Submission
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Institute of Public Works Engineering Australasia Limited
NSW Division

NSW LEGISLATIVE COUNCIL
Inquiry into local government in New South Wales

Submission by

INSTITUTE OF PUBLIC WORKS ENGINEERING AUSTRALASIA (NSW DIVISION)

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EXECUTIVE SUMMARY

IPWEA (NSW) appreciates the invitation to provide this submission to the NSW Legislative Council Inquiry into local government in NSW.

This paper canvasses a wide range of issues in regard to the Fit for the Future process currently being undertaken by the Office of Local Government. The submission deals with each of the Terms of Reference based on a wide range of inputs.

IPWEA (NSW) has a stated mission *to enhance the quality of life of NSW communities through excellence in public works and services. This is achieved through our professional association that effectively informs, connects, represents and leads public works professionals for NSW.*

IPWEA (NSW) has a set of values that requires respect, integrity, passion, excellence, recognition and ownership in everything we do.

IPWEA (NSW) is therefore ideally placed to take a lead role in enhancing outcomes for communities across NSW, by assisting practitioners within Local Government, and providing input into the Fit for the Future process at a variety of levels.

The management of infrastructure owned by NSW Local Government represents the key expenditure item for Councils across NSW. This is one of the principal issues impacting Councils as they try to move toward being 'Fit for the Future'. More importantly, the success or failure of our industry to get this balance right, has significant consequences for our communities in relation to risk management including directly impacting on public health and safety, and financial sustainability.

The conclusions reached in this submission include:

- The limited range of matters taken into account in assessing each council's financial capacity into the future restricts the value of the likely outcome to be achieved.

- The limited timeframe allowed for councils to research, assemble and deliver the data required by the Fit for the Future process has been unreasonably short, stretching the resources of councils, adding costs to ratepayers and devaluing the result.

- The exclusion of grants, including Financial Assistance Grants, from the assessment process is considered to be flawed.

- The Fit for the Future process assumes that scale equals capacity. This is clearly not the case as smaller councils taking advantage of current management structures are able to provide efficient and effective services to their local communities.

- Published research fails to show that broad scale amalgamations, particularly in regional areas, result in significant economic benefits. More likely outcomes include declining population, reduced employment opportunities, a reduction in community involvement and the breakdown of social structures.

- In terms of infrastructure maintenance and renewal, it is clear that the existing funding model is not capable of meeting future needs, without on-going support from other levels of government. The prime driver of this is the extensive networks of infrastructure required to service communities, rather than the number of Councils delivering the service.

- The seven Fit for the Future criteria fail to address other infrastructure issues including network deficiency, functionality or capacity. Focus on the existing infrastructure network is inadequate, doesn't meet current legislative requirements or community need.

- The underpinning asset ratios have not been sufficiently defined to permit consistent calculation and application across NSW. IPWEA (NSW) has offered to work with the OLG and NSW Auditors Advisory Group to improve the definitions and build the capacity of both OLG and Councils to produce consistent outcomes (see Appendix 2 – Presentation to Local Government Auditors Association of New South Wales on 18 May 2015).

- IPWEA (NSW) believes that the widespread implementation of Joint Organisations of Councils does provide an opportunity for regional partnering. There are however concerns that JOCs may develop into the equivalent of a fourth tier of government, potentially introducing unnecessary processes and inefficiencies compared the current model, in effect shifting further costs away from the NSW Government onto local ratepayers.

- There is a need to ensure that any reforms provide a sustainable model for the development of the next generation of engineering and asset management professionals through support of local students and young professionals, particularly in regional NSW.

IPWEA (NSW) believes that there is an opportunity for the NSW Government to work with local government to:

- provide improved and appropriately defined measures and benchmarks against which councils are measured
- provide assistance with the implementation of a financial reporting framework that can be audited and relied upon and
- assist councils in the employment and development of engineers and asset managers to carry out these tasks

The attached documents form part of this submission:

1. Appendix 1 – IPWEA (NSW) Submission in response to IPART's *Methodology for Assessment of Council Fit for the Future Proposals Local Government – Consultation Paper* April 2015
2. Appendix 2 – Presentation to Local Government Auditors Association of New South Wales on 18 May 2015
3. Appendix 3 – 2015 NSW Roads Congress Communique – 1 June, 2015

Table of Contents

APPENDIX 1	IPWEA (NSW) Submission in response to IPART's Methodology for Assessment of Council Fit for the Future Proposals Local Government – Consultation Paper April 2015
APPENDIX 2	Presentation to Local Government Auditors Association of New South Wales on 18 May 2015
APPENDIX 3	2015 NSW Roads Congress Communique – 1 June, 2015

1. Background

On 28 May 2015 the NSW Legislative Council General Purpose Standing Committee No. 6 called for submissions to its Inquiry into Local government in New South Wales.

The Inquiry's Terms of Reference are:

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.

This submission is in response to the Terms of Reference, together with a number of more general observations which might assist the Committee in its deliberations.

2. Response to Terms of Reference

This submission addresses the Terms of Reference with a particular focus on sustainability from an asset management and technical capability point of view. Input into the submission has been provided from a number of sources including IPWEA (NSW) Board Members, IPWEA Staff and published sources.

Local Government's task is to provide an agreed and adequate level of service to its local community, both in the short and long term. The ownership and management of infrastructure assets is exclusively to provide services to the community.

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

Local Government is a key stakeholder, and should be an equal partner, in delivering future economic prosperity, employment and social well-being of NSW and Australian communities.

The management of infrastructure owned and managed by NSW Local Government represents the key expenditure item for councils across NSW. This is one of the principal issues impacting Councils as they move toward being 'Fit for the Future'. More importantly, the success or failure of our industry to get this balance right, has significant consequences for our communities in relation to risk management including directly impacting public health and safety, and financial sustainability.

Local government in NSW is highly diverse ranging from councils servicing small rural populations across large areas with large infrastructure portfolios, to dense city populations across small areas with relatively small infrastructure portfolios. There is no 'one size fits all' answer.

IPWEA (NSW) supports reform that has real, identifiable outcomes for the sustainability of councils and, accordingly, the sustainability of infrastructure in NSW. Any reform agenda should have this outcome at its core.

IPWEA (NSW) is not convinced that the limited approach being taken through the Fit for the Future process, with its over-reliance on a restricted range of financial ratios, will deliver the best outcomes to the local communities or the NSW economy.

IPWEA (NSW) advocates for:

- Improved infrastructure sustainability measures that reflect the real decisions needed to be made to support the economic and social wellbeing of communities, effectively manage risk and legislative requirements, meet the changing needs of the community and support future growth (refer to IPWEA (NSW) submission to IPART attached as Appendix 1).

- Changes to the Integrated Planning and Reporting processes to improve the transparency of infrastructure management.

- The NSW Government to partner with Local Government to work with the Australian Government to develop a new National Infrastructure Partnership for the three tiers of Government for smarter long term investment plan in transport and community infrastructure.

- Implement the recommendations of the NSW Roads Congress Communique 2015 (attached as Appendix 3).

1(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

Local Government has worked hard to move to a more sustainable position over the last decade. IPWEA has assisted by providing leadership, industry accepted guidance documents and training in asset management planning, delivery and innovation. In NSW, IPWEA (NSW) has forged a strong partnership with LGNSW forming the NSW Roads & Transport Directorate to assist Councils to manage and advocate for funding for their largest asset portfolio of transport assets.

In 2006 the IPWEA (NSW) Roads & Transport Directorate engaged Jeff Roorda and Associates to carry out a benchmarking report to determine the state of transport infrastructure assets across NSW. The first report (2006) highlighted the scale of the long- term underfunding of roads and bridges presenting a significant risk to councils and their communities. The report concluded that current levels of road funding at that time were NOT sustainable and identified a life cycle funding gap of $783 million per annum. The implementation of asset management principles and plans was also limited.

The latest Road Asset Benchmarking Report (2014) released at the NSW Local Roads Congress on 1st June 2015 reports:

The road funding gap for NSW councils is estimated at $447 million based on the data from the 150 responding councils extrapolated to 152 councils. Funding at this level will require a 41% increase on 2013/14 road expenditures if asset management principles are not further developed to manage the gap. Asset management principles to be applied to managing the funding gap include:

- *ensuring that all councils have adequate accurate knowledge on their road assets and how their assets are performing,*
- *ensuring that sealed roads are resurfaced/resealed at the optimum time to maintain waterproofing of pavements,*
- *consulting with and select appropriate levels of service and costs to meet community needs and available resources,*
- *ensuring that unsealed roads are resheeted at the optimum time to meet agreed service levels within available resources,*
- *making efficiencies in operations, maintenance, resurfacing and pavement renewal aimed at reducing life cycle costs,*
- *improving maintenance practices and funding if necessary to extend pavement life and defer projected renewal,*
- *rationalising (dispose) of unnecessary infrastructure assets,*
- *adjusting service levels in consultation with the community,*
- *identifying future renewal needs and expenditure required to meet agreed service levels and document in a road asset management plan,*
- *increasing funding, and*
- *a combination of all actions above.*

While this report shows a significant improvement in asset management capacity and application since 2006, it also clearly shows that asset management alone will NOT overcome the funding gap problem.

The constraints on Local Government through rate pegging, limited alternate revenue streams, increasing costs due to noble legislative requirements (e.g. Workplace Health and Safety and environmental protection legislation) combined with increasing community expectations have created a challenging environment. Despite this, Local Government has responded well through improved practices, capacity building and innovation.

If the same tests were applied to the NSW and Australian governments, how would they fair?

Would the Australian and NSW Governments wish to be limited by maintenance, renewal and backlog ratios to improve the economy, employment and the social wellbeing of Australia and NSW?

In more recent times the NSW and Australian Governments have recognized the key role infrastructure plays in driving the economy, employment and social wellbeing. Programs such as Fixing Country Roads by NSW Government and additional Roads to Recovery funding by the Australian Government, acknowledge that the issues before Local Government extend well beyond those able to be resolved through reform of Local Government. Both levels of government are to be commended for these positive initiatives.

There is substantially more that can be done to assist Local Government as outlined in the NSW Roads Congress Communique.

1(c) the performance criteria and associated benchmark values used to assess local authorities in New South Wales

IPWEA (NSW) made a detailed submission to IPART's guidelines on Fit for Future. This is attached as Appendix 1.

'Sustainability' under the current review process is determined by a number of financial considerations. IPWEA (NSW)'s general comments on these subjects are:

Operating Performance and Own Source Revenue
All councils should be able to include Federal Assistance Grants in their revenue. This is a relatively stable income source.

