



Office of
Local Government

LEGISLATIVE COUNCIL
GENERAL PURPOSE STANDING COMMITTEE No 6

INQUIRY INTO LOCAL GOVERNMENT IN NSW

Marcia Doheny and Steve Orr
Office of Local Government

Fit for the  Future

LOCAL GOVERNMENT REFORM IN NSW

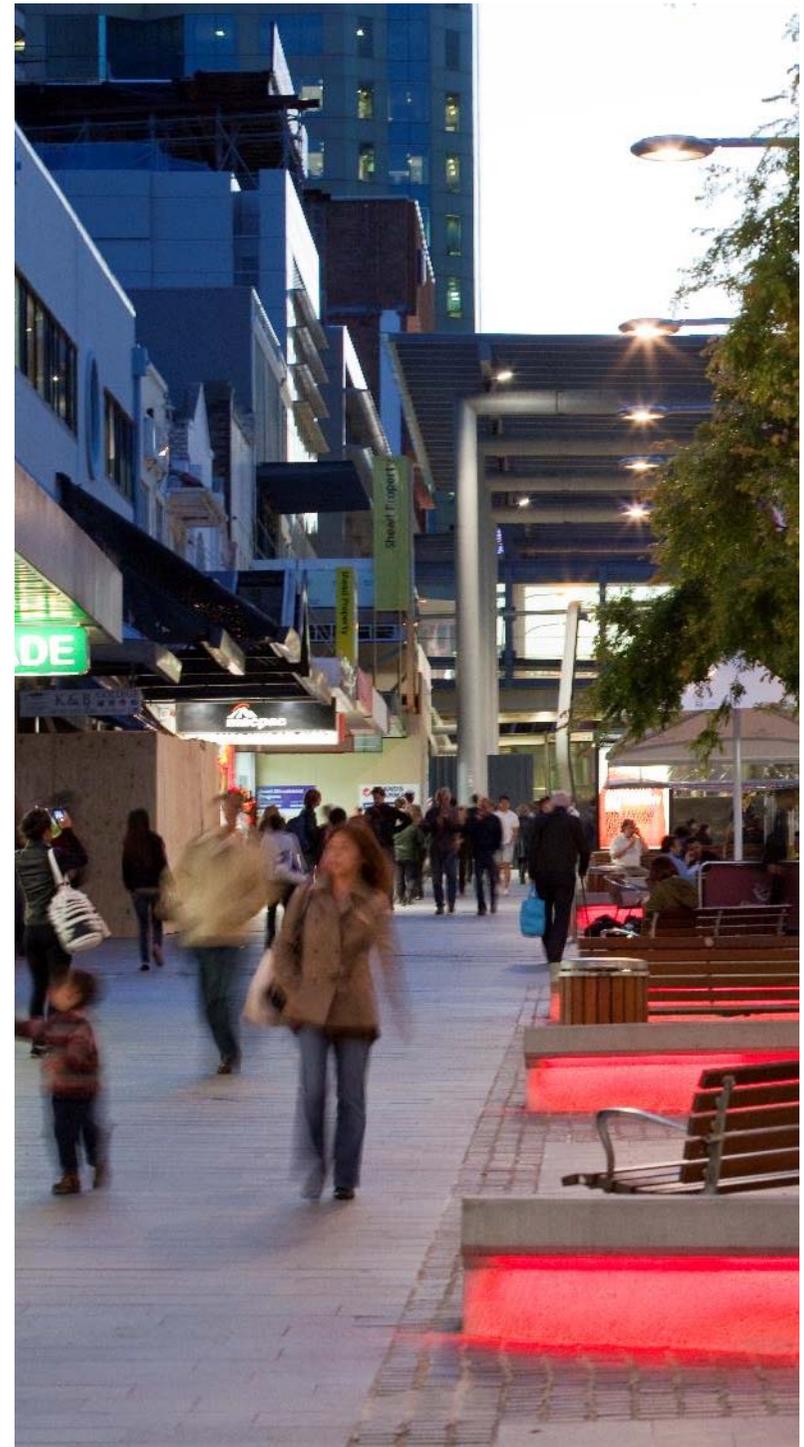


Background and drivers of change

The Fit for the Future reforms offer a once in a generation opportunity to revitalise the system of local government for the benefit of communities across NSW.

These reforms have been developed at the request of the local government sector and are the result of four years of analysis, collaboration and review.

