

INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

Organisation: Port Macquarie-Hastings Council

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The Director, General Purpose Standing Committee No. 6
Parliament House
Macquarie Street
SYDNEY NSW 2000

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Dear Sir/Madam

Please find below a response by Port Macquarie-Hastings Council (specifically Mayor Peter Besseling, Deputy Mayor Justin Levido, Councillor Rob Turner, Councillor Lisa Intemann, Councillor Trevor Sargeant, Councillor Mike Cusato and Councillor Sharon Griffiths); to the terms of reference of the General Purpose Standing Committee No. 6 inquiry into local government in New South Wales and in particular:

a) The New South Wales Government's 'Fit for the Future' reform agenda

Response:

1. Port Macquarie-Hastings Council (PMHC) supports reform of local government; however the reform process needs to be undertaken in a way that takes into account and progresses the key issues that impact on local government in NSW.

One of the most important issues is the financial sustainability of Councils. As the level of government that is closest to the people, it is important that NSW has strong and sustainable local government.

The one-size-fits-all approach the NSW Government has taken with the Fit for the Future (FFF) reforms is of major concern. There is a vast difference between metropolitan Councils and regional and rural Council's and to apply the same set of financial ratios and benchmarks across the board highlights a lack of detailed understanding of the differences between metropolitan Councils and a large regional Council, such as PMHC.

This issue is highlighted by a comparison between PMHC and the Council of the Municipality of Hunters Hill. PMHC has approximately 1,400 klms of roads and a local government area that is 3,686 sq klms; compared to Hunters Hill that has approximately 22 klms of roads and a local government area that is 5.7 sq klms. It is also pertinent to note that PMHC also has responsibility for approximately \$2.7 billion worth of infrastructure.

It is not realistic to consider that the financial sustainability issues facing some metropolitan Councils is in any way similar to a large regional growth Council such as PMHC. *(Please note that Hunters Hill has only been chosen to demonstrate the vast differences that exist between metropolitan and regional Councils in NSW. The data above is taken from the 2013-2014 comparative data released by the Office of Local Government (OLG) in June 2015.)*

2. The NSW government has also embarked on the FFF reform journey prior to the rating review being commenced or completed. It would have been of great assistance to Councils to understand the impacts of any recommendations to come out of that review prior to developing their FFF submissions.
3. Reform of local government also has to be a two way street between Councils and the State government. There has been no discussion during the reform process of how the State government will address the ever increasing burden of cost-shifting on Councils. In 2015-2016, the estimated impact of cost-shifting on PMHC and its community from other levels of government will be \$8.9 million dollars. This figure is close to half the amount PMHC needs to find annually in order to be deemed FFF in the next five (5) to (10) years, based on the financial ratios included in the FFF program.
4. The reform program has also clearly failed to take into account any factors other than financial i.e. social or environmental factors or knowledge, creativity and innovation. The very essence of local government is about local community, it is about the 'place' that Councils can assist in creating. To focus purely on financial ratios trivialises the enormous impact a local Council can have on the quality of life of the local community.
5. As stated earlier, whilst Council is fully supportive of reform in local government, it remains concerned that the current funding model applicable to local government is broken and places unnecessary challenges on our community in dealing with the infrastructure and service management issues.

There appears to be an unequal burden placed on local government to provide a very substantial share of community services, whilst receiving only just over 3% of all income from taxation. This needs to be considered along with the fact that local government in Australia has responsibility for approximately 30% of the nation's infrastructure. This unbalanced situation and inequity is real and it impacts on communities every day. The fact local government has such large infrastructure responsibilities and minimal income opportunities means that there is a very real need to find an equitable funding stream to Councils from taxation income generally, including GST and the fuel excise levy.

The FFF reform program does not offer any long term funding solutions to the financial sustainability issues facing rural and regional Councils particularly.

Furthermore, the current cost shifting from other levels of Government adds to this community's financial burden to the order of approximately \$8.9 million per annum, which is the estimated impact of cost shifting on the Port Macquarie-Hastings community for 2015-2016.

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

Response:

1. The NSW Treasury Corporation (TCorp) completed a program of financial sustainability and capacity review of all 152 NSW local governments in 2012, with the results published in a summary report in April 2013. The report found that the majority of local governments are reporting operating deficits, with sustainability expected to deteriorate over the short term. Huge levels of infrastructure backlog were also identified across NSW.

Subsequently, the NSW Government has requested (as part of its response to the Independent Panel's Report "Revitalising Local Government - October 2013"), all local government submit a FFF proposal. The NSW Government envisages that FFF Councils will be smarter, more sustainable and strategic and have community assets that are well planned and maintained, have right services, right people and right place, be efficient, focussed and strong community leaders.