John Comrie in his Review of TCorp's Report 'Financial Sustainability of the NSW Local Government Sector' dated October 2014 in relation to the Own Source Operating Revenue Ratio suggests:

> *This ratio measures the extent of a council's reliance on external funding sources. It is calculated by expressing a council's rates, utilities and charges revenue for a period as a ratio of its total operating revenue (inclusive of capital grants and contributions) for the same period.*
>
> *I see merit in this type of indicator but would argue for refinements. First of all I suggest that consideration should be given to including financial assistance grants revenue in the numerator (or at least having an additional indicator that included such that was given equal weighting with this one). Such revenue is in the main a reliable source of revenue for local governments (despite the Commonwealth's decision to hold the quantum constant in nominal values over the three*

years following 2013/14). For many rural councils with small populations financial assistance grants are a major source of revenue that they should comfortably rely on in planning affordability of future proposed works and services. (I would not make the same arguments in relation to Roads to Recovery or other grants which unlike FAGs would not require legislative change for their availability to be discontinued or annual quantum reduced). The basis of distribution of the available FAGs pool is such that councils with greatest needs for FAGs receive a higher share.

A council's own source revenue may be adversely impacted by one-off grants and other income sources. This should not adversely impact the assessment of a council's 'Fit for Future' status. For example, a council may receive a substantial grant to upgrade and replace an existing asset to provide an improvement in economic efficiency, to help drive the NSW economy forward. This should be seen as a positive outcome for the NSW community.

Building and Asset Renewal Ratio (BARR)
If a council meets the break-even Operating Ratio measure, there should be adequate revenue to provide for appropriate management of its infrastructure.

IPWEA (NSW) agrees, in general terms, with the requirement to meet or improve this ratio within five years, provided there is adequate provision for acceptable variations to the suggested trend. Such variations can easily occur through the injection of funds to replace assets (e.g. loan or grant funded replacement), which will have an on-going impact on the three year average asset renewal ratios.

Strict adherence to a need to 'improve', may act as a disincentive to sensible use of loan funded programs to treat high risk backlog or renewal works. It may also penalise councils who have advocated strongly for their communities and successfully achieved grant funding. Many of these grants are targeted to support NSW Government economic growth and community safety targets (e.g. replacement of a bridge with a modern equivalent that supports higher productivity transport options to address the 'first mile' issue).

These capital injections may provide a temporarily high renewal ratio followed by an apparent decline. Such variations in the ratio may be based around providing optimized sound management of infrastructure and risk, which should be seen as a positive, rather than something to penalise.

Depreciation is also a 'backward looking' accounting figure, in effect reflecting the value of the consumption of the asset. It also needs to be recognised that this is an estimate of cost based on a range of variables and predictive elements, especially for long lived assets. This should be emphasised that this estimate is subject to variations upon review.

All councils should be encouraged to undertake a review of unit rates annually and apply these to revise the depreciation calculation, with a major revaluation then undertaken in accordance with the OLG schedule.

What is more important than past depreciation, is what renewal work is falling due and how a council is dealing with its infrastructure backlog, as well as other relevant infrastructure matters when making decisions. A long- term financial plan that demonstrates sound management of these aspects is a more prudent measure than a single ratio.

In cases where a council's long-lived infrastructure is only part way through its useful life, depreciation may represent an amount far higher than the immediate need. Whilst it is reasonable for the current community to pay for the consumption of the infrastructure in use, IPART should give consideration to how a council responds to other identified infrastructure demands. Council should also retain the ability to place funds into an asset renewal reserve, with such 'provisioning' to be included in council's renewal ratio.

The current focus on meeting the 'Fit for Future' infrastructure renewal ratios alone may in fact be counter-productive for local councils, their communities and the NSW Government economic and community safety targets.

Infrastructure Backlog Ratio (IBR)

IPWEA (NSW Division) supports a requirement for councils to reduce the backlog of infrastructure works. Therefore, under the current ratio, a requirement to show improvement over five years is reasonable.

IPWEA (NSW Division) believes the backlog ratio and the requirement to meet the IBR, should be modified in the following ways:

i) Change the denominator 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 backlog.

ii) Increase the value (or ratio) to 2.5-3.0 times annual depreciation. The current backlog ratio represents less than one year of depreciation. Infrastructure is often long lived with unpredictable events (e.g. prolonged wet periods) and uncertainties (e.g. ground conditions) significantly influencing actual outcomes. Works programs should be planned well in advance of the year they are budgeted, otherwise inefficiencies in service delivery may be introduced. The current ratio methodology has a level set at 2% against the written down value. This essentially means a council would be budgeting for predicted rather than actual works based on the level of service expected by the community. This also limits a council's ability and flexibility to plan a response over a longer period when unusual events occur, taking appropriate account of risk and community impact in prioritizing works. This is evident in some parts of the North Coast of NSW currently where councils have experienced on-going periods of wet weather and floods, resulting in significant infrastructure backlogs, and potentially not yet seen premature failure of assets. Whilst some of this infrastructure work will be treated under Natural Disaster Funding arrangements, much of the increased infrastructure decline will need to be met by local councils.

iii) Increase the timeframe to meet the criteria. Councils can introduce cost effective solutions to respond to backlog 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. These strategies often support assumed long lives of other asset components (e.g. meeting reseal renewal targets will help protect expensive structural road pavements from premature failure). Lack of resealing reduces the life of the road asset and leads to a reduced level of passenger safety due to 'less than adequate' friction between vehicle tyres and the road surface.

IPWEA (NSW) believes there is also a need to improve the definition of the cost to bring to satisfactory that determines the quantum of the backlog. IPWEA has offered to work with OLG to:

- better define how to calculate the backlog
- provide standard underpinning criteria (e.g. road hierarchy, condition assessment methodologies) and typical ranges of useful lives for use by LG in NSW (which will also aid depreciation assessment)
- provide training to LG Engineers and Technical staff to further build capacity within councils

We believe this approach will provide a more realistic and consistent assessment of the infrastructure renewal work needed to meet the agreed level of service, using the optimum infrastructure renewal methods (e.g. partial versus whole of component renewal).

Asset Maintenance Ratio (AMR)

IPWEA (NSW) agrees that councils should meet or improve this ratio within five years. We recommend however that this requirement commence from 2015-/16 onwards.

OLG have now confirmed that this ratio only applies to routine maintenance (actual expenditure compared to required expenditure). It is clear that the definition of this ratio (within Special Schedule 7) has been interpreted legitimately, but differently by different councils. Therefore historical analysis of this ratio may be based on differing definitions and inclusions.

Debt Service Ratio (DSR)

IPWEA (NSW) supports the appropriate use of debt to deliver long lived infrastructure to communities, to ensure inter-generational equity and allow improved asset, financial and risk management.

1(d) the scale of Local Councils in NSW

It appears that the Fit for the Future process assumes that scale equals capacity. This is clearly not the case as smaller councils taking advantage of current structures are able to provide efficient and effective services to their local communities. There is an opportunity here to further develop capacity whilst maintaining community engagement for smaller councils.

IPWEA (NSW) believes that Local Government is well placed to continue to improve performance and is already benefiting from recent key initiatives such as:

- Reviewing services levels when making asset renewal decisions,
- Continued improvement of asset management practices, and
- Implementing operational reforms that reduce costs in real terms.

Many councils have also benefited from special rate variations with the additional income being used to fund infrastructure renewals. Some have also leveraged special rate variations through the use of discounted borrowing available through the LIRS interest subsidies if or when these have been available.

There are also other factors influencing revenue streams and infrastructure management. A few examples include:

- **Rateable land** - Some regional shire and city councils have a large land mass area comprising of either National Park or State Forest that yields no rates revenue.

- **Other Non-Rateable Properties** - Most Local Government areas have large Crown Land not privately leased, religious organisations, charitable bodies, public benevolent intuitions, local aboriginal land councils and schools that do not yield rate revenue

- **Caravan and mobile home parks and high rise units in the city areas** -These are intense centres of population and activity (and therefore significant users of council services) and are levied modest rates based on land valuation alone. Permanent park residences and unit dwellers represent a high percentage of population within coastal LGAs and the city environs.

- **High percentage of residents that qualify for pensioner discount** - Coastal councils attract a high number of retirees and can be the largest proportion of rate assessments that attract the pensioner discount in New South Wales.

- **FAGs** - The compensating factors in the calculation of the Financial Assistance Grant (FAGs) is acknowledged, however the available grant pool is insufficient to fully compensate non-minimum grant councils for their relative disadvantage.

- **Topography and climate** - Coastal councils have a high cost of providing Infrastructure due to topography and climate. Coastal councils with beaches and lush green hinterland are expensive areas to build and maintain transport infrastructure. High rainfall decreases the service life of roads.

Infrastructure management plays a critical role in the financial sustainability, efficiency and risk management for councils and the communities they serve. Any assessment of capacity should include:

i) a requirement for councils to appoint a Chief Engineer with suitable engineering degree qualifications to oversight infrastructure management and delivery, whilst being able to ensure that councils manage risks involved in the provision and maintenance of infrastructure in an effective manner. Only professionally trained and educated engineers can pursue this task on behalf of the community.

ii) a structure that provides suitable depth of qualified engineers and technical staff that provides the skills needed now, and a succession pathway to ensure these skills continue to be developed within Local Government for tomorrow.

iii) have, unless suitably justified, cadet engineers and cadet technical staff to provide a suitable training ground for the engineers and technical staff of tomorrow

1(e) the IPART role in reviewing the future of Local Government in NSW, assisted by a South Australian commercial consultant

It is important that any review of the future of local government is a transparent and collaborative process with the active involvement of people with expertise from the sector. IPWEA (NSW) has confidence that IPART and consultant advisors will meet this expectation.

1(f) the appropriateness of the deadline for 'Fit for the Future' Proposals

The deadlines for the Fit for Future proposals did not provide sufficient time for the NSW OLG to engage properly with Local Government to provide robust measures and definitions to assess the fit for future ratios. IPWEA (NSW) has offered to work with NSW OLG, NSW Auditors Advisory Group and IPART going forward to improve these measures and make them more relevant to the decision making processes and legislative needs before councils.

Also, councils were asked to prepare their Fit for Future proposals whilst preparing and adopting their 2015-16 Annual Operational Plans, Revenue Policies, Fees and Charges and Budgets taking account of public submissions on those draft documents. Requiring these two critical processes to be undertaken at the same time created significant challenges in completing both tasks, limited the ability of councils to consult with their communities and for some councils, added significant extra costs.

On Friday 5 June 2015 IPART released its final methodology for assessing councils' "fitness", leaving just 15 working days for councils to complete their proposals. Giving councils such a short amount of time to ensure their proposals respond appropriately to the final methodology, as well as their community's wishes, is inadequate.

On the 17 June 2015, only 9 business days before the proposal submission deadline, a new version of Fit for the Future – Rural Council Proposal (Template 3), was uploaded by the Office of Local Government on the Fit for the Future web site.

The previous version of Template 3 had been made available on the Fit for the Future web site between 5 and 11 June 2015, only a few days earlier.