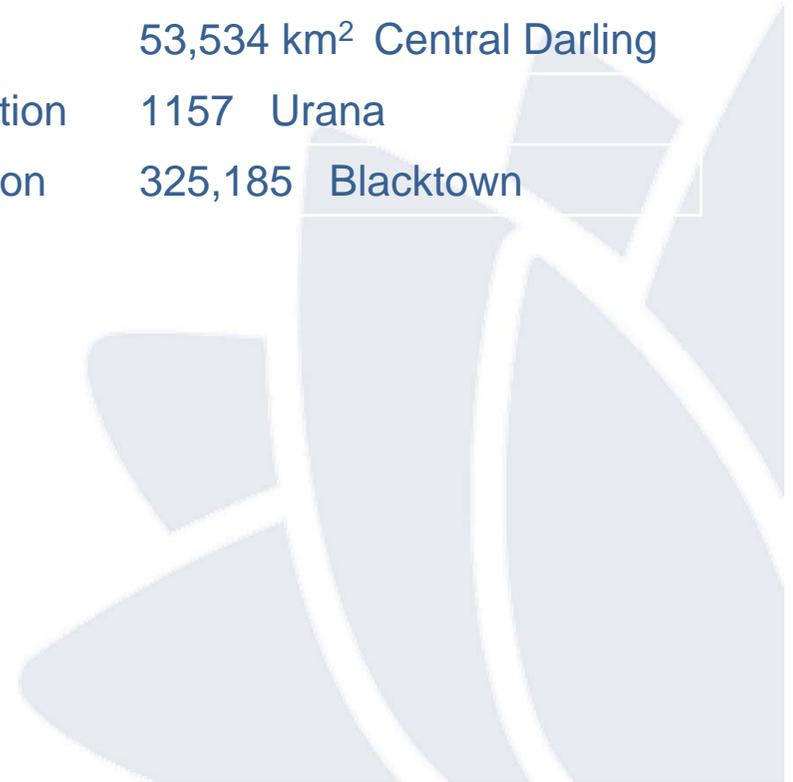
They will ensure that councils can deliver the services and infrastructure their communities need, both now and for generations to come.





Snapshot of local government

Councils	152
Councillors	1480
Employees (EFT)	44,846
Total assets	\$139 billion
Total revenue	\$9.7 billion
Smallest LGA	5.7 km ² Hunters Hill
Largest LGA	53,534 km ² Central Darling
Smallest population	1157 Urana
Largest population	325,185 Blacktown



Local Government – early years

1842

First councils established in NSW

System largely failed due to lack of participation and refusal to pay rates

1858

Municipalities Act

Areas with more than 50 households can set up a council.
327 councils.

Only male, property owners could vote in LG elections

1906

Local Government Act

Incorporated shires, established **324 councils** throughout NSW.

1919

New Local Government Act

Set out the basis for State oversight of local government
Began consolidation of councils through merger

1928

First female elected to a NSW council

First female Mayor elected in 1938.

Women continue to be under-represented. Only 27% of those elected in the 2012 elections were female

A history of change

1940s

McKell reforms

Reduced the number of councils in Sydney from 68 to 39. (22 maintain their original boundaries)

1974

Barnett Inquiry

Recommended widespread change for the local government sector, reducing **223 councils** to 97.

No action taken

1981

Council mergers

Boundaries reviewed. 38 councils merged into 17.

Total councils 175

1993

New Local Government Act

Changed the operating model for local government. Encouraged greater accountability to community

2004

Council mergers

Further round of council mergers (five voluntary)

Total councils 152

Moving towards reform in NSW

2005

Independent Inquiry into the Financial Sustainability of NSW Local Government

Commissioned by LGSA (now LG NSW)

Raised serious concerns for the financial sustainability of NSW councils, highlighted increasing infrastructure backlogs and consistent underspending on asset maintenance.

2009

Integrated Planning and Reporting Framework

Developed by (then) Division of Local Government in collaboration with sector

Introduced long-term strategic planning for councils, long-term financial planning and improved asset management. Increased involvement of community in setting community direction, price paths and asset maintenance/renewal priorities.

2011

Destination 2036

Co-ordinated by (then) Division of Local Government

All mayors and general managers in NSW came together to plan how local government might meet the challenges of the future. Developed a Vision for Local Government and Action Plan. Called for a review of councils' financial sustainability, audit of council infrastructure backlogs, review of alternative structural models for councils, barriers and incentives to voluntary mergers.

The growing case for change

Destination 2036 led to three fundamental reviews of the local government sector

2013

Financial Sustainability of the NSW Local Government Sector

Analysis by Treasury Corporation (Tcorp)

Raised serious concerns over the financial sustainability of NSW councils. Found one-third of councils were in a weak to very weak financial position and the majority were recording operating deficits. Forecast further deterioration over the next four years. Made recommendations to improve sector sustainability.

2013

Local Government Infrastructure Audit

Analysis by (then) Division of Local Government

Identified significant infrastructure backlog - \$7.4 billion – with financially weak councils having the largest backlog. Consistent underspending on asset maintenance and need for capacity building within councils. More than one-third of councils needed to improve infrastructure management practices.

2012-13

Local Government Acts Review Taskforce

Panel of experts appointed by the Minister for Local Government.

Undertook a review of the *Local Government Act 1993* and the *City of Sydney Act 1998*. Looked at ways to modernise legislation, to ensure that it would meet the future needs of councils and communities. Recommended a shift to principles-based legislation, stronger role for IP&R, cutting red tape and duplication.

