were basically a case of “have a go; see what you can do”. . .’
[Evidence, Clarence Valley Council]

Resolved, on the motion of Mr Shoebridge: That paragraph 7.78 be amended by omitting ‘significant long term savings’ and inserting instead ‘potential long term savings’.

Mr Shoebridge moved: That the following new finding be inserted after paragraph 7.78:

‘Finding X

The projected economic benefits of council amalgamations have been consistently overstated by proponents of forced amalgamations and the costs and extensive diseconomies of scale caused by amalgamations have not been adequately explained by those same proponents.’

Question put.

The committee divided.

Ayes: Mr Green, Mr Primrose, Mr Shoebridge, Mr Wong.

Noes: Mr Amato, Ms Cusack, Mr Franklin.

Question resolved in the affirmative.

Resolved, on the motion of Mr Shoebridge: That Chapter 7, as amended, be adopted.

Chapter 8

Resolved, on the motion of Mr Franklin: That the following new quote be inserted after paragraph 8.8, or at an appropriate point identified by the secretariat:

‘I do not think people in Brisbane feel like they are less represented than people in a smaller council area. There are lots of ways to ensure that communities have access and input into decision-making and that councils can act in strategic ways.

It goes to one of the elements of strategic capacity that I think is really important – which is what you might call community governance, or the way councils engage effectively. Large councils can be very engaged with their communities and can have very good input with a very good two-way process.’
[FOOTNOTE: Evidence, Associate Professor Roberta Ryan, Centre for Local Government, University of Technology Sydney, 27 July 2015, p 40.]

Mr Primrose moved: That Recommendation 9 be omitted and the following new recommendation inserted instead: ‘That the NSW Government amend the *Local Government Act 1993* to require mayors to be popularly elected for the full four year term of the council.’

Question put.

The committee divided.

Ayes: Mr Primrose, Mr Wong.

Noes: Mr Amato, Ms Cusack, Mr Franklin, Mr Green, Mr Shoebridge.

Question resolved in the negative.

Ms Cusack moved: That Recommendation 9 be adopted: ‘That the Minister for Local Government encourage local councils with council-elected mayors to initiate a referendum on whether the mayor should be popularly elected or elected by councillors.’

Question put.

The committee divided.

Ayes: Mr Amato, Ms Cusack, Mr Franklin, Mr Green, Mr Primrose, Mr Wong.

Noes: Mr Shoebridge.

Question resolved in the affirmative.

Mr Shoebridge moved: That the following new committee comment be inserted after Recommendation 9:

‘Committee comment

While there are arguments in support of popularly elected Mayors there is also a note of caution in that regard from experiences on councils such as North Sydney where the popularly elected mayor does not have the support of the majority of council. This scenario clearly can cause ongoing instability in councils and is the reason why many local government areas prefer to remain with a system where the Mayor is chosen from amongst the councillors that he or she must work with over the Mayor’s term.’

Question put and negatived.

Resolved, on the motion of Mr Primrose: That the following new recommendation be inserted after Recommendation 10:

‘Recommendation X

That the NSW Government consider amending the electoral legislation to introduce donation and spending caps for candidates at local government elections.’

Mr Primrose moved: That the following new recommendation be inserted after Recommendation 10:

‘Recommendation X

That the NSW Government amend the electoral legislation to introduce a ban on property developers and real estate agents nominating for local government councillor positions.’

Question put and negatived.

Resolved, on the motion of Mr Wong: That Chapter 8, as amended, be adopted.

Chapter 9

Mr Shoebridge moved: That the following new committee comment be inserted after paragraph 9.72:

‘Committee comment

The committee received no valid explanation from the NSW Government as to why such joint organisation models were not to be a key part of local government reform, not just in the regions, but also in metropolitan Sydney.’

Question put.

The committee divided.

Ayes: Mr Green, Mr Primrose, Mr Shoebridge, Mr Wong.

Noes: Mr Amato, Ms Cusack, Mr Franklin.

Question resolved in the affirmative.

Resolved, on the motion of Mr Shoebridge: That the following new committee comment be inserted before paragraph 9.74:

‘Committee comment

The committee was impressed by the presentation of the joint regional authority model from the Hunters Hill, Ryde and Lane Cove Councils and sees very real merit in this style of joint organisation being given statutory support in preference to forced amalgamations. This model achieved the desired outcomes of “strategic capacity” and regional planning without losing local identity and without incurring the very large costs that accompany amalgamations.’