IPWEA (NSW) also has some concerns in relation to the assessment of the proposals provided by councils. The Fit for the Future timeframes have always been deeply problematic. With proposals due on 30 June 2015 and the final report due on 16 October 2015, IPART has three and a half months to assess up to 152 proposals. This seems hardly enough time to make important assessments that will shape the future of local government and the communities across New South Wales.

In terms of analysis and assessment of the Proposals, given the time the then DLG took to assess the Integrated Planning and Reporting documentation when the Group 3 Councils had completed the initial process, three and a half months does not appear to be adequate time for IPART to properly assess all of the councils' proposals in enough detail. How will further information requests be considered and determined to ensure that it is not just a "tick the box or fail" process?

IPART are very helpful and have a well set out process for undertaking a Special Rate Variation when councils embark down this path. However IPART normally has only around 25 Special Rate Variation submissions to assess in each year and they need at least the three and a half months or so to go through them in detail. This luxury will not be given to the Fit for the Future Proposals due to the sheer number IPART must assess. There is concern that assessment will not be thorough and fair due to the timing constraints.

1(g) costs and benefits of amalgamations for local residents and businesses

There is limited evidence from past amalgamations to demonstrate the overall cost and benefit to the community. The most comprehensive analysis of this nature appears to be by the Queensland Treasury Corporation in 2009 of 24 councils who merged in 2007[1]. Considering this analysis IPWEA (NSW) notes:

- Amalgamations had a net cost to all councils of $47M. This figure excludes some significant salary costs.
- Based on costs and future projected savings it would take 8-10 years to realise any financial benefit from the amalgamations.
- The long term financial benefit from amalgamations was minimal.

A significant number of these Queensland councils have since de-amalgamated and this has led to further costs to the community.

Local residents and businesses will be affected in the short term by rate harmonization – the process of harmonizing rating classifications and values across any newly formed councils. Many councils have demonstrated in Fit for the Future submissions that local rates will increase for some and reduce for others.

There is a perception that cost savings will be achieved by the procurement of goods and services by an amalgamated council. Savings are already being realized through existing ROC structures and through the use of existing 'bulk purchasing arrangements'. An example of the latter is via the use of procurement organisations such as Local Government Procurement. These arrangements provide bulk buying power beyond solitary councils or ROCs. They also offer legislatively compliant processes for tendering. This provides savings in the cost of goods and services (eg electricity) and efficiencies in the tendering processes.

There is a significant level of disruption to council operations through amalgamation. This includes:

- integration of staff
- salary/ award alignment
- planning system harmonisation
- financial and computer system consolidation
- level of service and contract alignment

Each of these processes will divert attention and resources from the core business of councils: delivering services to the community, inclusive of businesses. By way of an example, the City of Sydney merged with South Sydney Council in 2003 and it took five years to overcome these issues[2].

Therefore the costs and benefits of any merger proposal needs to be well considered with much strong input from the affected communities.

[1] Queensland Treasury Corporation, 2009 "Review of Local Government Amalgamation Costs Funding Submissions", http://services.dip.qld.gov.au/opendata/RTI/dlgcrr/rti137/Documents%20for%20release%20-%20RTI137.PDF
[2] City Of Sydney, 2015 "Fit For the Future - Submission To IPART", http://www.cityofsydney.nsw.gov.au/__data/assets/pdf_file/0005/236894/150618_EX-COUNCIL_ITEM02_ATTACHMENTA.PDF

1(h) evidence of the impact of forced mergers on council rates drawing from the recent Queensland experience and other forced amalgamation episodes

There is very little published evidence regarding the impact of rates following Council amalgamations. Most council rates are based on land values, however rate-capping limits the amount of overall income available to councils in NSW. Rates harmonisation may see some councils with higher land values increase rates and the ouncil with lower land values decrease in rates. This will presumably result in complaints from the community, with those experiencing increased rates voicing their displeasure.

Compared to the strict and lengthy process that councils must currently undertake for special rates variation, it could well be the case that residents will see rate rises well above the rate-peg limit with little or no opportunity to have input as they normally would.

1(i) evidence of the impact of forced mergers on local infrastructure investment and maintenance

There is very little published evidence regarding the impact on local infrastructure and maintenance following council amalgamations. There is no conclusive evidence that bigger councils are more efficient or that significant savings are made through increased economies of scale. In 2009 LGAQ commissioned a survey of amalgamated councils. 30 of 31 merged councils participated voluntarily, with 78.6 percent accepting there was potential to achieve stronger and more efficient, effective local government within five years which would outweigh the cost of amalgamation[3]. Whether efficiency savings would be allocated to infrastructure would be up to the individual amalgamated councils and could not be guaranteed.

1(j) evidence of the impact of forced mergers on municipal employment, including aggregate redundancy costs

It is acknowledged that provisions within the Local Government Act 1993 currently protect a Local Government employee from redundancy for three (3) years after transfer to the employment of another council by or under a proclamation.

Anecdotally the greatest impact forced mergers have on municipal employment would appear to be the accelerated or premature retirement or exit from the local government sector, by seasoned and knowledge-rich professionals[4]. The upheaval, confusion[5] and uncertainty created by forced mergers can often act as a catalyst for those who may be on, or about to be upon the cusp of retirement.

In the absence of such a catalyst, it is reasonable to expect that a professional's retirement is something that is planned. Indeed a council's Workforce Strategy, required to be completed within the suite of planning documents prepared by NSW councils collectively known as *Integrated Planning*

[3] Tiley I. and Dollery B. (2010) – Historical Evolution of Local Government Amalgamation in Queensland, the Northern Territory and Western Australia – Centre for Local Government UNE p13.
[4] *Leadership in Local Government Reform: Strategic Direction versus Administrative Compliance* p6. *http*://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/01/28/000477144_20150128115721/Rendered/PDF/938840WP0Box3800compliance00PUBLIC0.pdf
[5] *Local Government Amalgamation – Working Paper* http://www.researchgate.net/profile/Brian_Dollery/publication/242568973_Local_Government_Amalgamation/links/0c96053a0d9c771645000000.pdf

and Reporting, is required to address such matters as succession planning.

In the absence of any sort of structured succession plan in place, there is a significant risk that large amounts of corporate and local knowledge will be lost from the local government sector. The effect of this sudden loss of knowledge may be compounded as the newly merged council struggles to integrate its systems, rebuild staff teams and generally deals with the after-effects of what can be a significant upheaval to the day-to-day running of the business. Anecdotally, it has taken some merged councils in excess of five years, and one professional involved in a merger reported 10 years, for the newly merged council to stabilise both its staffing and operations.

Another compounding effect is the current skills shortage afflicting local government, particularly in the engineering and planning fields.

Unfortunately following each instance of council mergers, there has been a distinct lack of any systematic analysis or evaluation of the financial outcomes of forced or voluntary mergers. In the literature it is suggested that this is not by accident, but by design as policymakers come to the realisation that the costs of mergers are greater than the benefits that were championed[2].

Indeed the South Australian Financial Sustainability Review Board concluded that "amalgamation brings with it significant costs and often exaggerated benefits". In the absence of any systematic analysis of those costs and with the anecdotal evidence of substantial staff turnovers, it is only reasonable to assume that redundancy costs contribute to the overall cost of mergers at a substantive level.

Following the 2008 structural reform of Local Government in Queensland, a review by Queensland Treasury Corporation[6] in 2009, assessed the total "senior officer/staff costs (Incl. redundancies) costs at $36.5M, or 18.7% of the total combined costs, $194.8M.

In Victoria, restructuring of Local Government has also had a significant dislocation effect on staff, having to travel greater distances.[7]

Local Government has struggled for a number of years to be considered an employer of choice, and structural reform (amalgamation) will place further pressure on the sector in its ability to attract employees, most notably in fields such as engineering and planning.

1(k) the known and or likely costs and benefits of amalgamations for local communities

Earlier sections have dealt with specific additional costs being incurred by councils in order to meet the Fit for the Future requirements.

Additional information has also been provided that suggests that there is no reliable data which clearly indicates the benefits that might accrue from amalgamation. At best the literature suggests that short term costs of amalgamation are recovered in the medium to long term and that there is then a net

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[6] *Review of Local Government Amalgamation Costs Funding Submissions – Final Summary Report* http://services.dip.qld.gov.au/opendata/RTI/dlgcrr/rti137/Documents%20for%20release%20-%20RTI137.PDF

[7] Leadership in Local Government Reform: Strategic Direction versus Administrative Compliance p6. http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/01/28/000477144_20150128115721/Rendered/PDF/938840WP0Box3800compliance00PUBLIC0.pdf p17

return to the community. This seems to be a shaky premise on which to base such a fundamental organisational change.

It is IPWEA (NSW)'s contention that this is the wrong question to be asking if the long term sustainability of local government is to be preserved.

The more appropriate question to be asking is: Do we have the correct funding model for local government? Our answer to this question comes from the recently published Road Asset Benchmarking Report.

As stated at Item 1(b) above, the latest Road Asset Benchmarking Report 2014 released at the 2015 NSW Local Roads Congress on 1st June 2015 reports:

> *The road funding gap for NSW councils is estimated at $447 million based on the data from the 150 responding councils extrapolated to 152 councils. Funding at this level will require a 41% increase on 2013/14 road expenditures if asset management principles are not further developed to manage the gap. Asset management principles to be applied to managing the funding gap include:*
>
> - *ensuring that all councils have adequate accurate knowledge on their road assets and how their assets are performing,*
> - *ensuring that sealed roads are resurfaced/resealed at the optimum time to maintain waterproofing of pavements,*
> - *consulting with and select appropriate levels of service and costs to meet community needs and available resources,*
> - *ensuring that unsealed roads are resheeted at the optimum time to meet agreed service levels within available resources,*
> - *making efficiencies in operations, maintenance, resurfacing and pavement renewal aimed at reducing life cycle costs,*
> - *improving maintenance practices and funding if necessary to extend pavement life and defer projected renewal,*
> - *rationalising (dispose) of unnecessary infrastructure assets,*
> - *adjusting service levels in consultation with the community,*
> - *identifying future renewal needs and expenditure required to meet agreed service levels and document in a road asset management plan,*
> - *increasing funding, and*
> - *a combination of all actions above.*

While this report shows a significant improvement in asset management capacity and application since 2006, it also clearly shows that asset management alone will NOT overcome the funding gap problem.

The answer to the question posed above is that no amount of changes to municipal boundaries will overcome the fundament problem that exists with the funding model currently in use.

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

There are successful examples of each of the cooperative models being applied successfully across Australia. In particular, there are examples of successful Regional Organisations of Councils operating in NSW. Their strength has been particularly in the areas of procurement, resource sharing and service delivery.

The use of innovate collective procurement models such as Local Government Procurement also offer savings and efficiencies in tendering and services provision (e.g. electricity).