Further consultation on reform

2012-14

Independent Local Government Review Panel

Panel of experts appointed by the Minister for Local Government.

Undertook a comprehensive review of local government finance, governance and structural arrangements. Made 65 recommendations for strengthening the local government sector

Key activities of the Panel

Discussion Papers

Six papers presented for public submissions
2390 written submissions received from councils, community and others

Consultation sessions

Total of **55** direct consultation sessions with councils and community. Total attendance **3275**
10 roundtables with State Agencies and peak sector stakeholders – 185 attendees
Opinion polling, metropolitan areas, 1500 sample

Research

Commissioned **14 studies** and research reports into financial sustainability, rating, infrastructure, spatial analysis, outcomes of previous boundary change, community governance.
Drew on evidence from **10 previous inquiries and reviews** and considered more than **35 research reports and papers** from NSW government, ACELG, UTS Centre for Local Government, UNE Centre for Local Government, other stakeholders, Australian states and international studies.

65 Recommendations

NSW Government directly supports 27 recommendations, provides in principle support for 26 recommendations, partial support for 5 recommendations. Seven recommendations not supported.

The Panel's conclusions

“No change is not an option. Already too many councils face serious financial problems. Far-reaching reform is essential to make NSW local government sustainable and fit-for-purpose into the mid-21st Century. The current arrangements simply cannot and will not maintain strong and effective local government for the majority of communities and regions across the State.”

“Among many other changes some amalgamations must be considered if we really want stronger and more effective local government.”

“Securing local government’s financial capacity and sustainability is the fundamental pre-requisite for all other moves to enhance its strength and effectiveness.”

“The Panel believes that there is still considerable room to improve local government’s efficiency and effectiveness, and to ensure that councils are properly accountable to their local community for their performance.”



Feedback on the Panel's report

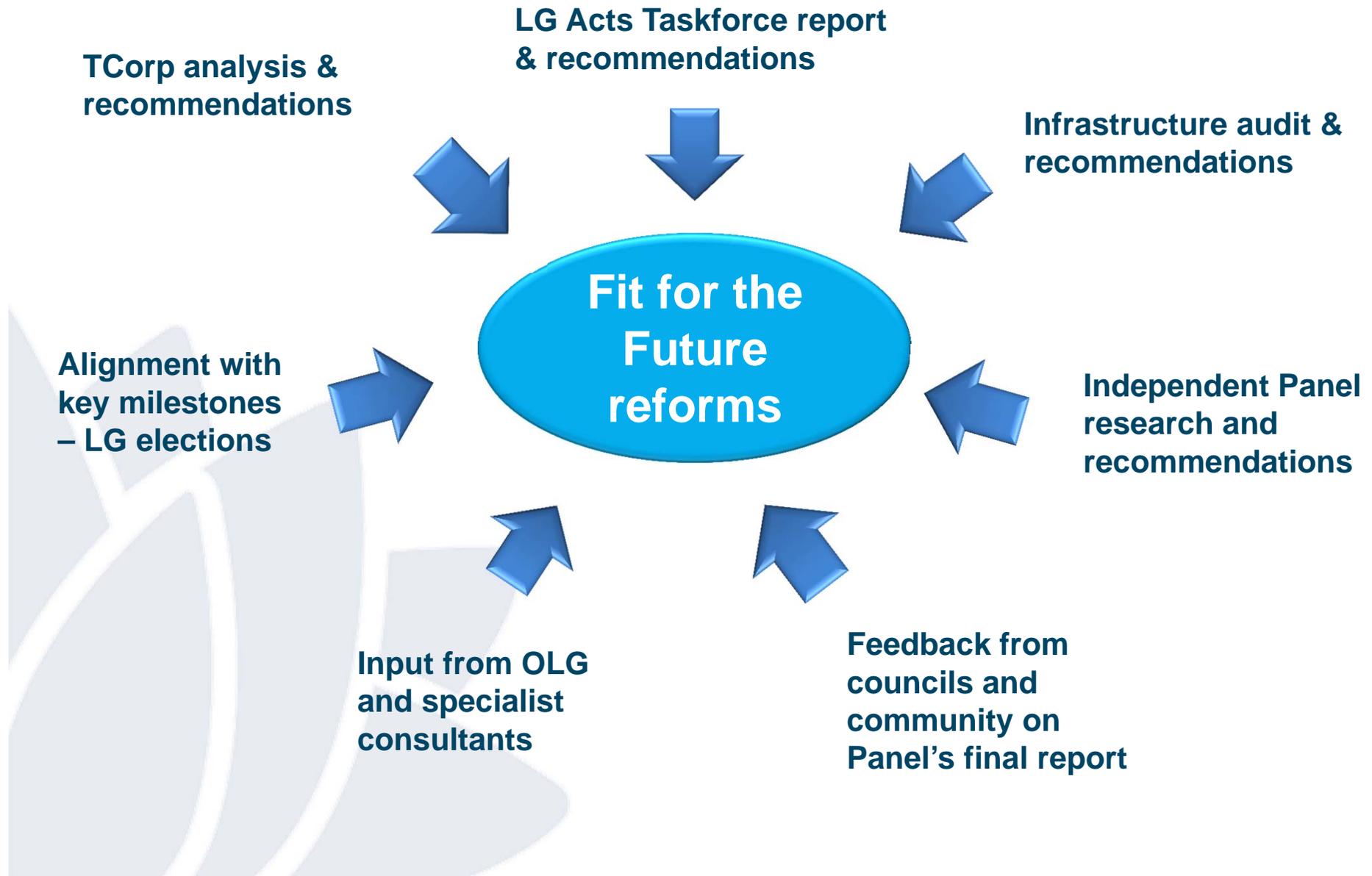
- The NSW Government received the Panel's final report in 2013 and, after consideration, placed it on public exhibition for further comment.
- A total of 391 submissions were received, with the majority of the Panel's recommendations being supported. Most variation of opinion was on structural reform and the method of implementing the changes.