The FFF process requires each Council to undertake a self assessment against four overarching criteria as follows:

- Scale and capacity;
- Sustainability;
- Infrastructure and service management and
- Efficiency.

Further discussion on these specific benchmarks and their relevance in a local government context is covered in (c) below.

The local government sector (as compared to other levels of government), has a number of unique challenges. The challenges for local government include:

- Local government holds the majority of community assets;
- Local government throughout Australia has responsibility for over 30% of Australia's infrastructure;
- Local government receives a comparatively small amount of national taxation revenue i.e. approximately 3.4% only;
- Significant constraints in revenue as a result of rate-pegging;
- The impact of cost shifting from other levels of government without an offsetting revenue stream (estimates for Port Macquarie-Hastings Council for the 2015-16 year is \$8.9 million);
- Managing increasing community expectations

Regional and rural councils have additional challenges beyond those identified above. These include:

- Limited capacity to pay in the community;
- Extensive infrastructure networks including rural roads and timber bridges which are costly to maintain on a per capita basis;
- Additional costs from being geographically isolated (freight and travel costs);
- Skill shortages;
- Large coastal regional Councils are experiencing significant growth, and with that comes an expectation for additional services and infrastructure;
- An expectation that Council provide a full range of services to the community that a metropolitan Council may not be required to deliver as metropolitan locations communities can access various services in other local government areas that are accessible.

Hence, local government (and in particular regional and rural councils) have unique challenges that are not necessarily shared by other levels of government. For this reason, benchmarking between metropolitan and regional Councils, and local government and other levels of government; is not considered to be comparing apples with apples.

2. The measures used to benchmark State and Federal Governments are unclear. It appears that a large amount of pressure is being put on local government to deliver services not only in a financially sustainable manner (without a proportional share of existing taxation revenue), but also to conduct

themselves with full community consultation and accountability, when such demand does not appear to be made of the Federal and State Governments.

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

Response:

1. Councils in New South Wales are required to report on a number of performance measures. These include Note 13(a) Statement of TCorp performance in the Annual Financial Statements; the TCorp ratios in the Quarterly Budget Review Statement and the seven (7) financial ratios that sit within the Sustainability, Infrastructure and Service Management, and Efficiency criteria contained within the FFF reform agenda.

It is acknowledged that there needs to be some performance criteria and benchmarking to establish the financial sustainability.

However, financial performance ratios on their own often fail to acknowledge the inherent differences between local government entities which can impact considerably on the financial performance of a specific entity. For example, similar to the earlier example of Hunters Hill Council in response to Question a), the following two sample Councils are expected to report on exactly the same financial benchmarks:

Council	Pensioner Concessions	Total Road Length	Socio-Economic Index	Average Taxable Income	Roads/Bridges & Footpaths exp per capita
Metropolitan	17%	85.5	121	49,606	134.48
Regional (PMHC)	30%	1333.9	75	39,480	305.67

Hence, financial benchmarking in isolation does not consider other factors and challenges faced by an individual Council and its particular community including:

- Population to service;
- Geographical size of LGA;
- Length of roads;
- Number of timber bridges;
- Length and composition of the road network;
- Current service levels;
- The Community's capacity to pay;
- Ability to generate its own source revenue (in addition to Financial Assistance Grants);
- Concessions provided to charities and benevolent institutions;
- Factors beyond Council's control including areas highly prone to floods and storms; aging populations; coastal councils with holiday peak crowds which add pressure to facilities.

There is also considerable debate as to whether certain financial benchmarks are a good indicator of financial sustainability.

For example, the *Operating Performance ratio* is considered to be a reasonable indicator of financial sustainability. However, the impact of cost shifting, the size of an asset base (depreciation) and capacity to pay (to name a few) will all impact on a Council's ability to perform well against this benchmark.

It is difficult to use the *Own Source Operating Revenue* ratio as a point of comparison between Councils. This ratio is used to understand the degree of reliance on external funding sources such as operating grants and contributions. Whilst it is acknowledged that this must be recognised as a key revenue stream by Councils, moving away from the reliance on external funding bodies is not that easy when considering Councils with small population bases and large local government areas to service.

It could be argued that the *Building and Infrastructure Asset Renewal Ratio* does not adequately consider the fluctuating patterns of renewal expenditure. South Australian Councils are no longer required to report against this indicator, whereas NSW Councils were required to improve/meet performance against this indicator as part of their FFF submission.