Resolved, on the motion of Mr Shoebridge: That the following new recommendation be inserted after the new committee comment:

‘Recommendation X

That the NSW Government work with local government on a statutory model for Joint Organisations based on the Hunters Hill, Ryde and Lane Cove Council model as a cooperative, and consensus model for local council reform in Metropolitan Sydney.’

Resolved, on the motion of Mr Amato: That Chapter 9, as amended, be adopted.

Mr Franklin moved: That the following new recommendation be inserted in a section of the report as advised by the committee secretariat:

‘Recommendation X

That the NSW Government streamline the legislation to allow voluntary mergers to occur in a timely manner.’

Question put.

The committee divided.

Ayes: Mr Amato, Ms Cusack, Mr Franklin.

Noes: Mr Green, Mr Primrose, Mr Shoebridge, Mr Wong.

Question resolved in the negative.

Mr Wong left the meeting.

Mr Donnelly joined the meeting.

Resolved, on the motion of Mr Franklin: That the following new recommendation be inserted in a section of the report as advised by the committee secretariat:

‘Recommendation X

That the NSW Government consider amending the *Local Government Act 1993* to allow for a period of transition between a decision to amalgamate councils and the creation of the new council, to ensure effective planning, consultation, implementation and ongoing service delivery to communities.’

Further, that the introductory paragraph leading into the recommendation note that this recommendation: does not preclude use of the Boundaries Commission process; is not inconsistent with the committee’s recommendation to strengthen the Boundaries Commission process; and to highlight that the committee sees merit in ensuring that any transitions are well-managed.

Mr Primrose moved: That the following new finding be inserted after paragraph 6.84:

‘Finding X

That the Boundaries Commission process was strongly supported by many organisations including LGNSW, and a strengthened and more independent Commission may make up for some of the flaws in the Fit for the Future process to date.’

Question put.

The committee divided.

Ayes: Mr Green, Mr Primrose, Mr Shoebridge, Mr Donnelly.

Noes: Mr Amato, Ms Cusack, Mr Franklin.

Question resolved in the affirmative.

Resolved, on the motion of Ms Cusack: That the committee secretariat draft and insert a new committee comment and recommendation in a section of the report on providing support to council staff during transition, in the event of council amalgamations. In particular, senior staff not covered by the employment protections in the *Local Government Act 1993*, and especially senior staff in regional areas.

Resolved, on the motion of Mr Shoebridge:

- That the draft report, as amended, be the report of the committee and that the committee present the report to the House, subject to the secretariat circulating the amendments to the committee for approval and that if required, the committee hold a further meeting on Tuesday 27 October 2015 to approve the amendments;
- That the transcripts of evidence, submissions, tabled documents, answers to questions on notice and supplementary questions, minutes of proceedings and correspondence relating to the inquiry be tabled in the House with the report;
- That upon tabling, all unpublished attachments to submissions be kept confidential by the committee;
- That upon tabling, all unpublished transcripts of evidence, submissions, tabled documents, answers to questions on notice and supplementary questions, minutes of proceedings and correspondence relating to the inquiry, be published by the committee, except for those documents kept confidential by resolution of the committee;

- That the committee secretariat correct any typographical, grammatical and formatting errors prior to tabling;
- That the committee secretariat be authorised to update any committee comments where necessary to reflect changes to recommendations or new recommendations resolved by the committee;
- That dissenting statements be provided to the secretariat within 24 hours after receipt of the draft minutes of the meeting;
- That the report be tabled on 29 October 2015.

The chair noted his intention to hold a media conference on the date that the report is tabled.

The chair advised that an amended Executive Summary and Chair's Foreword would be circulated to the committee, to reflect the amendments to the report.

Resolved, on the motion of Mr Primrose: That the committee acknowledge the committee secretariat for the wonderful work they have undertaken during the inquiry, and that this be included in the Chair's Foreword to the report.

4. Adjournment

The committee adjourned at 12.14 pm *sine die*.

John Miller
Clerk to the Committee

Appendix 10 Dissenting report

The Hon Ben Franklin MLC, The Nationals

The Hon Catherine Cusack MLC and the Hon Lou Amato MLC, Liberal Party

Whilst this committee was a productive one and some of the recommendations of the report are sound, a number were not supported by the evidence presented during this inquiry.

Some of the recommendations and findings not supported are:

Recommendation 1

The inquiry heard that the financial criteria used by the Independent Pricing and Regulatory Tribunal (IPART) was based on standard industry benchmarks. The scale and capacity criteria was based on the two year research and consultation undertaken by Independent Local Government Review Panel. The terms of reference for IPART were developed in consultation with the Ministerial Advisor Group, comprising sector peak bodies. Councils were consulted on the assessment methodology used by IPART. The assessment of councils' 'fitness' was an outcome of this extensive consultation process.