There have also been examples of successful strategic alliances between the NSW Government and multiple councils working together (e.g. on regional priorities for highway upgrades and funding). Such arrangements are specific to the task at hand and the stakeholders involved. Retaining this flexibility is important and will result in councils working with different councils and NSW Government partners depending on the circumstance. These partners may be unrelated to the proposed ROC boundaries.

It is also important to remember that councils are well represented by peak bodies such as LGNSW and the NSW Roads & Transport Directorate. The NSW Government is encouraged to further strengthen these existing partnerships.

1(m) how forced amalgamations will affect the specific needs of regional and rural councils and communities, especially in terms of its impact on local economies.

Local Government is a significant employer across Australia with more people employed in the sector than in the mining and auto-manufacturing sectors[8]. This is particularly the case for regional, rural and remote parts of the country where the local government sector employs on average between 5 and 10% of the total workforce[9]. In fact in some Local Government Areas (LGA) the local council may be the largest employer in the LGA.

Looking at NSW in particular, this trend is reinforced by the work undertaken by Regional Development Australia in its assessment of the economic impact of the local government sector across 13 councils in the New England and Northern Tablelands districts of NSW, which found that local government employment accounted for between 2% and 9.1% of total employment[10].

Local government does not operate in isolation however. It has been estimated that indirect employment stemming from local government can be as high as 0.6. That is, for every one full time e33quivalent (FTE) position in local government, there is a 0.6 FTE position created elsewhere in the local economy[11].

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[8] *Profile of the Local Government Workforce* ACLG http://www.acelg.org.au/system/files/publication-documents/ACELG_Workforce_Survey_Executive_Summary.pdf

[9] Leadership in Local Government Reform: Strategic Direction versus Administrative Compliance p6. http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/01/28/000477144_20150128115721/Rendered/PDF/938840WP0Box3800compliance00PUBLIC0.pdf

[10] *Local Government Amalgamations and Economic Impacts*, RDA, http://www.gwydirshire.com/Council/images/stories/pdfs/Issues_Paper_-_Economic_Impacts_of_LG_Amalgamations.pdf

[11] Local Government Amalgamation – Working Paper http://www.researchgate.net/profile/Brian_Dollery/publication/242568973_Local_Government_Amalgamation/links/0c96053a0d9c771645000000.pdf

The result of this is that staff reductions from forced amalgamations may not simply impact on one of the largest employers in small, rural and remote communities, but will have more widespread effects throughout the community. For every 10% reduction in FTE staff numbers, it would be reasonable to expect to see an additional 6% reduction in FTE positions in the local economy.

However employment is not the only aspect that may affect the local economies of regional, rural and remote communities.

It has been shown that capital expenditure by councils stimulates gross regional product (GRP) and employment. Indeed, Regional Development Australia found that across the northern inland of NSW, for every $1m of capital expended, $1m in GRP would be generated and 9.7 FTE jobs would be created[4].

Conversely, for every $1m reduction in capital expenditure, there will be commensurate reductions in both GRP and employment.

In 2013-14, the 13 councils involved in the RDA study spent $160M on capital works. The study estimated that a 10% reduction in capital expenditure across all 13 councils (ie: $16M), GRP would fall by $15.8M and employment by 155 FTE's.

Where employees leave an LGA, there are further impacts due to the knock-on effect, declining student numbers at local schools, partners also leaving local employment, loss of community input via local clubs, and committees, and the viability of other services being put at risk.

Such impacts can be significant to local economies, in monetary terms, but also place at risk community cohesiveness and ultimately breaking down social structures.

Brian Dollery, noted "empirical evidence on the economic consequences of local government amalgamation is mixed and has resulted in growing disenchantment with council mergers."

1(n) protecting and delivering democratic structures for Local Government that ensure it remains close to the people it serves

Democratically elected representatives in local government maintain an intimate knowledge of the areas they represent and the needs of their constituents through the following mechanisms:

- Council meetings (which are very effective 'public forums') facilitate two-way interaction between the elected representative and constituents on a regular basis. The real needs of residents and ratepayers are established through a structured mechanism from which effective and economically justified decision-making is undertaken;

- On-site inspections of an array of issues and/or proposals by council committees ensures constructive interaction with constituents, whereby informed decision-making is undertaken having due regard to the site conditions and/or constraints prevailing;

- On-site inspections of infrastructure by council sub-committees with qualified, experienced and professional engineering and/or other technical staff enables effective decision-making based upon sound advice;

- On-site inspections with their constituents ensuring that they are informed when making decisions in the council meeting forum; and

- Making representations on behalf of their constituents with technical staff and/or carrying-out on-site inspections with those staff is the epitome of democratic representation.

Community or individual ratepayer issues and/or concerns cannot be facilitated in this detail at the State Member level, due to the size of their State electorates, their heavy workload and limited time available to them to undertake regular inspections; certainly not with the assistance of technical or other advice that is available to local councillors.

It behooves the NSW Government to consider what the effect of extensive amalgamations would be with regard to effective representation of residents and ratepayers in local government areas in country NSW. Extensive distances may need to be travelled and minimising the number of elected representatives will make this task more difficult (if not impossible) to achieve.

Should extensive amalgamation be undertaken, it should be accompanied by effective legislation that enshrines the democratic right of residents and ratepayers. Likewise this legislation must embody ‘real’ and effective provisions that enable local government to operate with an appropriate level of autonomy.

A survey of residents and ratepayers reveals that the ‘basics’ matter, namely the provision of safe roads, treated water and collection of sewage. These ‘basics’ rank well when compared with other services provided by the NSW Government, namely education, health care and security. These ‘basics’ are provided in most cases very effectively by Local Government.

The resident and ratepayer knows that they can contact their local government representative with relative ease, where a wide array of concerns can be addressed; these include matters that are the responsibility of the NSW Government.

Residents and ratepayers know that they can obtain personalised attention at their local council, where elected councillors are available to investigate on their behalf many issues relating to their day-to-day needs and concerns.

Their issues can then be dealt with by professional staff and in particular engineers, where sound technical advice on all matters relating to infrastructure provision and or service provision can be obtained. Representations made by elected councillors on behalf of residents and ratepayers to professional staff of the council, is perceived (by residents and ratepayers) to result in their issue being attended to promptly. This is seen by residents and ratepayers as a very important right and an example of the democratic process at work.

If larger local government authorities are created, legislators must ensure that the role of councillors is maintained, namely that it is meaningful as a representative of the residents and ratepayers; likewise the role of the Mayor should be one akin to the Chairman of the Board in a private company, not merely a figure head.

Staff employed in Local Government whilst being afforded a level of professional independence, are effectively working for the community. In this regard elected representatives are part of a very effective process whereby residents and ratepayers are given a ‘voice’ in the provision of services and more importantly the provision of infrastructure.

It is a reality that residents and ratepayers receive advice from professionals employed by Councils, which is tantamount to obtaining advice from a private consultant. This is particularly the case when technical advice is required in matters of an engineering nature with regard to connections to or services from existing infrastructure, namely: water mains, sewage reticulation and roads. It is particularly important that the role of the Engineer is enshrined within new legislation required to facilitate structural reform of Local Government in NSW. Residents and ratepayers as well as elected councillors rely upon advice from professionally qualified staff in the management of their communities.

The role of the elected councillor is fundamental to the effective operation of Local Government in NSW and is the 'foundation' upon which the democratic process functions.

1(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

IPWEA (NSW) observations suggest that rate pegging has served its purpose and should not be continued in its present form in the current economic climate. Data published by IPART confirms that there have been 116 special rate variation applications over the past five years.

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.

This provides a rating profile that naturally causes concern in the community as well as difficulty in meeting legislated requirements under the Local Government Act 1993, Roads Act 1993, Civil Liabilities Act 2002, Disability Inclusions Act 2014, Workplace Health & Safety Act 2011 and various environmental legislative requirements.

The approach in NSW has been to look at the past consumption of assets (depreciation) as a measure of future needs. This approach does not adequately take into account the impact of past cost increases (inflation) and the expected increased cost of future renewals. This is particularly intensified given the relatively long lives of infrastructure assets.

Additionally, in making decisions about infrastructure spending priorities, engineers and the councils they serve, must consider a broader range of issues than is covered by the fit for future asset benchmarks including:

- Maintenance & operation
- Renewal
- Network deficiency (eg the need to add a section of protection fence on a road to mitigate risk to the public and improve road safety)

- Functionality (eg a need to modify a building to cater for different user groups)
- Capacity (eg a need to upgrade an intersection to manage increasing traffic volumes safely to service growth or upgrade a bridge to support productivity improvements)

A broader framework for NSW councils is required to allow councils (and the NSW Government) to make decisions that support economic development, employment and address social and inter-generational equity.

IPWEA (NSW) has provided an outline of this framework in our submission to IPART and in discussions with the Office of Local Government and the NSW Auditors Advisory group. IPWEA (NSW) has offered to work with the respected parties to improve the framework to be used for strong infrastructure management.

For regional councils it is clear that the current model of rating is not sustainable, regardless of how council boundaries are drawn. This is more exaggerated in regional areas where small populations are served by expansive asset portfolios.

Both the NSW and Australian Governments have shown good initiative in recognizing this need to provide better support to councils to achieve common goals and outcomes including economic and employment growth, social and inter-generational equity in a sustainable funding model. These initiatives include:

- the NSW Government through the Fixing Country Roads Program;
- the Australian Government Bridges Renewal Program;
- the Heavy Vehicle Safety and Productivity Program; and
- the Australian Government under the Black Spot Program.

These are excellent initiatives that will see significant improvements over the next few years and both governments are to be congratulated for their foresight. However, planning for longer term solutions under a new framework is needed.

We encourage the NSW Government to partner with LGNSW to advocate to the Australian government for a new national infrastructure funding framework to address the sustainability and productivity improvements needed to drive the NSW and Australian economy forward.

These issues were distilled at the 2015 NSW Local Roads Congress on 1 June 2015 at NSW Parliament where recommendations were made for positive long term change to support all communities across NSW. The Congress Communiqué included complimentary solutions including access to low interest loans, changes to rating methodology, redistribution of Financial Assistance Grants (FAG), capacity building and sustainable people management. The full text of the Congress Communiqué is attached as Appendix 3.

1(p) any other related matter

We recommend that the revised Local Government Act re-incorporate the requirements to engage a Chief Engineer at each council.

A recent survey of councils indicate that approximately 95% of all councils surveyed already engage a qualified and experienced Engineer to oversee their infrastructure management. We recommend this position should be further strengthened by legislating the need for a qualified engineer with listing on the National Professional Engineers Register (NPER).

This position should be at the same level as the recommended "Chief Financial Officer". The qualifications for a Chief Engineer would be a listing on the National Professional Engineers Register (NPER). This is essential since as the Chief Engineer is responsible for the allocation of the bulk of a council's expenditure as well as being ultimately responsible for the management of infrastructure risk.

We similarly recommend that the Office of Local Government appoint a Chief Engineer on the executive of the Office of Local Government to improve advice to the NSW Government on infrastructure matters and allow more direct engagement with the Local Government sector.