Hence, as per (b) above, financial performance benchmarks on their own do not consider the challenges and composition of individual local government areas which may by their very nature, negatively impact on a Councils' ability to meet certain benchmarks.

d) The scale of local councils in New South Wales

Response:

1. Size is not necessarily a determinant of whether a Council is efficient, effective or financially sustainable. The 2013 Treasury Corporation (TCorp) report detailed which Councils were deemed financially sound and the report demonstrated that there are a number of smaller Councils that are deemed to be more financially sustainable, or who have more positive financial outlooks than larger Councils. Far greater research and evidence is required prior to any decisions being made on the future of Councils based on scale and capacity alone.

The notion that 'scale' i.e. population numbers should be a determinant of a Council's ability to effectively and efficiently do the job of meeting community expectations is flawed. Scale should be seen as a lesser component of efficiency, effectiveness and sustainability. Increasing scale is unlikely to assist in meeting existing funding shortfalls.

It is important that the FFF process does not descend into a process about amalgamations simply to achieve scale, but rather about a Councils strategic capacity as measured primarily by the Operating Performance Ratio, which is perhaps the most important indicator.

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

Response:

1. It is clear the IPART have experience in dealing with Councils through the annual Special Rate Variation (SRV) process. This experience would have already exposed the IPART to some of the challenging financial sustainability issues facing Councils.

It is accepted that the financial ratios that have formed the key part of the FFF reforms were already in place when the IPART was appointed as the independent expert panel. In light of this, the IPART have been put in a difficult position in having to make assessments on Councils FFF status when they themselves may not agree with the ratios as determined by the Office of Local Government (OLG).

Having the IPART as the independent experts (who will recommend which Councils are deemed to be FFF to the government), potentially places the IPART in a difficult situation. This difficulty could arise when Councils who have been deemed to be FFF based on the improvement action plans submitted to the IPART as part of the FFF process, then apply for SRV's, which may form a key plank of their improvement action plan. The IPART may find it difficult to reject such future requests for SRV's when it has formed part of a Councils FFF action plan.

2. The addition of the South Australian commercial consultant, Mr John Comrie is a welcome addition to the IPART panel. Mr Comrie has detailed experience in dealing with local government and in particular, with the financial sustainability of local government and should therefore be able to add great value to the IPART in their FFF deliberations.

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

Response:

1. Whilst PMHC had been working on a range of efficiency reforms for some time, the timing of the FFF reform process has been difficult. The announcement of the government's response in September/October 2014 left little time at the end of the 2014 calendar year to undertake detailed community engagement around FFF specific issues. PMHC (as with the majority of other NSW Councils), was also in the middle of developing the 2015-2016 Operational Plan and related budget during the same time as the FFF process was being undertaken. This placed enormous pressure on staff resources as well as on the elected officials.

The fact that the IPART was appointed as the independent expert panel in April 2015 and then requested feedback on the FFF assessment methodology by close to the end of May when FFF submissions were due 30 June, did not leave Councils very much time to assess the methodology in the first place, let alone make adjustments to the FFF submissions, if there were indeed to be any changes to the methodology following public exhibition.

g) Costs and benefits of amalgamations for local residents and businesses

- *Not Applicable to Port Macquarie-Hastings Council*

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

- *Not Applicable to Port Macquarie-Hastings Council*

i) Evidence of the impact of forced mergers on local infrastructure investment and maintenance

- *Not Applicable to Port Macquarie-Hastings Council*

j) Evidence of the impact of forced mergers on municipal employment, including aggregate redundancy costs

- *Not Applicable to Port Macquarie-Hastings Council*

k) The known and or likely costs and benefits of amalgamations for local communities

- *Not Applicable to Port Macquarie-Hastings Council*

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

Response:

1. One of the issues raised by the Independent Panel's Report ("Revitalising Local Government - October 2013") was to consider a review of the current Regional Organisations of Councils (ROC) arrangements. It flagged that the time had come for a fresh approach. The regional Joint Organisations are proposed to be different to the current ROCs given ROC's lack a statutory basis and the voluntary nature of their activities has meant their operations have varied significantly between regions.

According to the NSW Government, a Joint Organisation will provide a forum for local Councils and the State to work together to deliver things that matter most to regional communities and that cut across traditional council boundaries - things like jobs, education, housing, roads and transport.

Currently PMHC is a member of the Mid North Coast Regional Organisation of Councils known as MIDROC, which includes Gloucester Shire Council, Greater Taree City Council, Kempsey Shire Council, Nambucca Shire Council, Bellingen Shire Council and Coffs Harbour City Council. The Panel has recommended that PMHC be part of a Joint Organisation covering the Mid North Coast, which may not include all the present members of MIDROC.

The key concerns with the proposed Joint Organisation model are that there has yet to be formal consultation with the local government sector about what the governance model of a Joint Organisation will look like.