Response from Local Government NSW

“LG NSW urges the NSW Government to commence action immediately on those recommendations that have strong or reasonable support across the Local Government sector. . .

. . . It is critical that momentum is not lost. It is important that the NSW Government capitalise on the goodwill in the Local Government sector for the well supported recommendations. Local Government across NSW would be disappointed to see these parts of Revitalising Local Government shelved until after the 2015 NSW Parliamentary Elections.”

Preparing the Government response





The vision for change

- A modern system of local government, providing quality services and value for money.
- Strong, connected councils that play an active role in helping communities grow.
- Sustainable councils that can deliver the infrastructure and services communities need both now and in the future.

Key reform directions

A comprehensive package of reform

Changing the scale of council operations, improving sustainability, and performance

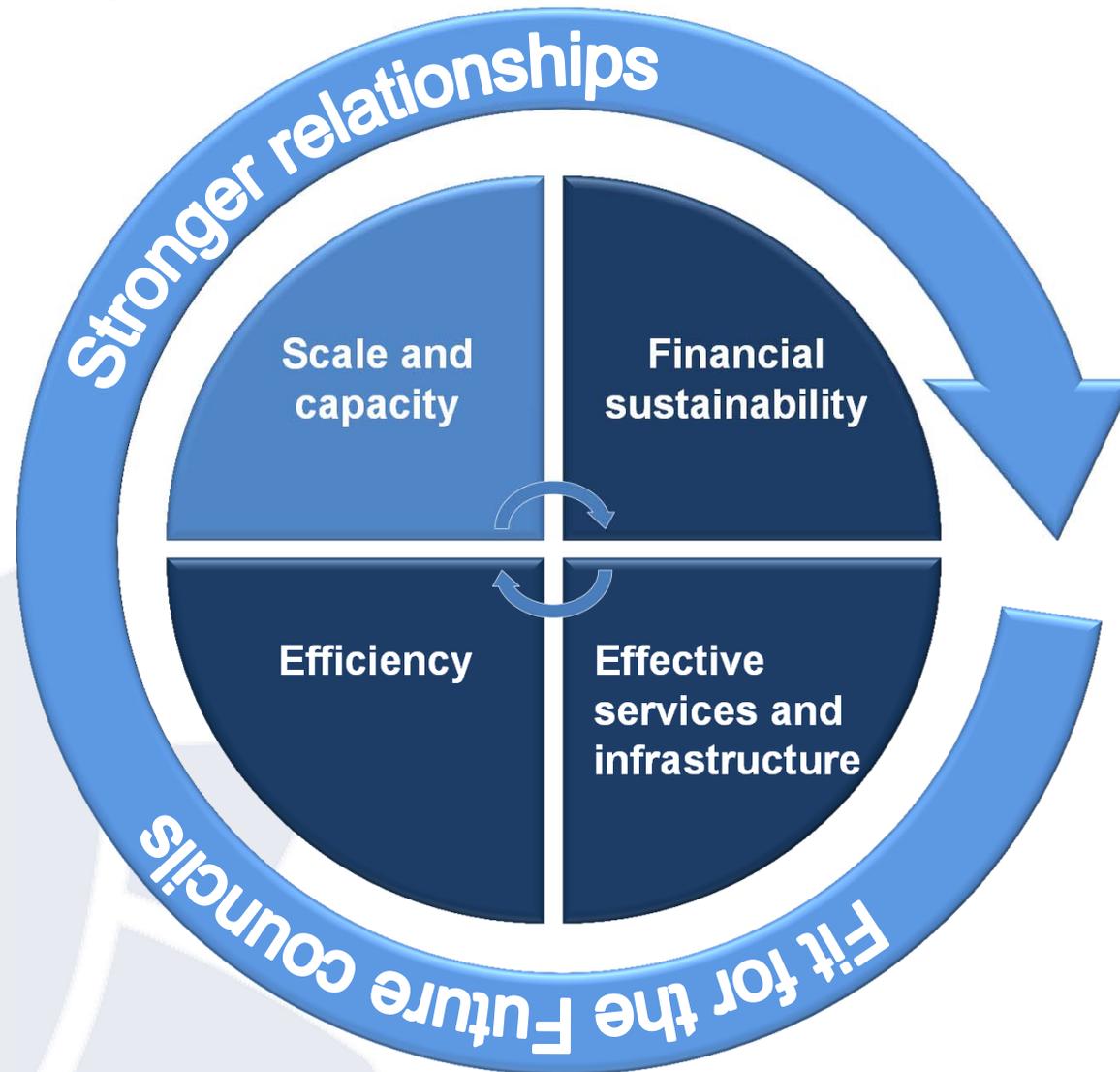
Changing legislation and cutting red tape, making it easier for councils to do their job