Recommendation 2

The key incentive provided to councils assessed as Fit for the Future is access to the State Borrowing Authority. This provides cheaper borrowing through the NSW Treasury Corporation, underpinned by the State's AAA credit rating, for those councils that have demonstrated a financial robustness and therefore capacity to repay loans.

Recommendation 3

This recommendation is pre-emptive as the NSW Government has committed to commission the Independent Pricing and Regulatory Tribunal to undertake the review of the rating system. In making this commitment, the Government noted the issues in relation to the equity of the current rating system but confirmed that it remains committed to protecting ratepayers from unfair rate rises and to providing rate concessions for pensioners.

It recognised however the improvements in council strategic planning under IP&R and therefore supported removing unwarranted complexity, costs and constraints from the rate-peg system, where there is evidence that the council has taken steps to reduce unnecessary costs before seeking to impose an increased burden on ratepayers.

Recommendation 9

The Government considered and responded to this recommendation in 2014.

Its response, repeated by the Minister during the inquiry, was that Government is committed to ensuring transparency and public confidence in any boundary review process and that it will consider the suggestions made by the Panel in preparing a new Local Government Act, to identify opportunities to streamline the process whilst ensuring robust and transparent decision making.

After four years of consultation with councils and the community and the recent release of the IPART report, the Government is giving councils a final 30 day opportunity to indicate merger preferences.

Finding 1

The Government appointed IPART, supported by South Australian local government expert John Comrie, as the Expert Advisory Panel to review local councils' Fit for the Future submissions. In making this appointment, the Government advised the inquiry that it had carefully considered IPART's extensive local government expertise and its capacity to complete the review transparently, effectively and in-line with the Terms of Reference.

Finding 5

The scale and capacity criterion was independently assessed by IPART in August 2014. In undertaking this assessment, IPART⁶⁴⁴ noted:

“OLG's proposed Scale and Capacity criterion is based on the Review Panel's framework for restructuring the local government sector. OLG has not further developed this criterion. We support the Review Panel's framework for mergers, rural councils and the formation of regional organisations. We agree that, over time, the resulting larger, stronger councils will be able to better and more efficiently deliver services to their ratepayers.”

The flexible nature of this criterion enabled councils to put forward proposals broadly consistent with, but not limited to, the structural change recommendations made by the Independent Local Government Review Panel. The Government believed this 'one size doesn't fit all' approach gave councils greater flexibility to propose changes that best suited their area, rather than imposing a rigid approach of population size or some other quantitative measure.

Finding 6

The Fit for the Future measures were based on best available data and measures used by councils, by TCorp in their assessment of council financial sustainability and were independently reviewed by IPART.

The reliability and accuracy of council provided information was highlighted as a concern to Government. That is why it has committed to external audit being undertaken by the Auditor General and the Fit for the Future proposal process encouraged councils to supply assumptions and supporting data to verify the accuracy of councils' own audited figures.

Finding 8

Evidence showed that the Fit for the Future reforms are the culmination of four years of intensive consultation, research and review, involving every local council in NSW.

Destination 2036 triggered a series of targeted reviews to better understand the changes councils needed, including: the Financial Sustainability Review of NSW Local Government, the NSW Local Government Infrastructure Audit, the Local Government Acts Taskforce and the Independent Local Government Review Panel.

Over three years, the Panel undertook an in-depth examination of the system of local government as well as individual councils. This involved detailed research, three rounds of consultation with councils and communities, including extensive face to face consultation across NSW, and consideration of hundreds of submissions.

Finding 9

The release of the IPART report has demonstrated that IPART has undertaken an analysis of council commissioned business cases and identified significant net financial benefit from merging. This has

⁶⁴⁴ IPART, 2014, Fit for the Future assessment criteria.

been independently verified by Ernst and Young. Savings from mergers can be reinvested in better services and more infrastructure, as seen in Tamworth for example, or lower rates, as indicated by the number of councils where rates fell after mergers in 2004.

Conclusion

The Committee was presented with a broad range of evidence advocating numerous positions on local government reform. However, reading many of the report's recommendations and findings one could be forgiven in believing all evidence was entirely opposed to the Government's reform agenda. This was simply not the case.

Local councils and the community have been consulted on these reforms for the past four years.

It is now time to act.