Work on the governance model has commenced according to the OLG, however until such issues are confirmed, the way in which a Joint Organisation will operate is largely unknown. For instance, will decisions made by Mayors of a Joint Organisation be binding on the individual Councils? If so, then this conflicts with the current Local Government Act 1993. Other questions that come to mind are what will the breadth of powers be of a Joint Organisation? What are its functions, principles and relationships with Councils?

According to the OLG, it is likely that the legislation relating to Joint Organisations will define a core statutory model for a Joint Organisation and then there will be the ability for individual Joint Organisation's or regions to increase the scope of the Joint Organisation if agreed by all parties.

PMHC wishes to ensure that the Joint Organisation approach has real benefits, that they add no additional costs to the community and that it is not simply another tier of governance being imposed on the people of the region.

2. PMHC perceives that there could be potential benefits from collaboration with Councils of similar size, noting that these Councils may not be immediate neighbours. The Joint Organisation model appears to ignore this possibility for wider collaboration.

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

- *Not Applicable to Port Macquarie-Hastings Council*

n) Protecting and delivering democratic structures for local government that ensure it remains close to the people it serves

Response:

1. Refer to the response to item (L) above in relation to Joint Organisations. PMHC believe it is critical that a fourth tier of government is not imposed on the regions through the formation of Joint Organisations. This concern stems from the fact that the most effective Councils will be those that can build stronger and more successful communities, those that can improve community well being as well as ensure there is comprehensive community involvement in decisions impacting on their lives. This can only occur if local government is 'local'.

There are opportunities for collaboration which seem not to have been considered by the OLG. For instance, OLG has expressed concern to ensure better collaboration between State agencies and local government, but has yet to address the problem of different State agencies covering different geographical areas.

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

Response:

1. In essence to meet the FFF benchmarks PMHC would need to:

- Increase maintenance expenditure;
- Decrease other expenditure - whilst maintaining service levels;
- Increase revenue; and
- Increase renewal spends.

The above represents an unrealistic expectation, particularly over a short time frame. This is largely due to the fact that the problems relating to infrastructure backlogs and asset management dates back decades.

Further to this, PMHC is a growth Council i.e. the population is predicted to continue to grow into the foreseeable future; therefore it is a difficult challenge to be able to reduce 'other' expenditure at the same time as increasing general maintenance expenditure, whilst providing increased and improved services to a growing community.

The major strategies that were determined that should be progressed by PMHC to improve its sustainability relate to:

- Capitalising on the continuing growth of the area;
- Improving asset management;
- Increasing PMHC revenue opportunities and establishing future long term financial sustainability; and
- Maintaining or reducing costs and expenditure.

In developing the above mentioned strategies extensive financial modelling was undertaken to assess the levels of revenue and/or expenditure reduction required in order to meet the benchmarks. In addition to this, various timeframes were explored to assess the length of time under which the benchmarks would be achieved.

Overall, the financial modelling attempted to achieve a FFF submission which fulfilled IPART's assessment methodology, and included where required SRV's' phased in over a number of years rather than a one-off increase. These proposals were designed to fit the FFF criteria. They do not necessarily reflect

the reality of the situation from a community or Council perspective, and nor do they recognise the need for a more equitable funding model between Federal and State government and local service demands, especially in relation to maintenance of transport infrastructure.

It should be noted that from a PMHC perspective, SRV requirements were only considered after all other action plan items had been incorporated into the modelling, thereby limiting the level of SRV required.

As detailed in the PMHC FFF submission, on top of embedding the current 4.43% SRV into the base rate, the improvement action plan details rate increases for the following 5 years 17/18 - 8.1%, 18/19 - 8.1%, 19/20 - 8.1%, 20/21 - 8.1%, 21/22 - 6.73%, each of which is to become part of the base rate.

Applying for and implementing the above-mentioned SRV's, plus implementing the strategies and actions included in the FFF improvement action plan, are the only way that PMHC will be able to meet all the FFF ratios within the timeframes included as part of the IPART methodology. Throughout this process, there has been little time to consider the capacity to pay issues for the community associated with the proposed SRV's.

p) Any other related matter

Response:

1. The State Government must ensure that they publicise on an appropriate web site, the final determinations as to which Councils have been deemed Fit for the Future and those that have not. In addition to this, the government needs to indicate what the implications are for Councils that are not deemed to be Fit for the Future. PMHC is of the view that these implications should have been set out prior to the 30 June deadline for FFF submissions.

Thank you for the opportunity to comment. Should you require further information please do not hesitate to contact me

Yours sincerely

Craig Swift-McNair
General Manager