Improving the way that State and local governments work together

Strengthening regional NSW and providing more options for country councils

Key outcomes

Strengthening the system



Key features of the reform package

Not just about structural change

Australia's largest investment in local government reform

Highly collaborative approach – NSW councils have been directly involved over four years of development

Substantial levels of support. Subsidised cost-benefit analysis, assistance with planning for the future. Support for transition.

No 'one size fits all' approach

State Government funding

Unprecedented investment

\$258 million

Direct funding to support councils who undertake a voluntary merger.

Up to \$22.5m for Sydney councils
Up to \$13.5m for regional councils

\$5.3 million

Seed funding for Joint Organisations

\$4 million

Innovation funding to help small rural councils

\$13 million

Supporting transition arrangements for merging councils and ensuring elected representatives are involved in the process

\$600 million

Potential savings through access to cheaper finance through the State borrowing facility

Key system reforms

An integrated approach

Modern legislation

Built around IP&R, simplified and enabling change.

Cheaper finance

State borrowing facility, from 2015, to help councils who are fit for the future gain access to cheaper finance

Improved financial sustainability

Rating review, review of Financial Assistance Grants distribution, financial sustainability program

Reducing red tape

A comprehensive review into the regulatory and compliance burden on councils. IPART will make recommendations for change

Improving council governance

Clarifying the role of Mayors, Councillors and senior staff. New minimum two-year term for Mayors

Improving transparency

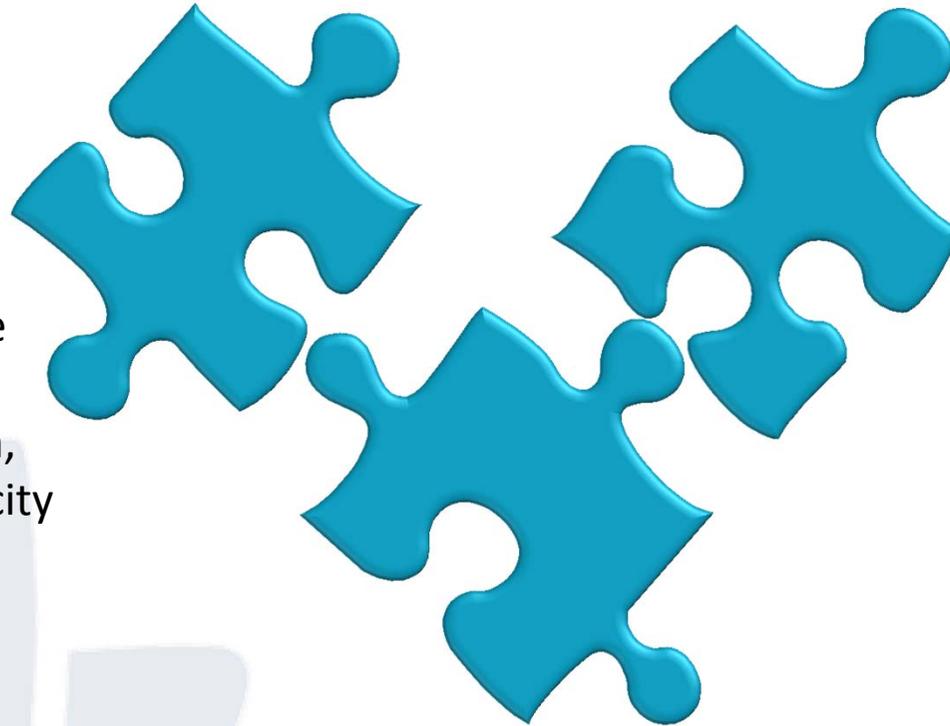
A new role for the Auditor General to help councils improve performance and strengthen internal audit

These initiatives reflect key recommendations of the Panel, supported by the sector

Key reform directions for regional NSW

Strengthen regions

Establish strong networks of Joint Organisations, connected to State government and focused on growth, and regional capacity building



Increase support

Provide more options for small rural councils. Support innovation through a \$4m fund. Review FAGs distribution models

Strengthen councils

Improve sustainability and encourage councils to increase their scale and capacity through voluntary merger where appropriate.

