LEGISLATIVE COUNCIL
GENERAL PURPOSE STANDING COMMITTEE NO 6

INQUIRY INTO LOCAL GOVERNMENT IN NSW

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Office of Local Government
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 km²  Hunters Hill
**Largest LGA** | 53,534 km²  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.

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

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<th>Discussion Papers</th>
<th>Six papers presented for public submissions</th>
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<td>2390 written submissions received from councils, community and others</td>
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<th>Consultation sessions</th>
<th>Total of 55 direct consultation sessions with councils and community. Total attendance 3275</th>
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<td>10 roundtables with State Agencies and peak sector stakeholders – 185 attendees</td>
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<td>Opinion polling, metropolitan areas, 1500 sample</td>
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<th>Research</th>
<th>Commissioned 14 studies and research reports into financial sustainability, rating, infrastructure, spatial analysis, outcomes of previous boundary change, community governance.</th>
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<td>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.</td>
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| 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

TCorp analysis & recommendations

LG Acts Taskforce report & recommendations

Infrastructure audit & recommendations

Alignment with key milestones – LG elections

Input from OLG and specialist consultants

Feedback from councils and community on Panel’s final report

Fit for the Future reforms
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

- Financial sustainability
- Efficient services and infrastructure
- Scale and capacity
- Effective services and infrastructure
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.

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

**Increase support**
Provide more options for small rural councils. Support innovation through a $4m fund. Review FAGs distribution models.
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 in 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?

- Does your council have appropriate scale and capacity? Use the Panel's recommendations as a starting point.
  - NO: Council Merger Proposal (Template 1)
  - YES: Council Improvement Proposal (Template 2)
  - NO: Rural Council Proposal (Template 3)

- Expert Panel Review
  - Fit for the Future
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
How were the criteria and measures developed?

TCorp analysis & recommendations

Accounting Code

Infrastructure audit

Some TCorp calculations refined following input from LG sector

Input from OLG and specialist consultants

Some criteria refined following review and recommendations from IPART
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

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<th>Time Period</th>
<th>Event Description</th>
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<tr>
<td>July – December 2015</td>
<td><strong>Review Fit for the Future proposals</strong>&lt;br&gt;IPART reviews councils’ Fit for the Future proposals and makes recommendations to the Government by late October.</td>
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<td><strong>Regulatory Burden Review</strong>&lt;br&gt;IPART undertakes a review of the regulatory and compliance burdens on councils</td>
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<td><strong>Local Government Act</strong>&lt;br&gt;Consultation and development work continues for the Local Government Act</td>
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<td><strong>Borrowing Facility</strong>&lt;br&gt;TCorp finalises the new local government borrowing facility for FFTF councils</td>
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<td><strong>Joint Organisation Pilot Process</strong>&lt;br&gt;Consultation and development work continues on the final JO model</td>
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<td>January – September 2016</td>
<td><strong>JO final model</strong>&lt;br&gt;Pilot process is reviewed and final model developed. Legislative amendments completed</td>
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<td><strong>Structural changes</strong>&lt;br&gt;Councils implement their Fit for the Future Proposals. Voluntary mergers begin transition to new entity</td>
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<td><strong>Amended Local Government Act</strong>&lt;br&gt;First round of amendments completed in time for the local government elections</td>
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<tr>
<td>Post LG elections</td>
<td><strong>Joint Organisations</strong>&lt;br&gt;Joint Organisations are rolled out to remaining regional areas.</td>
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### Why were these measures chosen?

#### Sustainability

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<th>Measure</th>
<th>Description</th>
<th>Benchmark</th>
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<td><strong>Operating Performance Ratio</strong></td>
<td>Core measure of financial sustainability – indicates council’s capacity to meet ongoing operating expenditure requirements</td>
<td><strong>Benchmark:</strong> TCorp recommended at least break-even over the longer term – ongoing deficits are unsustainable</td>
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<td><strong>Own Source Revenue</strong></td>
<td>Councils with higher own source revenue have greater ability to control their own operating performance and financial sustainability.</td>
<td><strong>Benchmark:</strong> TCorp recommended 60% as the minimum level to ensure councils have sufficient flexibility to manage external shocks &amp; challenges</td>
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<td><strong>Building &amp; Infrastructure Asset Renewal Ratio</strong></td>
<td>Measures whether council’s assets are deteriorating faster than they are being renewed – indicator of whether council’s infrastructure backlog is likely to increase.</td>
<td><strong>Benchmark:</strong> Ratio of greater than 100% ensures community assets are managed in a sustainable way.</td>
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## Infrastructure and service management

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<th>Measure</th>
<th>Description</th>
<th>Benchmark</th>
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<td><strong>Infrastructure Backlog Ratio</strong></td>
<td>Measures how effectively councils are managing their infrastructure. Increasing backlogs may affect council’s ability to provide services and remain sustainable.</td>
<td><strong>Benchmark</strong>: The benchmark of less than 2% ensures infrastructure backlogs are at manageable levels</td>
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<td><strong>Asset Maintenance Ratio</strong></td>
<td>Measures whether council is spending enough on maintaining its assets to avoid increasing its infrastructure backlog.</td>
<td><strong>Benchmark</strong>: A ratio of greater than 100% ensures council’s infrastructure position is not deteriorating</td>
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<td><strong>Debt Service Ratio</strong></td>
<td>Indicates whether council is using debt wisely to share the life-long cost of assets and avoid excessive rate increases.</td>
<td><strong>Benchmark</strong>: It is appropriate that councils should carry some level of debt to ensure inter-generational equity in funding major infrastructure.</td>
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<td><strong>Efficiency</strong></td>
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<td><strong>Real Operating Expenditure per capita</strong></td>
<td>Indicates how well councils are utilising economies of scale and managing service levels to achieve efficiencies.</td>
<td><strong>Benchmark</strong>: 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).</td>
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Changing the face of local government in NSW through a consultative, collaborative and comprehensive package of reforms