

INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

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Having studied agreed State and Local Government report Destination 2036, followed and made submissions to the TCorp Sustainability report, the Independent Local Government Review Panel (ILGRP), IPART Fit for Future assessment criteria I am disturbed that what started out as a drive for improved productivity and cooperation has ended up especially in metropolitan Sydney in a political battle about amalgamations

I am passionately interested in improved productivity and transparency in the Local Government Sector as it is crucial to overall productivity of the nation and put forward the following comments and suggestions

1 Government accepted the ILGRP recommendation to amalgamate in metropolitan Sydney but did not take the ILGRP implementation plan

The ILGRP took three years and considerable research to conclude that either joint organisations or amalgamations were necessary for metropolitan Sydney but preferred amalgamations. The State responded, rejected joint organisations and rejected the implementation methodology. Some of this research referred to the importance of the implementation plan in achieving successful amalgamations. The ILGRP defined some next steps on Page 99 of their final report.

I refer the committee to the submission to IPART (attached) made on a personal basis by Professor Sansom Chairman of ILGRP where he clearly outlined the process (Page 5) that should have been followed and problems with Fit for the Future. Instead of a cooperative environment sought, the OLG process has entrenched positions of councils and councils have not focussed on the opportunities from working together and with State agencies. It has also not been helped by the State not detailing its strategy for partnering with Local Government covered in the next item. The process also has had considerable expense.

The inquiry should recommend that given the failure of the Fit for Future process in the metropolitan area to achieve the desired objectives the Government return to the process recommended by the ILGRP

2 The Government stated its objectives of truly partnering with local government and reducing red tape and bureaucracy but Minister and OLG have been unable to state how the State would like to partner with Local Government or what red tape and bureaucracy it wants reduced.

It is difficult to see how you can have structural strategic reform unless it is clear what is meant to be achieved with partnership with which state agencies. Even the Metropolitan Commission does not make it clear how it when it is finally formed, will determine the roles and responsibilities of Local Government in the Planning Process. How can an organisation be setup and judged as being fit for the future if its potential role in the future has not been clarified?

Sansom submission (referred to earlier) notes that mergers should be designed to meet big picture strategic goals not being ad hoc marriages of convenience

Likewise it is essential to understand the red tape and bureaucracy that has been identified to ensure any new structure from the reform can be evaluated to ensure it achieves the objectives set.

Representations to the Minister for some clarification in this area received an unsatisfactory response giving details of Joint Organisations which the State rejected for metropolitan Sydney (Question and response attached).

The inquiry should call the Minister or Head of Office of Local Government so that the planned partnering can be explained and details of identified red tape and bureaucracy to be reduced disclosed

3 To be fit for the future the threshold criteria of scale and capacity ends up as simply a threshold of being a certain size or Council is not fit for the future

In the IPART assessment methodology if you are the size recommended by the ILGRP you pass the assessment and you do not have to demonstrate any strategic capacity to be deemed Fit for the Future as long as you pass three other criteria. (Note in Sansom submission his view that all Sydney Councils can easily do so).

Therefore strategic capacity is not a key assessment at all only size. The overriding driver for change appears to be equity as in the final report and in many of the consultations the ILGRP raised the issue that it was inequitable that the west of metropolitan Sydney with large councils had one councillor per three or four times the number in eastern councils. It raised Community Boards as a solution in current or amalgamated large councils but partially supported by the State but left to Council to propose.

If a Council puts forward an alternative proposal of a smaller size, IPART have stated that the proposal must be equivalent or better in terms of elements of strategic capacity. However IPART state there are no benchmarks or examples of demonstrated large council strategic capacity supplied by the ILGRP so IPART will just make a judgment on details supplied by the Council.

Thus after over 100 years of current boundaries IPART will just make a judgment (not based on any of independent studies as suggested by IPART implementation methodology) that the boundaries it will recommend are right for the next 100.

For instance it will be fascinating to see how IPART judge how a council has the capacity to partner with the State when as mentioned above the State have not identified any areas that it is willing to partner. It is nonsense to judge an organisation structure when it is not known what it is trying to do.

The inquiry should recommend that the scale and strategic capacity measure can be met by Joint Organisations. Community Boards can be used to give greater equity in larger Councils and evaluation can only be properly done when strategic capacity is properly defined including the partnering with the State be defined as in 2 above.

4 The other benchmarks for being Fit for the Future require consistent accounting policies and processes and auditing.

The major inconsistencies across Councils appear to exist in valuation of assets, depreciation methodology for assets and capitalisation policies even though these are audited. The methodology for determining required maintenance and backlog are also inconsistent and are not audited.

Lower valuation rates, lower depreciation and lower capitalisation rates makes council more profitable and make it easier to meet the trading result and renewal expenditure/depreciation benchmarks

Lower capitalisation rates mean lower required maintenance as in expenditure in P&L making it easier to meet maintenance benchmark

Lack of a consistent measurement of the condition of assets make it difficult to determine unsatisfactory asset conditions and lack of definition of backlog.

This fact was brought to the OLG attention by IPART in its review of the OLG Fit for Future criteria (Report dated September 2014). Specifically comment on sensitivity of benchmarks to depreciation methodology (page 23 and page 29) and that the backlog measure should only be used if it is audited (page 31). It does not appear if the OLG accepted any of the recommendations of changes to the criteria

All these inconsistencies were brought to the attention of TCorp and OLG at the time of the TCorp report but although recognising the shortcomings continued to use the measures to issue their report.

Examples of differences are

Road valuations \$000/kilometre Warringah 755 Manly 1430 Blacktown 1122

Road Depreciation \$000/kilometre Warringah 6.9 Sutherland 8.8 Blacktown 21.5

Road required maintenance \$000/kilometre Warringah 6.0 Sutherland 10.9 Blacktown 17.9

It is very difficult to understand these differences reflect real differences in assets not just valuation and accounting practices. It would appear that if Blacktown adopted the valuation and depreciation policies of Warringah the Blacktown Council would move from a loss to a profit and meet the benchmark for asset renewal. Alternatively if Warringah adopted Blacktown's policies it would move into a loss making position and fail to meet the renewal benchmark.

The inquiry should recommend that the consistent accounting policies and practices be applied across all Councils for benchmark preparation supervised by the Auditor General. After that is done benchmarks can be used to determine if councils need to merge for financial reasons for the next 100 years.

I also recommend to the committee as essential reading the Percy Allen submission to IPART on the process and alternative methods of achieving productivity as an example of real strategic reform and the Percy Allen Research paper submitted as part of the Woollahra Council Fit for Future Improvement proposal for a review of economies of scale from amalgamations