Supporting regional collaboration

The NSW Government will provide \$5.3 million to help establish new Joint Organisations in regional NSW.

Joint Organisations will provide:

- Consistent membership
- Consistent strategic planning boundaries
- A formal mechanism for State and Local Government to work together on regional priorities
- Legislative recognition

Five regional council groupings are currently taking part a pilot program to help develop the final JO model. The Pilots were chosen through expressions of interest from councils who had a history of strong regional collaboration.



Five Pilot regions

Namoi Councils

7 councils

Priorities include infrastructure to improve access to employment, services and markets, developing a regional investment prospectus

Central NSW Councils

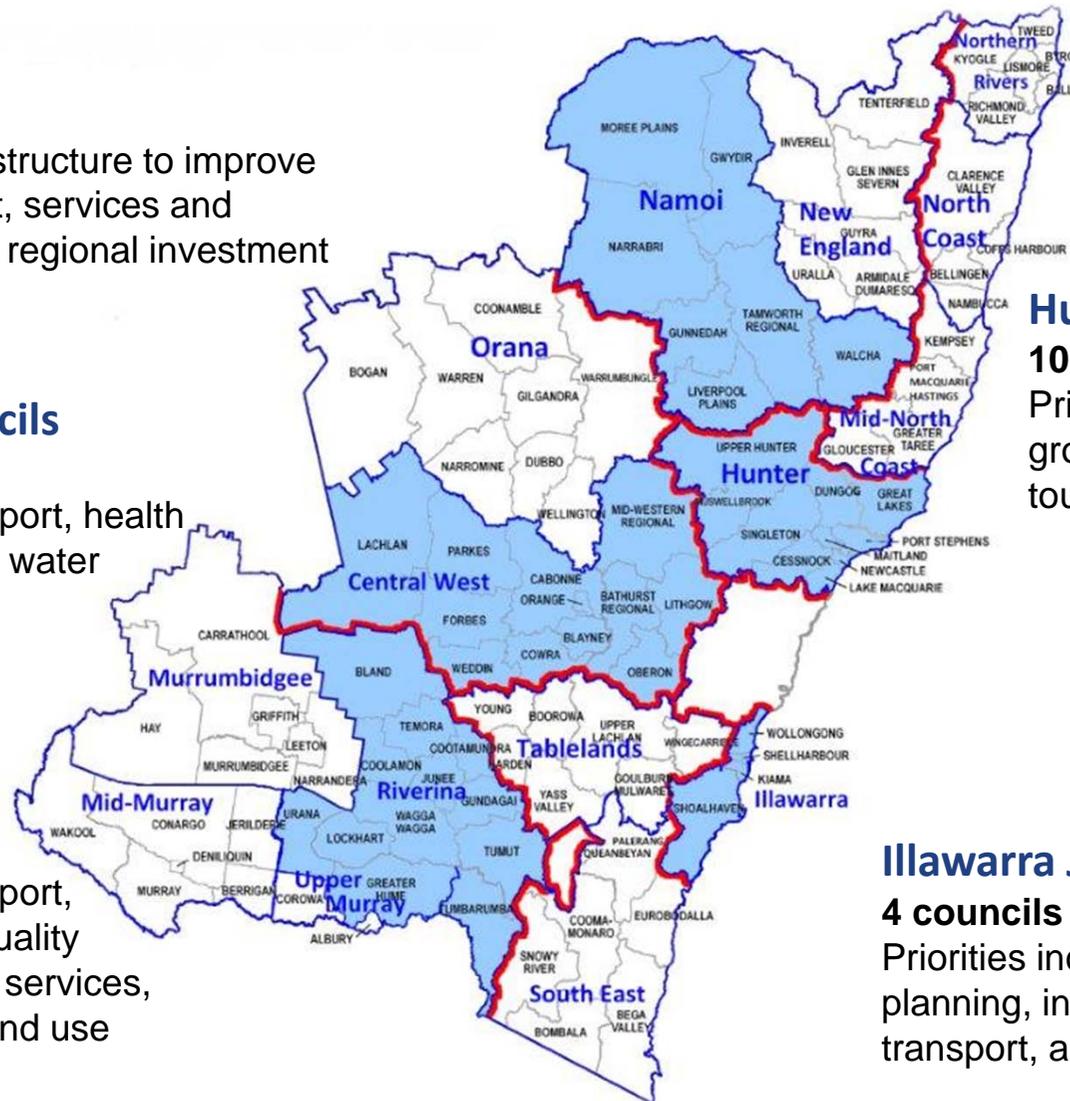
13 councils

Priorities include transport, health and education, secure water supply, Broadband

Riverina JO

14 councils

Priorities include transport, improving access to quality water and wastewater services, regional growth and land use planning



Hunter JO

10 councils

Priorities include regional growth plan, transport, tourism

Illawarra JO

4 councils

Priorities include regional planning, infrastructure, transport, access to jobs



Working with the Far West

Communities in Far West NSW face particular challenges and the Panel recommended a unique approach for this region.

