

INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

Organisation: Wagga Wagga City Council

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Hon Paul Green MLC
Committee Chair
General Purpose Standing Committee No 6
Legislative Council

Dear Sir,

INQUIRY INTO LOCAL GOVERNMENT IN NSW

I would like to take this opportunity to make a number of points to this inquiry on behalf of Wagga Wagga City Council.

(a) The NSW Government's 'Fit for the Future' reform agenda

Council recognises the need for reform and changes to the Local Government sector and that the initiative for the current reform agenda had its genesis in Destination 2036 and the subsequent work performed by the Independent Review Panel. However, the reform agenda with 'Fit for the Future' appears to be narrowly focused on a limited number of financial ratios, some of which are questionable and reducing the number of Councils. It is Council's view that a more holistic review of the effectiveness of each Council should be the prime focus, including community satisfaction levels and implementation of a number of changes aimed at removing barriers which limit the effectiveness of Local Government.

The NSW Government response (September 2014) to the Independent Local Government Review Panel and the Local Government Acts Taskforce, highlights that the majority of the recommendations from these reviews are either supported or supported in principle by the NSW Government. The Fit for the Future process addresses only a small number of these recommendations and there are seemingly no action plans, resources or timeframes announced by the NSW Government to address many of these recommendations. These recommendations include a number of reforms which are fundamental to enhancing the effectiveness, efficiency and sustainability of Local Government including:

1. Establish an integrated Fiscal Responsibility Program, coordinated by OLG and also involving TCorp, IPART and LGNSW to address the key findings and recommendations of TCorp's financial sustainability review and OLG's infrastructure audit (Recommendation 1)
2. Ensure that the provisions of the State-Local Government Agreement are used effectively to address cost-shifting (Recommendation 4)
3. Commission IPART to undertake a further review of the rating system focused on options to reduce or remove excessive exemptions and concessions that are contrary to sound fiscal policy and jeopardise Councils' long term sustainability (Recommendation 6)
4. Factor the need to address infrastructure backlogs into any future rate-pegging or local government cost index (recommendation 11)

(b) The financial sustainability of the local government sector in NSW, including the measures used to benchmark local government as against the measures used to benchmark State and Federal Government in Australia.

It is apparent to Council that there is no consistency of financial sustainability measures required of NSW Councils with other levels of government.

The financial sustainability measures for State and Federal Governments are most commonly described in terms of whether the forecast budget is in surplus or deficit and the credit ratings held by the Commonwealth and each particular State. Terms such as 'infrastructure backlogs' and 'asset renewal ratios' are rarely used by Treasury or politicians in the context of State and Federal Government budgets or finances.

The Fit for the Future benchmark for the Operating Performance Ratio expects that Council's will derive sufficient revenues to cover all its operating costs which includes depreciation expense. Depreciation expense typically represents 20-30% of Council's overall operating expenses and varies depending on the size and extent of the assets provided including roads, sewer, stormwater drainage, number of pools etc. The depreciation expense is the key reason why many Councils are reporting an Operating Deficit before Capital Grants and Contributions prompting the Minister for Local Government to announce that Councils are "in the red" and "losing millions on a daily basis". These comments are not helpful.

It would appear that other levels of government do not factor in the cost of asset consumption (depreciation) in their financial reporting or budget estimates.

(c) The performance criteria and associated benchmark values used to assess local authorities in NSW

The financial benchmarks contained in Fit for the Future represent a very narrow and limited basis upon which to assess local authorities in NSW. The NSW Government has a range of tools available to provide a broader and more balanced assessment of Councils which it appears to have largely disregarded. These include:

- NSW Local Government – Better Practice Reviews
- Community satisfaction ratings conducted through community surveys
- NSW Office of Water – Better Practice and performance comparisons for water and sewerage
- Published Annual Reports
- NSW OLG - Local Government Performance Measurement Framework (as detailed on the OLG website:
<http://www.olg.nsw.gov.au/strengtheninglocalgovernment/supporting-and-advising-councils/local-government-performance-measurement-framework>

Council has a number of concerns around the existing benchmarks which will be assessed by IPART. These concerns are summarised below:

Operating Performance Ratio

- The ratio is heavily influenced by the cost of depreciation which may vary significantly from Council to Council. It will always be more difficult for a Council such as Wagga



Wagga with a road network of more than 2,300 km to reach this benchmark in comparison with Council's eg Albury with a road network of only 500 km.

- The ratio excludes capital grants and contributions such as Roads to Recovery for which Council utilises to fund the renewal of roads on a recurrent basis and has become a reliable revenue source that should be factored in.