Skills Base

IPWEA NSW, along with the NSW Roads and Transport Directorate, have previously called for improvements in the management of the NSW Local Government's $81b[12] of infrastructure assets. These assets, such as roads, water and sewerage supply networks, stormwater and public buildings, provide critical services for NSW communities and are absolutely vital in the ongoing growth and resilience of the NSW economy.

Critical to the local government industry's ability to improve its management of infrastructure assets is ensuring that appropriate measures are in place to sustain the sector's engineering and asset management skill base.

IPWEA NSW proposes that this be achieved by:

- Developing the skillset of engineering and asset management professionals,
- Building the asset management capacity of local government,
- Local government, as an industry, taking responsibility for developing skilled professionals, and
- for tomorrow through cadetships and experiential development programmes.

To build the local government industry's asset management capacity, engineering and asset management professionals should have available to them the opportunity to undertake relevant and timely training. Supporting this should be opportunities to take part in knowledge sharing activities where ideas, innovative solutions to common problems and lessons learnt can be discussed, workshopped and shared, peer to peer, council to council.

[12] Local Government Infrastructure Audit, OLG, 2013

To date, IPWEA NSW has a proven record of assisting local government in NSW with their asset management capacity. As has already been mentioned in the above sections of this submission, between 2006 and 2014, as a direct result of improving asset management practices in the local government industry, the lifecycle funding gap of local and regional roads, for instance, reduced from $783m p.a. to $447m p.a. – a 43% reduction[13]. This is a real-life example of how building asset management capacity within the industry has made a significant difference.

It is not sufficient though to simply train, educate and develop the skills of the current stock of engineering and asset management professionals. The industry as a whole must first recognise that sustaining this knowledgebase and skillset is critical and then take responsibility for ensuring its sustainability into the future. Indeed, any assessment of an organisation's capacity should include consideration of:

- Whether there is a structure in place that provides suitable depth of qualified engineers and technical staff that provides both the skills now and a succession pathway to ensure these skills continue to be developed within local government for tomorrow, and

- Whether they have, unless suitably justified, cadet engineers and cadet technical staff to provide a suitable training ground for the engineers and technical staff of tomorrow.

IPWEA (NSW) has called on the local government industry to discharge this responsibility through the introduction of cadetships and experiential development programmes, or where they currently exist, to maintain them.

IPWEA (NSW) recognised that the responsibility for this does not solely fall to the industry, but that it has a role to play in ensuring the next generation of engineering and asset management professionals are supported in their studies and early careers, when it introduced its under 35 Committee: Young IPWEA.

Through Young IPWEA, IPWEA NSW is prepared to work with the LGEA, universities, NSW OLG and LGNSW to develop student placement programmes that will increase the level of 'practical' experience provided to undergraduates, to ensure job readiness and provide qualified, skilled resources to all councils, particularly those in regional NSW.

As a case study:

> Current Young IPWEA Australasia President and IPWEA NSW Board member, Mr Will Barton, knows firsthand how vital it is that these sorts of opportunities are made available to student and graduate engineers. Mr Barton undertook first an internship and then a traineeship with local government before progressing to the position of Director with a rural council within five years of graduation.

Providing these opportunities to student and graduate engineers is absolutely imperative in ensuring that the next generation of engineering and asset management professionals have the appropriate skills, knowledge and experience and that local government has the experienced professionals in the future to provide the services vital for NSW communities.

[13] Road Asset Benchmarking Project 2014, Road Management Report

3. CONCLUSION

IPWEA (NSW) is a recognised leader in the field of public works infrastructure and asset management. Our ethos and connections within the Local Government industry mean we are well placed to influence positive change.

This paper provides detailed assessments of the matters contained in the terms of Reference. In particular, it addresses:

- The extremely limited range of matters taken into account in assessing each council's financial capacity into the future. It is the view of IPWEA (NSW) that reliance on a limited range of financial ratios alone will not provide the desired outcomes and has the potential to seriously reduce the value of local government into the future.

- The limited timeframe allowed for councils to research, assemble and deliver the data required by the Fit for the Future process has been unreasonably short, stretching the resources of councils to the limit.

- Setting the deadline for submission of Fit for the Future data at the same time that councils are developing their annual operating plans, revenue policies, fees and charges and budgets that also require extensive public consultation is seen as counterproductive in assessing the capability of councils

- The total exclusion of grants, including Financial Assistance Grants, from the assessment process is considered to be flawed. Many of these grants have been consistently available at current levels for a number of years and there is no reason that at least some proportion of them should not be used in the assessment.

- The Fit for the Future process assumes that scale equals capacity. This is clearly not the case as smaller councils taking advantage of current management structures are able to provide efficient and effective services to their local communities.

- Published research fails to show that amalgamations result in significant economic benefits. More likely outcomes include declining population, reduced employment opportunities, a reduction in community involvement and the breakdown of social structures.

- In terms of infrastructure maintenance and renewal it is clear that the existing funding model is not capable of meeting future needs. The Road Asset Benchmarking Survey Report clearly shows that while there have been significant improvements in the application of asset management principles by councils there is still a funding shortfall of $447 million per annum in relation to roads and bridges alone.

- The seven Fit for the Future criteria fail to address other infrastructure issues including network deficiency, functionality or capacity. Focus on the existing infrastructure network is inadequate.

- IPWEA (NSW) is concerned that the widespread implementation of Joint Organisations of councils may develop an effective fourth tier of government. Such an outcome would be counterproductive and has the potential to increase overhead costs.

- Concerns that there has been no consideration given to the development of the next generation of engineering and asset management professionals through support of local students and young professionals particularly in regional NSW.

IPWEA (NSW) would welcome the opportunity to address the Inquiry at one of the five Public Hearings to be held across NSW during July and August, to provide further detail on the matters contained in this submission.

4. Contact Details

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Appendix 1

IPWEA (NSW) Submission in response to IPART's Methodology for Assessment of Council Fit for the Future Proposals Local Government – Consultation Paper April 2015

Methodology for Assessment of Council Fit for the Future Proposals Local Government – Consultation Paper April 2015

Submission of Response

INSTITUTE OF PUBLIC WORKS ENGINEERING AUSTRALASIA (NSW DIVISION)

25 May 2015

Warren Sharpe OAM
President
IPWEA NSW

John Roydhouse
Chief Executive Officer
IPWEA NSW

EXECUTIVE SUMMARY

IPWEA (NSW Division) appreciates the on-going opportunity to participate in developing improved criteria for the sustainable management of Councils and the infrastructure Councils manage on behalf of their communities.

This paper is provided in response to IPART's Local Government – Consultation Paper April 2015 on the Methodology for Assessment of Council Fit for Future Proposals. This paper takes account of on-going collaboration and discussions with the NSW Auditors Advisory Group, the Office of Local Government and IPWEA NSW regarding improving the management of infrastructure controlled by Councils across NSW.

IPWEA (NSW Division) has stated a mission *to enhance the quality of life of NSW communities through excellence in public works and services. This is achieved through our professional association that effectively informs, connects, represents and leads public works professionals for NSW.*

IPWEA NSW has a set of values that requires respect, integrity, passion, excellence, recognition and ownership in everything we do.

IPWEA (NSW Division) is therefore ideally placed to take a lead role in enhancing outcomes for communities across NSW, by assisting practitioners within Local Government, and partnering with the Office of Local Government, the NSW Auditors Advisory Group and IPART.

The management of infrastructure owned and managed by NSW Local Government represents the key expenditure item for Councils across NSW. This is one of the principal issues impacting Councils as they try to move toward being 'Fit for the Future'. More importantly, the success or failure of our industry to get this balance right, has significant consequences for our communities in relation to risk management including directly impacting on public health and safety, and financial sustainability.

The integrity of sound and consistent technical advice needs to be maintained to allow decision-makers to set appropriate levels of service; cognisant of the risks they potentially expose their communities to, both in the short and long-term.

IPWEA (NSW Division) is the centre of excellence in asset management and has the capacity to partner with Office of Local Government to provide guidance notes and benchmarking processes that will ensure:

- improved transparency to communities regarding infrastructure and the funding required to achieve an agreed level of service
- a more holistic approach to managing infrastructure with improved consideration of risk and legislated obligations on Councils
- improved consistency of reporting by Councils against the 'Fit for the Future' criteria
- benchmarking of underlying supporting assumptions to ensure a 'reasonableness' test
- improved confidence of Engineers, Accountants and other practitioners in the information supporting key financial and risk management decisions of Councils

IPWEA (NSW Division) also believes there is an opportunity to make simple improvements that will greatly assist Local Government and the Office of Local Government. IPWEA (NSW Division) looks forward to the opportunity of working with the Office of Local Government, the NSW Auditors Advisory Group and IPART.

Table of Contents

1. Background

In April 2015 the Independent Pricing and Regulatory Tribunal (IPART) published a Local Government — Consultation Paper titled *Methodology for Assessment of Council Fit for the Future Proposals* which posed five specific questions to consider in formulating a response. These specific questions are:

1 How should the key elements of strategic capacity influence our assessment of scale and capacity? Are there any improvements we can make to how we propose to assess the scale and capacity criterion, consistent with OLG guidance material?

2 Which of the 'Rural Council Characteristics' are the most relevant, considering a council must satisfy a majority of the characteristics to be considered a rural council?

3 Are there any improvements we can make to how we propose to assess the sustainability, infrastructure management and efficiency criteria, consistent with OLG guidance? Are there issues that we need to consider when assessing councils' proposals using the measures and benchmarks for these criteria?

4 How should councils engage with their communities when preparing FFTF proposals? Are there other factors we should consider to inform our assessment of council consultation? Please explain what these other factors are, and why they are important.

5 Should council performance against FFTF proposals be monitored? If so, are there any improvements we can make on the approach outlined for councils to monitor and report progress on their performance relative to their proposals?

This submission is in response to those issues, together with a number of more general observations which might assist in directing the process to reaching more appropriate outcomes.

2. Response to IPART Questions

2.1 Scale and capacity

IPWEA (NSW Division) is the leading professional association representing Engineers and Public Works Officers engaged in public works and engineering, with the majority of members working in, or providing services to, Local Government (and the NSW Government).

IPWEA has taken a lead role at both the NSW and Australasian level to progressively build the capacity within our industry through the development of technical publications, provision of conferences, regional forums and training. The evolution of this work has seen:

- the creation of the NSW Roads & Transport Directorate with representation from IPWEA NSW, LGNSW, RMS and Transport for NSW. The Directorate will hold the NSW Roads Congress on 1 June, 2015 at NSW Parliament Theatre with a key focus on solutions being 'Fit for Purpose'

- significant improvements in the number of Councils with asset management plans in place, at least to a 'core' level
- the creation of NAMS.AU specialising in Asset Management

Our sister organisation, the NSW Water Directorate, has undertaken a similar role to the NSW Roads & Transport Directorate, except that it focusses on the water and sewer businesses.