The OLG is working with the Department of Premier and Cabinet to help find long-term solutions for service delivery in the Far West region.

We are supporting Far West councils to participate in the Fit for the Future program.

Developing the Fit for the Future process

Key drivers

- Encouraging mutual responsibility for change – the State provides incentives and enablers, local councils also commit to reform
- Providing a consistent framework for councils to respond to the Panel's specific recommendations and put forward evidence of their performance
- Providing opportunities for councils to discuss their performance and future plans with their community, in response to the Panel's findings
- Ensuring consistent, fair and impartial review of council's responses

A Fit for the Future council is:

- Financially sustainable
- Efficient
- Has the capacity to effectively manage infrastructure and deliver services
- Has sufficient scale, resources and strategic capacity to govern effectively and partner with the State

How does the process work?



Fit for the Future criteria

Sustainability

1. Operating Performance Ratio
2. Own Source Revenue
3. Building & Infrastructure Asset Renewal Ratio

Service & Infrastructure Management

1. Infrastructure Backlog Ratio
2. Asset Maintenance Ratio
3. Debt Service Ratio



Scale and Capacity

1. Use the Independent Panel recommendations as a starting point
2. Rural Council characteristics

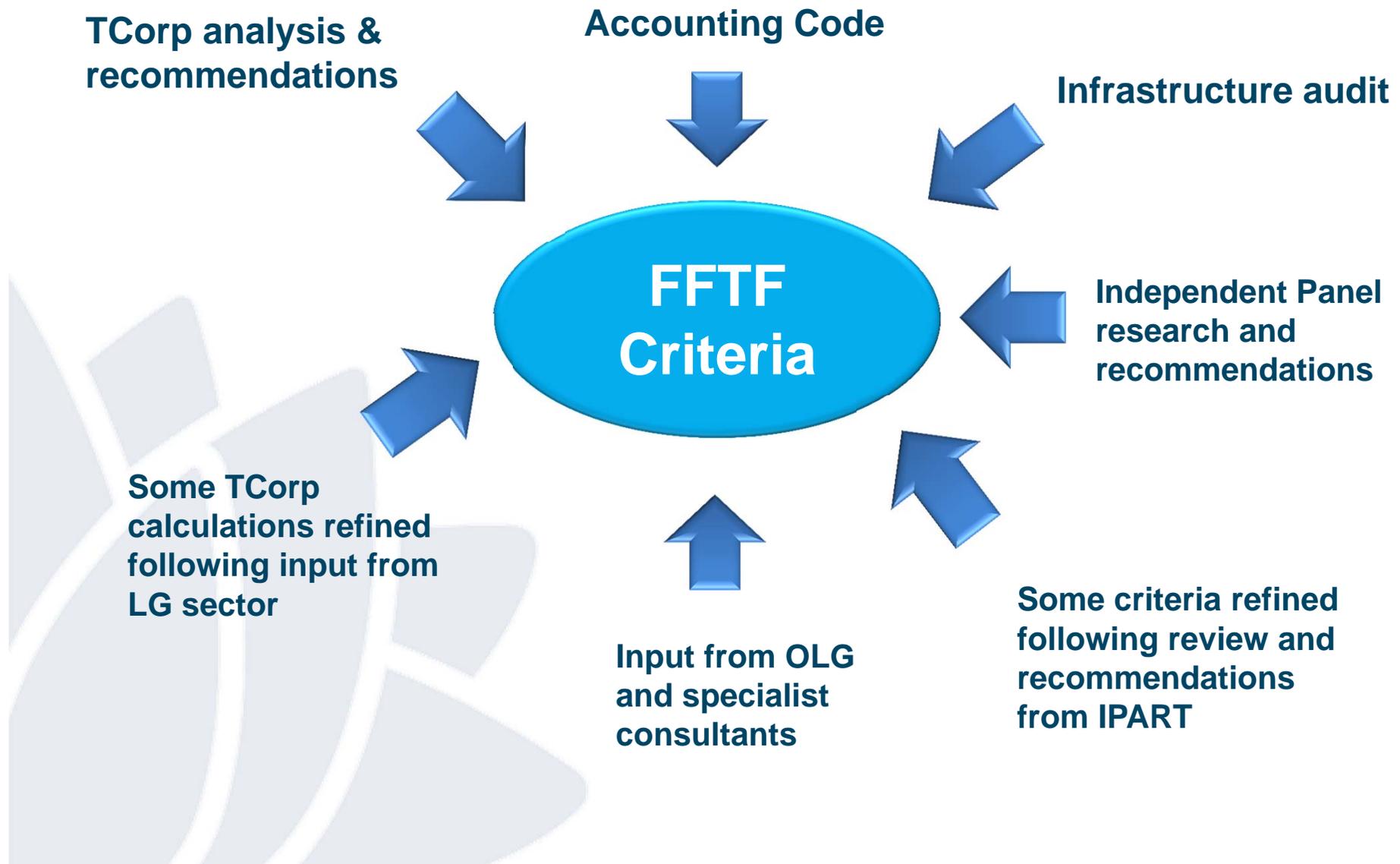
Efficiency

1. Real Operating Expenditure per capita

Key elements of strategic capacity

- More robust revenue base and increased discretionary spending
 - Scope to undertake new functions and major projects
 - Ability to employ a wider range of 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
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How were the criteria and measures developed?