Building and Infrastructure Asset Renewal

- As indicated above, this ratio does not take into consideration the variability of asset bases between Councils in NSW. Councils with a large asset base and road network such as Wagga Wagga will find it more difficult to achieve this benchmark
- The nature of asset renewal expenditure is that the level of expenditure will vary from year to year depending on timing for planned renewals. The replacement of major items of infrastructure in any given year will result in the benchmark being exceeded whereas there may be successive years where the benchmark is not achieved. The benchmark requires Council to spend an amount at least equal to depreciation across an average of three years. This should be averaged over a longer period of at least five years.

Infrastructure Backlog Ratio

- There is no consistent or agreed upon basis by the Office of Local Government or by the Councils themselves for measuring the infrastructure backlog for each Council. Each Council will approach the assessment in a slightly different way meaning that the number is subjective and almost impossible to provide any form of meaningful comparison.

Asset Maintenance Ratio

- There is no consistent or agreed upon basis by the Office of Local Government or by the Councils themselves for determining the gap between the required levels and the actual levels of maintenance for each Council. Each Council will approach the assessment in a slightly different way meaning that the number is subjective and almost impossible to provide any form of meaningful comparison.

Real Operating Expenditure per capita

- Rural and Regional communities do not measure their council's performance by cost per head of population but rather by the council's ability to deliver the services ability to deliver the services and facilities that the community considers to be important. It is extremely important therefore that the Efficiency Ratio is considered in this context.
- This ratio is sensitive to changes in all forms of operating expenditure and does not consider the corresponding changes in income that offset the impact of additional items of expenditure. Examples include the implementation of new State Government funded initiatives or the expenditure related to natural disaster events. The calculation of this ratio doesn't allow for items such as these to recognise the associated revenues resulting in a misleading result.



(f) The appropriateness of the deadline for 'Fit for the Future' proposals.

The timing for the submission of proposals has been problematic as evidenced by the key dates in the table below:

Action	Date
Announcement that IPART will be undertaking the assessment of the Fit for the Future proposals	27 April 2015
Release of the consultation paper by IPART – Methodology for Assessment of Council Fit for the Future Proposals	28 April 2015
Final date for submissions on the IPART consultation paper	25 May 2015
Announcement of the final evaluation criteria by IPART after having considered submissions	5 June 2015
Submission of Fit for the Future Proposals	30 June 2015

The Ministerial announcement of key dates and targets has not been matched by the resources of the NSW Office of Local Government to implement and allow meaningful consultation and the timely provision of the templates and tools to Councils for completion of the proposals.

(l) The role of co-operative models for Local Government including the 'Fit for the Futures' own Joint Organisations, Strategic Alliances, Regional Organisation of Councils, and other shared service models, such as the Common Service Model.

The JO Pilots were set up with initial funding support from the State Government. It is understood that after the pilot period and once the legislative framework is in place, that substantive JOs will be established in 2016 and that they will be provided with start-up funding, but that the JOs that were initiated as pilots will not be eligible for this funding. This does not seem to be equitable in that the pilot JOs, one of which involves Wagga Wagga City Council, were the "guinea pigs" for the JO program that had limited time and legislative capacity to establish a substantive operation. The JO Pilots were formed to provide guidance to the local government industry and the State Government on future functional models and the members of those JO Pilots should not be penalised for their proactive, groundbreaking role.

The ultimate JO model needs to be sufficiently flexible to accommodate the existing activities of Regional Organisations of Councils. The JOs, whilst having a legitimate and important role in the identified core areas of regional strategic planning, intergovernmental collaboration and regional leadership and advocacy, have an equally important role in the sphere of regional shared services. The shared services role needs to be accorded a higher priority by the State Government, rather than being assigned to secondary status as is currently the case. An effective shared services/resources framework needs to be established for JOs with



the capacity to enter into contracts, legal agreements etc in their own right. They need to have the ability to establish appropriate structures and entities of their own volition without the encumbrance of obtaining Ministerial approval.

The State Government should contribute ongoing funding for the operation of JOs. The State will benefit from JOs through a simplified, streamlined and collaborative interface with local government and the operational costs of running these organisations should be shared by the State and local government. Councils want JOs to have the capacity to interface with the State Government to achieve greater influence over policy decisions within the region that are relevant to local government and their communities. This aligns with the State's objectives and simplifies the State's interface with local government. The following statement from the State Government's Fit for the Future website <http://www.fitforthefuture.nsw.gov.au/joint-organisations> demonstrates this point.

"Joint Organisations will provide a forum for local councils and the State to work together to deliver regional priorities, such as jobs, education, housing, roads and transport. They will help to connect local priorities from local councils' Community Strategic Plans with regional planning for growth, infrastructure and economic development and provide a means of delivering projects across council boundaries."

The costs should therefore be shared.

I invite further contact if clarification is sought on any matter in this submission.

Yours Sincerely

Phil Pinyon
General Manager