This is a journey that has seen significant improvements in data collection and quality of analysis to better inform asset management planning, and the integrated planning and reporting process underpinning Local Government.

IPWEA (NSW Division) believes it is well positioned to deliver the knowledge and capacity-building needed to support improved outcomes to assist Councils deliver services that are 'Fit for Purpose', and assist Councils in meeting the NSW Government's 'Fit for Future' criteria.

There has been a significant focus on the financial indicators of Councils; this alone will not be sufficient. Local Government needs an action plan to ensure it continues to have the right people with the right skills to meet the needs of communities into the future.

Infrastructure management plays a critical role in the financial sustainability, efficiency and risk management for Councils and the communities they serve. Any assessment of capacity should include:

i) a requirement for Councils to appoint a Chief Engineer with suitable engineering degree qualifications to oversight infrastructure management and delivery, whilst being able to ensure that Councils manage risks involved in the provision and maintenance of infrastructure in an effective manner. Only professionally trained and educated engineers can pursue this task on behalf of the community
ii) a structure that provides suitable depth of qualified Engineers and Technical staff that provides the skills needed now, and a succession pathway to ensure these skills continue to be developed within Local Government for tomorrow
iii) have, unless suitably justified, Cadet Engineers and Cadet Technical staff to provide a suitable training ground for the Engineers and Technical staff of tomorrow

IPWEA (NSW Division) is prepared to work with the LGEA, Universities, OLG and LGNSW to develop a student placement program that will increase the level of 'practical' experience provided to under-graduates, to ensure job readiness and provide qualified skilled resources to all Councils, particularly those in regional NSW.

IPWEA NSW Board members are already working to see improvements in undergraduate course content to meet the contemporary needs of Local Government. This includes initiating conversations with Universities about providing a greater emphasis on asset management and long-term financial planning.

In any proposed merger, Councils should be required to show they have incorporated a suitable structure of skilled and experienced Engineers and Technical staff at different levels that supports the immediate and long-term needs of the community, as well as providing a succession and skills development pathway for the future. This is even more critical where small Councils are proposed to be merged. Simply reducing staff numbers would provide a 'fool's paradise', with high risk to the community and the long-term sustainability of Councils.

2.2 Rural Councils

The characteristics for a rural council in our order of priority are:

1. Long distance to a major (or sub) regional centre
2. Low rate base and high grant reliance
3. Small and static or declining population spread over a large area
4. High importance of retaining local identity, social capital and capacity for service delivery
5. Difficulty in attracting and retaining skilled and experienced staff
6. Challenges in financial sustainability and provision of adequate services and infrastructure
7. Local economies that are based on agricultural or resource industries
8. High operating costs associated with a dispersed population and limited opportunities for return on investment
9. Limited options for mergers.

IPWEA (NSW Division) suggests that almost all of the characteristics on this list would be met by councils that consider themselves to be Rural Councils.

These rural regions provide high value commodities that support the NSW and Australian economies and provide for the well-being of cities (e.g. through food) as well as often providing exports to assist the balance of trade. They typically have a small, and in some cases declining, ratepayer base. Funding models and assessments must take account of these realities.

2.3 Fit for Future Criteria

2.3.1 Sustainability

Operating Performance and Own Source Revenue

All Councils should be able to include Federal Assistance Grants in their revenue. This is a relatively stable income source.

John Comrie in his *Review of TCorp's* Report *'Financial Sustainability of the NSW Local Government Sector' dated* October 2014 in relation to the Own Source Operating Revenue Ratio suggests:

This ratio measures the extent of a council's reliance on external funding sources. It is calculated by expressing a council's rates, utilities and charges revenue for a period as a ratio of its total operating revenue (inclusive of capital grants and contributions) for the same period.

I see merit in this type of indicator but would argue for refinements. First of all I suggest that consideration should be given to including financial assistance grants revenue in the numerator (or at least having an additional indicator that included such that was given equal weighting with this one). Such revenue is in the main a reliable source of revenue for local governments (despite the Commonwealth's decision to hold the quantum constant in nominal values over the three years following 2013/14). For many rural councils with small populations financial assistance grants are a major source of revenue that they should comfortably rely on in planning affordability of future proposed works and services. (I would not make the same arguments in relation to Roads to Recovery or other grants which unlike FAGs would not require legislative change for their availability to be discontinued or annual quantum reduced). The basis of distribution of the available FAGs pool is such that councils with greatest needs for FAGs receive a higher share.

IPWEA (NSW Division) argues that the NSW Government can make smart changes to the funding model to better support Local Government as a whole. This would include:

i) Redistribution of FAG grants to regional Councils (i.e. to Councils outside of Sydney, Newcastle and Wollongong)
ii) Changes to the rating system to better recoup the cost of serving high and medium density developments. This would allow Councils to reasonably grow their revenue in city areas to replace redistributed FAGS. This would also provide an incentive for Councils to meet the NSW Government's planning targets for increased densities in our cities to prevent urban sprawl and provide overall efficiencies for all levels of Governments.
iii) Provision of low interest loan funding to all Councils

IPWEA (NSW Division) believes that the NSW Government should work with Local Government to advocate for Australian Government's Roads to Recovery Program to be made permanent. This would recognize the significant on-going benefit this brings to the sustainability of the 90% of roads looked after by Local Government, and the positive impact this has on road safety outcomes, as well as the social and economic well- being of NSW. The Roads to Recovery funding program, has now been committed to 2019 and should therefore be able to be incorporated as revenue.

A Council's own source revenue may be adversely impacted by one- off grants and other income sources. This should not adversely impact the assessment of a Council's 'Fit for Future' status. For example, a Council may receive a substantial grant to upgrade and replace an existing asset to provide an improvement in economic efficiency, to help drive the NSW economy forward. This should be seen as a positive outcome for the NSW community.

Building and Asset Renewal Ratio (BARR)

If a Council meets the break even Operating Ratio measure, there should be adequate revenue to provide for appropriate management of its infrastructure.

IPWEA (NSW Division) agrees, in general terms, with the requirement to meet or improve this ratio within five years, provided there is adequate provision for acceptable variations to the suggested trend. Such variations can easily occur through the injection of funds to replace assets (e.g. loan or grant funded replacement), which will have an on-going impact on the three- year average asset renewal ratios.

Strict adherence to a need to 'improve', may act as a disincentive to sensible use of loan funded programs to treat high- risk backlog or renewal works. It may also penalize Councils who have advocated strongly for their communities and successfully achieved grant funding. Many of these grants are targeted to support NSW Government economic growth and community safety targets (e.g. replacement of a bridge with a modern equivalent that supports higher productivity transport options to address the 'first mile' issue).

These capital injections may provide a temporarily high renewal ratio followed by an apparent decline. Such variations in the ratio may be based around providing optimized sound management of infrastructure and risk, which should be seen as a positive, rather than something to penalise.

Depreciation is also a 'backward looking' accounting figure, in effect reflecting the value of the consumption of the asset. It also needs to be recognized that this is an estimate of cost based on a range of variables and predictive elements, especially for long lived assets. This should be emphasized that this estimate is subject to variations upon review.

All Councils should be encouraged to undertake a review of unit rates annually and apply these to revise the depreciation calculation, with a major revaluation then undertaken in accordance with the OLG schedule. This approach is already implemented in the water and sewer business within LG. This approach would improve consistency across all asset classes and mitigate potentially high variations in depreciation under the current (full) revaluation schedule.

What is more important than past depreciation, is what renewal work is falling due and how a Council is dealing with its infrastructure backlog, as well as other relevant infrastructure matters when making decisions. A long- term financial plan that demonstrates sound management of these aspects is a more prudent measure than a single ratio.

In cases where a Council's long lived infrastructure is only part way through its useful life, depreciation may represent an amount far higher than the immediate need. Whilst it is reasonable for the current community to pay for the consumption of the infrastructure in use, IPART should give consideration to how a Council responds to other identified infrastructure demands. Council should also retain the ability to place funds into an asset renewal reserve, with such 'provisioning' to be included in Council's renewal ratio.

IPWEA (NSW Division) has offered to work with OLG, the NSW Auditors Advisory Group, and now IPART, to develop improved mechanisms for assessing sustainable infrastructure management.

When determining how a Council needs to manage its existing asset portfolio, it must consider more than just asset renewal based on condition. In some cases this means creating new assets to maintain the existing level of service or to comply with legislative requirements. These will not be covered by depreciation, but should be considered in Councils' forward asset (and risk) management plans. Examples include:

- Addressing network deficiency – for example:
    - Providing new guardrail to address road safety risk under the NSW Government's Civil Liabilities Act 2002
    - Adjusting a building to improve accessibility and meet the requirements of the NSW Government's Disability Inclusion Act 2014
- Matching developer contributions in accordance with the NSW Government's Environmental Planning and Assessment Act 1979 (and associated amendments)
- Providing capacity upgrades to maintain the existing level of service (e.g. increasing the capacity of a distributor road to cater for growth from development so that traffic congestion is maintained at a reasonable level of service, avoiding community frustration and adverse impacts on the economy and business)

The current focus on meeting the 'Fit for Future' infrastructure renewal ratio alone may in fact be counter-productive for local Councils, their communities and the NSW Government economic and community safety targets.

These examples also demonstrate how changing standards, often set by the Australian and NSW Governments for excellent reasons, are not able to be delivered in a rate capped environment. Allowing peak bodies such as LGNSW and IPWEA NSW to have a seat at the table to assess the infrastructure management and financial impacts of such legislative proposals, and help determine how these changes might be funded is likely to provide better outcomes in the future.

The NSW Government is to be applauded for implementing grant schemes to assist in some areas (e.g. Fixing our Country Roads Program, Country Passenger Transport Infrastructure Grants Scheme).

Other examples placing pressure on the cost of services under the current rate pegged environment include higher standards and increasing costs associated with Workplace Health and Safety and Environmental legislation. These are worthy pursuits, but often require additional costs compared to historical levels as standards are increased. These costs are transferred to Local Government and its ratepayers and residents.

IPWEA (NSW Division) did seek representation on the Ministerial Advisory Group, however was unsuccessful).

NSW Roads & Transport Directorate – 2014 Asset Benchmarking Report

In 2006 the IPWEA (NSW Division) Roads & Transport Directorate engaged Jeff Roorda and Associates to carry out a benchmarking report to determine the state of transport infrastructure assets across NSW. The first report (2006) highlighted the scale of the long- term underfunding of roads and bridges presenting a significant risk to Councils and their communities. The report concluded that current levels of road funding were NOT sustainable and identified a life cycle funding gap of $783 million per annum.