Assessing proposals

Ensuring rigorous, transparent and fair process

Expert assessment panel

- The Minister has appointed IPART, with support from local government expert, John Comrie, to undertake the review
- The assessment is based on the criteria provided to councils in October 2014
- IPART has worked with the local government sector to refine the assessment methodology
- The Terms of Reference for the review were developed in consultation with the Ministerial Advisory Group
- Members of the public will have the opportunity to make submissions to IPART.



Supporting councils

One Stop Shop

- OLG provides Regional Relationship Managers to help councils connect with funding/support and answer individual enquiries
- Relationship managers have responded to more than 300 direct enquiries from councils during the process
- Fit for the Future website provides information and on-line forums to support councils in preparing their proposal.
- Regional workshops to explain Fit for the Future process – 350 council attendees
- Support for 'peer review' sessions helping councils finalise their proposals

Accessing support

- Fully-funded facilitation services: 36 councils involved in merger discussions
- Subsidised merger business case studies: 10 studies funded, for a total of 24 councils

Involving stakeholders

Ministerial Advisory Group

- Ministerial Advisory group formed in September 2014
- Local Government NSW, Local Government Professionals Australia, United Services Union
- Members provide feedback, review key documents, raise issues.

Key activities

- Terms of reference for Expert Panel review of Fit for the Future proposals
- Working group to review Fit for the Future benchmarks
- Feedback on IPART assessment methodology
- Terms of reference for Review of Regulatory Burden on Councils and rating review
- Review of Innovation Fund guidelines
- Feedback on Rural Council options
- JO Pilot process

OLG timeline for reforms

July – December 2015

Review Fit for the Future proposals

IPART reviews councils' Fit for the Future proposals and makes recommendations to the Government by late October.

Regulatory Burden Review

IPART undertakes a review of the regulatory and compliance burdens on councils

Local Government Act

Consultation and development work continues for the Local Government Act

Borrowing Facility

TCorp finalises the new local government borrowing facility for FFTF councils

Joint Organisation Pilot Process

Consultation and development work continues on the final JO model

January – September 2016

JO final model

Pilot process is reviewed and final model developed. Legislative amendments completed

Structural changes

Councils implement their Fit for the Future Proposals. Voluntary mergers begin transition to new entity

Amended Local Government Act

First round of amendments completed in time for the local government elections

Post LG elections

Joint Organisations

Joint Organisations are rolled out to remaining regional areas.



Why were these measures chosen?

Sustainability

Operating Performance Ratio

Core measure of financial sustainability – indicates council’s capacity to meet ongoing operating expenditure requirements

Benchmark: TCorp recommended at least break-even over the longer term – ongoing deficits are unsustainable

Own Source Revenue

Councils with higher own source revenue have greater ability to control their own operating performance and financial sustainability.

Benchmark: TCorp recommended 60% as the minimum level to ensure councils have sufficient flexibility to manage external shocks & challenges

Building & Infrastructure Asset Renewal Ratio

Measures whether council’s assets are deteriorating faster than they are being renewed – indicator of whether council’s infrastructure backlog is likely to increase.

Benchmark: Ratio of greater than 100% ensures community assets are managed in a sustainable way.

Infrastructure and service management

Infrastructure Backlog Ratio

Measures how effectively councils are managing their infrastructure. Increasing backlogs may affect council's ability to provide services and remain sustainable.

Benchmark: The benchmark of less than 2% ensures infrastructure backlogs are at manageable levels

Asset Maintenance Ratio

Measures whether council is spending enough on maintaining its assets to avoid increasing its infrastructure backlog.

Benchmark: A ratio of greater than 100% ensures council's infrastructure position is not deteriorating

Debt Service Ratio

Indicates whether council is using debt wisely to share the life-long cost of assets and avoid excessive rate increases.

Benchmark: It is appropriate that councils should carry some level of debt to ensure inter-generational equity in funding major infrastructure.

Efficiency

Real Operating Expenditure per capita

Indicates how well councils are utilising economies of scale and managing service levels to achieve efficiencies.

Benchmark: Focuses on each council's individual performance over time, rather than comparing with others. Decline in real expenditure per capita indicates improved efficiency (all things being equal).



Office of
Local Government



***Changing the face of local government in NSW
through a consultative, collaborative and
comprehensive package of reforms***

Fit for the  Future