

**Submission
No 123**

INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

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The Hon Paul Green MLC
Chair
General Standing Committee No.6

Submission from Mr Des Bilske, General Manager, Deniliquin Council on Inquiry into local government in New South Wales

Thank you for the opportunity to respond to the General Purpose Standing Committee No.6 inquiry into local government in New South Wales.

This submission is a personal one from my position as general manager of the Deniliquin Council. While most, if not all, of the points I put forward may be supported from the whole Council, this report has not received formal endorsement by them in an ordinary Council meeting. I make these comments in the knowledge that the Deniliquin Council is very supportive of the concept of structural reform and especially mergers of councils to achieve improved scale, capacity, efficiency and effectiveness in all areas of operation.

As a respondent I reflect on my experience, observations and learnings from having worked within numerous industries principally across four states and being involved with local government for the past seventeen years. Nine of these years have been in NSW rural and regional centres as a General Manager, three as a CEO in Victoria rural sector council post amalgamations, three as a Deputy General Manager in a major regional centre and also had two years as a General Manager of a Natural Resource Management Board in South Australia working closely with local government. This experience followed more than 10 years as a manager within State government departments and owned industries often as a change agent to facilitate reform.

As a general comment from this experience it has become very evident that many areas of local government need to undertake significant structural reform to ensure they are capable of being a relevant sector of government service delivery into the long term future. I believe that unless reform is undertaken, there will be many communities disadvantaged because of the virtually wasted funding allocated to bolster artificially larger administrations than those reasonably required to be able to efficiently manage the local government sector within NSW.



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The method of response I have taken is to make comments to each of the specific terms of reference where it is considered that I can contribute comment on my experience for consideration by the committee.

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

The Fit for the Future agenda is seen as a necessary catalyst for all local government in NSW to undertake detailed self-analysis and where necessary structural reform to remain sustainable and a relevant level of government into the future. The initiation of the reform agenda has come from many areas, not the least being from within local government itself, with a view that the sector needed to prepare itself for a range of reviewed legislation and a financially restrictive future especially through grant funding from other levels of government.

Numerous reviews across the local government sector over the last fifteen years have all culminated into an agenda for coordinated structural reform to help ensure local government is in a suitable position to survive into the future, especially under increasing external analysis. Structural reform will help the sector respond to criticism on size, relevance, efficiency and effectiveness directed from other levels of government and the private sector.

(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,

An analysis of the finances of NSW local governments by Treasury Corporation indicates that many are not financially sustainable now with the position becoming worse into the future under current predictions within their own long term financial plans. The large number of councils in NSW (152) results in excessive levels of funding allocated to functions that do not necessarily deliver specific services to communities or add value to service delivery such as back office services of administration. While the actual reform agenda for each area will possibly be different there are some generalisations that can be made as experience shows councils spend approximately one third of their budgets on administrative functions. Under proposals for structural reform and mergers the required level of administrative function is diminished by as much as 50% when three councils merge or even higher if more councils merge. This reduction is based on the estimated actual needs for management and governance of the councils rather than what is determined through compliance with restrictive legislation and employment Awards. The provisions for continuation and guarantee of employment numbers within communities contained within the local Government Act will create significant inefficiencies in smaller areas to facilitate the continuation of these numbers regardless of the requirements for service delivery. With external restrictive factors of this nature it will not be possible to gain the full potential savings from reform especially with mergers and introduction of varying service delivery through Joint Organisations.

The measures used to benchmark local government are considered very appropriate if the overall objectives are to operate as an economically sound and efficient organisation in their own right. These measures relate back to economic soundness and service delivery within the context of the region within which services are delivered. Comparing other levels of government with the same performance measures may not be relevant as these sectors often have different overall objectives, may not have individual sources of revenue and many services are delivered purely as a social responsibility rather than any consideration of economic efficiency. Benchmarking measures of effectiveness of service delivery across the three levels of government would probably result in consideration of very different service delivery models generally to improve efficiency.

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

The performance criteria and associated benchmarks values used to assess local government have been part of the annual financial returns for all councils with some councils reporting at this level to their elected members on a monthly basis. Because council is responsible for the allocation and consumption of public funds it is appropriate that there is transparency and the establishment of the performance criteria and benchmark values help with the transparency.

(d) The scale of local councils in New South Wales,

The scale of local councils in NSW definitely requires analysis and change as the capability of successful negotiation and advocacy on behalf of communities when only representing as small as 0.1% of the population of the state and still expecting the same level of response as the larger councils that represent in excess of 10% of the state population. There are recognisable geographic factors but this can be overcome with technology and sound management structure and practices combined with suitable representative structures to ensure community consultation and engagement.

(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,

The engagement of IPART and the South Australian commercial consultant is supported in the context that this provides an independent review of all submissions, without the assessment completely removed from knowledge of the sector generally.

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

The deadline for the Fit for the Future proposals is supported as councils have been aware of recommendations from Independent Local Government review Panel since September 2013 and have had eight months to prepare business cases and submissions. While the actual templates have only been recently finalised, the issues to be addressed have been evident in the reports and the governments Fit for the Future agenda, so preliminary work was always possible. The submissions are realistically only overview documents as detailed strategy, plans and structures will only be determined once the decision of the government on IPART advice is finalised.