The latest Road Asset Benchmarking Report 2014 (to be released at the 2015 NSW Local Roads

Congress on 1st June 2015) reports:

The road funding gap for NSW councils is estimated at $447 million based on the data from the 150 responding councils extrapolated to 152 councils. Funding at this level will require a 41% increase on 2013/14 road expenditures if asset management principles are not further developed to manage the gap. Asset management principles to be applied to managing the funding gap include:

- *ensuring that all councils have adequate accurate knowledge on their road assets and how their assets are performing,*
- *ensuring that sealed roads are resurfaced/resealed at the optimum time to maintain waterproofing of pavements,*
- *consulting with and select appropriate levels of service and costs to meet community needs and available resources,*
- *ensuring that unsealed roads are resheeted at the optimum time to meet agreed service levels within available resources,*
- *making efficiencies in operations, maintenance, resurfacing and pavement renewal aimed at reducing life cycle costs,*
- *improving maintenance practices and funding if necessary to extend pavement life and defer projected renewal,*
- *rationalising (dispose) of unnecessary infrastructure assets,*
- *adjusting service levels in consultation with the community,*
- *identifying future renewal needs and expenditure required to meet agreed service levels and document in a road asset management plan,*
- *increasing funding, and*
- *a combination of all actions above.*

While this report shows a significant improvement in asset management capacity and application since 2006, it also clearly shows that asset management alone will NOT overcome the funding gap problem.

2.3.2 Infrastructure and Service Management

Infrastructure Backlog Ratio (IBR)

IPWEA (NSW Division) supports a requirement for Council's to reduce the amount of backlog of infrastructure works. Therefore, under the current ratio, a requirement to show improvement over five years is reasonable.

IPWEA (NSW Division) believes the backlog ratio and the requirement to meet the IBR, should be modified in the following ways:

i) Change the denominator 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 backlog

ii) Increase the value (or ratio) to 2.5-3.0 times annual depreciation. The current backlog ratio represents less than one year of depreciation. Infrastructure is often long lived with unpredictable events (e.g. prolonged wet periods) and uncertainties (e.g. ground conditions) significantly influencing actual outcomes. Works programs should be well planned in advance of the year they are budgeted, otherwise inefficiencies in service delivery may be introduced. The current ratio methodology has a level set at 2%. This essentially means a Council would be budgeting for predicted rather than actual works based on the level of service expected by the community. This also limits a Council's ability and flexibility to plan a response over a longer period when unusual events occur, taking appropriate account of risk and community impact in prioritizing works. This is evident in some parts of the North Coast of NSW currently where Councils have experienced on-going periods of wet weather and floods, resulting in significant infrastructure backlogs, and potentially not yet seen premature failure of assets. Whilst some of this infrastructure work will be treated under Natural Disaster Funding arrangements, much of the increased infrastructure decline will need to be met by local Councils.

iii) Increase the timeframe to meet the criteria. Councils can introduce cost effective solutions to respond to backlog 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. These strategies often support assumed long lives of other asset components (e.g. meeting reseal renewal targets will help protect expensive structural road pavements from premature failure). Lack of resealing at 7-8 year intervals reduces the life of the road asset and leads to a reduced level of passenger safety due to 'less than adequate' friction between vehicle tyres and the road surface.

IPWEA (NSW Division) believes there is also a need to improve the definition of the cost to bring to satisfactory that determines the quantum of the backlog. IPWEA has offered to work with OLG to:

- better define how to calculate the backlog
- provide standard underpinning criteria (e.g. road hierarchy, condition assessment methodologies) and typical ranges of useful lives for use by LG in NSW (which will also aid depreciation assessment)
- provide training to LG Engineers and Technical staff to further build capacity within Councils

We believe this approach will provide a more realistic and consistent assessment of the infrastructure renewal work needed to meet the agreed level of service, using the optimum infrastructure renewal method (e.g. partial versus whole of component renewal).

Asset Maintenance Ratio (AMR)

IPWEA (NSW Division) has been involved in discussions with OLG in regard to the AMR. It agrees that Councils should meet or improve this ratio within five years. We recommend however that this requirement commence from 2015/16 onwards.

OLG have now confirmed that this ratio only applies to routine maintenance (actual expenditure compared to required expenditure). It is clear that the definition of this ratio (within special

schedule 7) has been interpreted legitimately, but differently by different Councils. Therefore historical analysis of this ratio may be based on differing definitions and inclusions.

IPWEA (NSW Division) has offered to work with OLG to better define the term 'maintenance' for the purpose of calculating this ratio, and to include this in training of industry practitioners.

Debt Service Ratio (DSR)

IPWEA (NSW Division) supports the appropriate use of debt to deliver long lived infrastructure to communities, to ensure inter-generational equity and allow improved asset, financial, risk and health management.

2.4 Community Engagement

Community engagement is an essential component of working with the community to determine what services and infrastructure it needs, and what it is prepared to pay for.

Councils are already required to appropriately engage with their communities via the integrated planning and reporting (IPR) processes. This is essential. Nevertheless, community engagement needs to be well managed and cost effective.

Councils also develop a wide range of strategic documents, all of which undergo extensive community engagement processes and State Government review in many cases.

IPWEA (NSW Division) encourages IPART to make use of the existing IPR and related engagement processes wherever practicable, rather than requiring new or extra processes, which cost the community.

IPWEA (NSW Division) notes that in effectively communicating with a a community, Councils need to indicate that to pay more to maintain the existing level of service, whilst being a difficult message to deliver, is the wise decision to make financially. This is complicated by the low rate of decline in asset condition of long lived infrastructure and the need to fully fund depreciation under the Operating Performance measures (in some cases requiring a renewal reserve to be created to meet future infrastructure replacement needs).

2.5 Planning to be Fit for Future and Reporting

IPWEA (NSW Division) believes the IPR requirements need to be reformed to require:

- all Community Strategic Plans to be linked to the Asset Management and Long- Term Financial Plans. CSPs are often aspirational documents, however they need to be better linked to long-term affordability so that community expectations are consistent with the cost of service provision.
- a single chapter within the Delivery Program and Operations Plan on Infrastructure Management to provide:

    - a snapshot of infrastructure ratios and measures including how a Council proposes to deal with the issues of:

        - routine maintenance
        - infrastructure renewal and upgrades
        - network deficiency
        - works to address capacity issues with existing infrastructure
        - other new infrastructure sought by the community
        - disposal of infrastructure
    - proposed works program summaries, funding and key performance indicators
- a revised Special Schedule 7 for inclusion in the annual report that summarises the actual outcomes at the end of the financial year (compared to the predicted outcomes outlined in the Operations Plan)

IPWEA (NSW Division) believes this approach would provide greater transparency to communities compared to the current approach where the infrastructure expenditure to spread throughout the Operations Plan and in the annual report, limiting both ease of use and interpretation.

IPWEA (NSW Division) has offered to work with OLG and the NSW Auditors Advisory Group to develop the appropriate templates and guidelines to assist in this process.

3. CONCLUSION

IPWEA (NSW Division) is a recognised leader in the field of infrastructure and asset management. Our ethos and connections within the Local Government industry mean we are well placed to influence positive change.

It seeks to partner with the Office of Local Government, LGNSW, the NSW Auditors Advisory Group and IPART, to improve the management and reporting on infrastructure to our NSW communities.

IPWEA (NSW Division) believes there is an opportunity to make simple improvements that will greatly assist Local Government, as outlined in this paper and the communities they serve.

This paper outlines proposals to improve:

- Integrated Planning and Reporting (IPR) as it relates to the Community Strategic Plan, Delivery Program and Operational Plan
- Special Schedule 7 (SS7) so that it better reflects the decisions facing a Council (and their Asset Managers)
- modifying and better defining the Fit for the Future criteria to provide greater flexibility to Councils in managing their assets and meeting legislated obligations
- building capacity within Local Government

By working together, IPWEA NSW believes the following outcomes can be achieved:

- Improved transparency to communities about infrastructure and the funding required to achieve an agreed level of service.
- A more holistic approach to managing infrastructure with improved consideration of risk and

legislated obligations on Councils.

- Improved consistency of reporting by Councils against the 'Fit for the Future' criteria.
- Benchmarking of underlying supporting assumptions to ensure a 'reasonableness' test.
- Improved confidence of Engineers, Accountants and other practitioners in the information supporting key financial and risk management decisions of Councils.

Ultimately these improvements will provide improved information for decision- makers so they may determine the appropriate level of service and the associated cost for their communities.

We look forward to the opportunity to discuss these issues in greater detail.

4. Contact Details

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Appendix 2

Presentation to Local Government Auditors Association of New South Wales on 18 May 2015

IPWEA NSW
Fit for Purpose Transport Assets

New South Wales
IPWEA
INSTITUTE OF PUBLIC WORKS ENGINEERING AUSTRALASIA

IPWEA NSW

- IPWEA NSW Mission

  To enhance the quality of life of NSW Communities through excellence in public works & services

- IPWEA NSW Vision

  IPWEA (NSW) is recognised as the leading professional organisation that effective informs, Connects, represents and leads public works professionals for NSW

- Division of IPWEA Australasia with representation on NAMS.AU

IPWEA NSW

- IPWEA NSW Purpose
- IPWEA NSW is established to be a charity with the purpose of advancing the public works sector in Australia, particularly in NSW by:
  - Conducting & publishing research into improvements to processes used in the industry
  - Working with government at all levels to ensure that the interests of the public works industry are represented in regard to the public decision making process, and
  - Providing a forum for all people engaged in the public works to discuss best practice and enhancing the future of the industry

IPWEA NSW

- IPWEA NSW Board
  - Warren Sharpe OAM President (Eurobodalla Shire Council)
  - Gary Woodman Vice President (Cobar Shire Council)
  - Ken Halstead (UTS Sydney)
  - Bill Woodcock (Complete Urban)
  - Peter Shields (Sydney City Council)
  - Grant Baker (Blayney Shire Council)
  - Garry Hemsworth (Gosford City Council)
  - Paul Gallagher (Nambucca Shire Council)
  - Will Barton (Junee Shire Council)
- John Roydhouse CEO

IPWEA NSW

- IPWEA NSW Events
  - State Conference – October, 2015
  - Works Officers Conference – 18-20 May, 2015
  - Regional Forums across NSW – February/March, 2015
  - Regional Group meetings - quarterly
  - Civenex Exhibition – 60th Anniversary – Eastern Creek – 20-21 May, 2015

- IPWEA NSW is registered training organisation (RTO)
  - Recent Fit for Purpose forums held around NSW

New South Wales
IPWEA
INSTITUTE OF PUBLIC WORKS
ENGINEERING AUSTRALASIA

IPWEA NSW

- NSW Roads & Transport Directorate
  - Partnership between IPWEA NSW & LGNSW
  - Represents 143 of 152 Councils in NSW
  - Executive Management Committee with membership from IPWEA LGNSW, RMS, T4NSW
  - Working groups – Technical, Bridges, Transport, Road Safety
- NSW Roads Congress – 1 June, 2015 – NSW Parliament Theatre
- Roads Asset Benchmarking & Construction Cost Index Reports