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

It is anticipated that amalgamations of councils in smaller townships that are the business centres for the local government area will suffer most from economic downturn as a result of these mergers being introduced. While this can be predicted with long-term economic outlooks with community reductions as a result of changes in technology and farm practices there has been deliberate action by councils to continue to artificially bolstering the communities so they will not reach a point of collapse and passing to insignificance.

There are currently many instances where communities are very dependent on the existence of the council as their major source of business as a result of the changing economic drivers. With reduced communities and associated facilities there is a significant problem in attracting professional staff and a resulting shortage of skills in professional areas of accounting, engineering, and planning. The situation is worse in rural areas and exacerbated where many of the existing experienced and qualified employees are set to retire in the next five years. It raises a question about what level of support can continue to be provided to these communities before they reach a point of being beyond assistance. It also raises the issue about who is appropriately informed and positioned to be able to make decisions and what levels of assistance or incentives may be provided to advance the decision with an objective of preventing funding of virtual lost causes.

The economic impact of amalgamations in very small councils without the application of the Local Government Act and employment Award restrictions on staffing relocations will be extreme and will possibly result in service deliveries being provided through a less than efficient model.

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

My only experience on forced mergers and impact on rates is in Victoria which currently council introduced rate rises often in excess of 5% on an annual basis. The levels of rises have been reducing in most councils over recent years as a result of community feedback and stronger financial positions for councils. It should be noted that the level of rates was significantly reduced in all council areas at the initiation of the forced mergers and most councils are in catch up mode as a result of this action. The current rating level per property in Victoria is not significantly different from that across most areas of NSW.

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

From my experience within Victoria the level of infrastructure investment and maintenance continued to be relevant to the need of the community and the need to maintain the assets at a sustainable level. Often in rural councils it is the levels of miscellaneous funding that can have the greatest impact on infrastructure investment such as natural disaster relief especially for flood damage. Recent experience was that several councils in Victoria virtually replaced all of their road network because of the extent of flood damage. This outside funding in the form of “relief” then defers the need for asset renewals and maintenance funding to be generated internally. The councils can then prudently invest their previously budgeted annual maintenance and replacement funding to generate own source revenues in the form of interest which further improves their ability to initiate innovative and non-core projects.

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

The evidence I have for forced mergers is based on Victorian experience where redundancies were paid on a voluntary basis initially but many redundancies occurred after the three year employment guarantee period for Award based staff. The costs to councils differed as each council had its own enterprise agreement but most defaulted to the Award provisions. The costs to councils was often higher in maintaining employment over time rather than the once off cost of the redundancies. As councils in the rural areas have had previous need to reduce their structures and run with reasonably lean back office staffing levels the redundancies from mergers will generally be achievable by most councils and could be funded through incentive packages previously offered by the NSW State Government for voluntary mergers.

(k) The known and the likely costs and benefits of amalgamations for local communities,

The known costs of amalgamations are the potential loss of political voice of the smaller communities that make up a new council. This can be overcome to a certain degree by the utilisation of different models of community engagement and participation through regulated local committees and reference groups. The benefits of amalgamations are the reduced overall costs of administration between the merged councils especially at the higher levels of General Managers, Directors and senior managers. This will be substantial and can assist in offsetting any funding required to attract additional skills and professionals to meet the new organisational structure requirements in a centralised location.

(l) The role of co-operative models for local government including 'Fit for the Futures' own Joint Organisations, strategic Alliances, Regional Organisations of Councils, and other shared service models, such as the common Service Model,

While there are some co-operative models and arrangements that are working there are many that are not efficient and create dissatisfaction between the members because of the ability to float in and out of the arrangements. The introduction of Joint Organisations needs to carry strict rules of operation to prevent localised biases creating arrangements that will be doomed for failure before they get off the ground.

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

Comments made by many of the existing councillors and members of the community is that the NSW State Government should have initially made a decision and forced mergers the same as in Victoria. This would have provided certainty and reduced the significant levels of expenditure undertaken by councils in an attempt to prove the Independent Local Government Review panel recommendations as being wrong. This expenditure is virtually sunk costs and will not be recovered. The forced amalgamations impact on local economies will need to be managed well at a local level within specific objectives that satisfy the regional outcomes desired.

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

The levels of local government representation and the types of services delivered by councils will continue to ensure it remains close to the people it serves. The closeness will be adversely impacted by some centralisation of back office functions but the political representation and introduction of local community committees will bring many councils closer to their communities than is currently being experienced.

(o) The impact of the 'Fit for the Future' benchmarks and the subsequent IPART performance criteria on council's current and future rate increases or levels, and

The predicted current and future rate increases or levels will not change in the short-term as a result of introduction of Fit for the Future, however, it is anticipated that there will be some level of rate harmonisation across merged councils in the medium term. If there are continuous improvement programs introduced into merged councils the need for Special Rate Variations will be minimised as there will be opportunities for productivity as the organisation takes shape. Within my current Council there are no planned special rate variations as a result of Fit for the Future whether the council stands alone or is required to merge.

(p) *Any other related matter.*

There are no other related matters identified.

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