New South Wales
IPWEA
INSTITUTE OF PUBLIC WORKS ENGINEERING AUSTRALASIA

IPWEA NSW

- LG looks after 90% of roads in NSW or about 168,000km
- Local & regional roads perform a range of functions from local access to significant transport routes
- Key objective is *'to provide safe, efficient and integrated transport infrastructure to support and improve the social and economic well being of communities across NSW, in a sustainable manner'*
- 2012 Asset Benchmarking Report highlighted a renewal ratio of about 0.5:1 and an annual underspend of over $600m pa

IPWEA NSW

- Fit for Future
  - Good step toward a more sustainable solution
  - Not without risk – financial sustainability vs Fit for Purpose
  - Some ratios need further review and improved definitions (e.g. Asset Backlog Ratio, Asset Renewal Ratio, Asset Maintenance Ratio)

- IPWEA NSW has capacity, structures and expertise to lead
  - Collaboration with OLG & NSW Auditors essential
  - Solutions must first provide clarity for engineers and accountants

IPWEA NSW

- IPWEA NSW is well positioned to collaborate to develop guidelines for & train LG industry in:
    - Definition of maintenance & maintenance ratio
    - Definition for asset renewal (eg heavy patching vs pavement rehabilitation)
    - Definition asset renewal ratio
    - Revised definition and benchmark for asset backlog ratio

IPWEA NSW

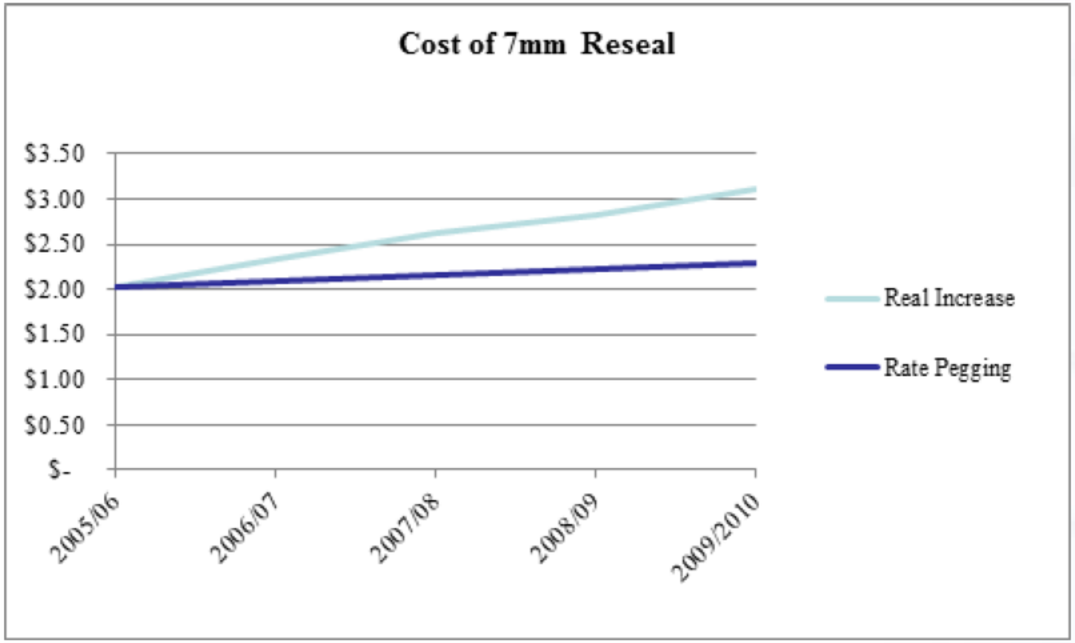
- IPWEA NSW is well positioned to collaborate to develop guidelines for & train LG industry in:
  - Guidelines for condition assessment of transport assets
  - Guidelines for assessing network deficiency & capacity gaps
  - Componentisation of transport assets
  - Common road hierarchy for use in NSW
  - Benchmark ranges for useful lives for different road hierarchy
  - Guidelines for good transport infrastructure management in a LG context
    - Levels of service
    - Risk management & Civil Liabilities Act 2002
    - Network optimisation

IPWEA NSW

- IPWEA NSW is well positioned to collaborate to develop guidelines for & train LG industry in:
  - Standard summary tables for transport infrastructure for inclusion in all Council Delivery Program/Operation Plans from 2015/16
  - A revised Special Schedule 7 that provides an annual report against the DP/OP summary table including:
    - Works to sustain agreed levels of service – maintenance, renewals & capacity upgrades
    - Network deficiencies
    - New capital works (by developers and/or Council)
    - Fit for future ratios

IPWEA NSW

- Impact of rate pegging – significantly reduced renewal work – poor road safety outcomes – higher maintenance cost - increased annual infrastructure gap and total backlog of works – not sustainable



Bridge pile and corbel in condition 4 – high risk assets

Bitumen seal – well past condition 5 – high risk due to defects (ie potholes) - high maintenance costs www.ipwea.org/nsw

Appendix 3

2015 NSW Roads Congress Communique – 1 June, 2015

NSW LOCAL ROADS CONGRESS
1 June 2015
Congress Communiqué

The NSW Roads & Transport Directorate, a partnership between the Institute of Public Works Engineering Australia (IPWEA) and Local Government NSW, in holding the 2015 NSW Local Roads Congress resolved to announce the following communiqué.

The Congress applauds the positive response of Governments to the 2014 NSW Roads Congress Communiqué to assist councils drive the NSW and regional economy, address social equity and improve road safety through improved transport infrastructure including:

- $42.5 million from the NSW Government through the Fixing Country Roads Programme for roads in regional NSW
- $25.8 million from the Australian Government for 29 projects through the Bridges Renewal Programme and $119.6 million for 27 projects under the Heavy Vehicle Safety and Productivity Programme
- $53.5 million from the Australian Government under the Black Spot Programme in 2015-16
- An extra on-off allocation of $350 million from the Australian Government for Councils across Australia in 2015-16 under the Roads to Recovery Programme.

On the downside, calls for the NSW Government to either increase the rate pegging limit for the current year or to remove it completely have gone unheeded. Likewise the Australian Government has not acceded to the request by the 2014 Congress, and ALGA on a national basis, to restore the CPI increase in Financial Assistance Grants to Local Government.

The release of the *Road Management Report* and the *Timber Bridge Management Report 2014* published under the NSW Roads & Transport Directorate's Road Asset Benchmarking Project comes at an opportune time, given the discussion on sustainability as part of the NSW Government's Fit for the Future reforms.

The *Road Management Report* shows that the long term underfunding of roads and bridges has decreased from $783 million in 2006 to $447 million per annum in 2014. This reduction demonstrates that Local Government is pulling their weight in addressing the infrastructure challenges through targeted infrastructure funding programs, the application of engineering skills and improved asset management.

The report highlights that the sustainability of transport infrastructure requires new funding to support regional NSW communities who have long lengths of roads, lower population densities yet produce high value product, feed the nation, drive exports and provide the playground for our cities.

The *Timber Bridge Management Report* shows that despite an increased level of expenditure by Councils since 2006, the State's timber bridge stock is still in a less than satisfactory condition. Further allocation of resources must be focused in this high risk area.

To help drive the NSW economy, address social equity issues (particularly within regional NSW) and improve road safety outcomes, the Congress calls on the Governments to take the following measures:

NSW Local Government

The Congress calls on Local Government in NSW to:

1. advocate for their communities by writing to the relevant Ministers and their local NSW and Australian Government MPs seeking their support for the Congress outcomes
2. investigate solutions to the equity issues surrounding the rating of rural properties
3. continue to improve asset management performance identified in the *Road Management Report* released today by:
   a. developing a common road hierarchy for NSW local and regional roads
   b. working with the Office of Local Government to improve the transparency and consistency of infrastructure measures within the Integrated Planning & Reporting framework
   c. building capacity within the Local Government industry by supporting ongoing training and knowledge sharing
   d. taking responsibility for developing skilled professionals for tomorrow through cadetships and experiential development programmes
4. seek further improvements in efficiency and effectiveness in service delivery, including the development of new techniques and innovative technologies in co-operation with industry
5. avoid internal cost shifting by ensuring that Government grants for infrastructure maintenance and renewal are expended in addition to the current levels of funding to ensure Local Government's credibility is maintained.

NSW Government

The Congress calls on the NSW Government to:

1. remove rate pegging in NSW to allow Councils to determine appropriate rating increases, in conjunction with their own communities, using the Integrated Planning and Reporting framework
2. redistribute Federal Assistance Grants to regional NSW to address social equity and reduce the infrastructure funding gap (in association with 3 below)
3. implement the recommendations of the *Revitalising Local Government* Report to improve the NSW rating system to better account for medium and high density development and encourage Councils to meet NSW Government growth targets, particularly in our cities
4. establish a Government finance authority to provide a low interest loan scheme to ***all Councils*** to help them become Fit for Future
5. produce guidelines for Local Government on the effective use of borrowing to address short and long term funding needs, including renewal and upgrade of local and regional roads
6. provide additional resources to Local Government for the management and upgrade of transport infrastructure, particularly to address the declining condition of bridges

7. implement a programme through the Department of Planning to develop strategies to determine and mitigate the cumulative impact of State Significant Development, e.g. mining, on communities and transport infrastructure beyond the immediate development area
8. improve consultation with Local Government to develop strong links between regional transport plans and infrastructure priorities.

NSW & Australian Governments

The Congress calls on the NSW and Australian Governments to:

1. increase the funding to Local Government under grant programmes such as *Fixing Country Roads* and the *Bridges Renewal Programme* to provide resources to reduce the current unfunded renewal and upgrade of infrastructure assets
2. build upon the $200 million provided for rail upgrading in the current year to reduce the increasing freight loads on local and regional roads, including resolving institutional impediments for access to existing rail
3. provide consistent levels of funding from year to year to provide greater certainty in planning infrastructure delivery and resourcing strategies to allow development and retention of a local skill base.
4. ALGA work with COAG, informed by State LG peak bodies and IPWEA, to develop a new National Infrastructure Partnership for the three tiers of Government for smarter long term investment planning in transport and community infrastructure.

Australian Government

The Congress calls on the Australian Government to:

1. restore the CPI increase in Financial Assistance Grants to Local Government
2. review the distribution of Federal Assistance Grants, having regard to social equity for local councils having low populations
3. extend the additional $350 million proposed for the 2015-16 Roads to Recovery Programme until the 2018-19 financial year and thereafter make Roads to Recovery permanent
4. progressively increase funding to Local Government tied to a percentage of the GST equivalent to 1% of National GDP
5. investigate the establishment of a dedicated Federal Government Bridge Subsidy Scheme targeting economic, social equity and environmental outcomes.

Australian Local Government Association

The NSW Congress seeks the support of ALGA to deliver the NSW Roads Congress outcomes.