

INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

Organisation: Gwydir Shire Council

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The Hon. Paul Green MLC
The Director
General Purpose Standing Committee No 6
Parliament House
Macquarie Street
SYDNEY NSW 2340

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Dear Mr Green

Inquiry into the 'Fit for the Future' Reform Agenda

Gwydir Shire Council is appreciative of the opportunity to make this submission to the Parliament Legislative Council's General Purpose Standing Committee No. 6 – Inquiry into Local Government in New South Wales.

Profile and formation of Gwydir Shire Council

The Gwydir Shire encompasses a diverse landscape that is both picturesque and productive and is approximately 560 km north of Sydney, 160 km north of Tamworth along the Fossickers Way and 85 km north-west of Inverell. The Shire is 9,122 square kilometres in size, is situated north of Tamworth Regional Council, and continues almost to the Queensland border.

Gwydir Shire was formed in 2004 as the result of a voluntary merger. Because the two former Councils (40% of Barraba, Bingara and Yallaro Shires) each had a population of less than 5,000 the newly formed Council had a legislated requirement to maintain the core employee numbers within the former Council areas forever. Gwydir Shire complied with this requirement until 2014 when it was no longer considered practicable. This commitment over the 10 year period, built into the Council's operations a level of operational inefficiency, which is now being addressed.

Gwydir Shire, in its first full year of operations, was the recipient rural Council of the A R Bluett Award, which is contested each year by councils in NSW who would like to be recognised as being the most progressive in the state.

Inquiries Specific Terms of Reference

- 1 (a) – the New South Wales Government's Fit for the Future reform agenda**
AND
1 (d) – the scale of local councils in New South Wales

The Independent Local Government Review Panel referred to the requirement that each local government authority required a certain level of 'strategic capacity' in

order to confront the challenges facing local government in NSW. This has become known as 'scale and capacity' for the purposes of addressing the issues outlined in the Fit for the Future process.

The meaning of the term 'scale and capacity' is quite nebulous in many regards and suffers from the inclination of the State Government bureaucracy to see local government as being able to be managed with a 'one size fits all' approach. This is not possible across NSW.

For example, the 'scale and capacity' evaluation of urban based Councils is quite different from a reasonable approach with regard to regional and rural Councils. The geography of many rural types of Council reduces the ability to have any genuine or meaningful agreement with regard to any economies of scale that may be generated through mergers. In fact, it is quite possible that diseconomies of scale may be the more likely outcome from mergers, especially in terms of the social dislocation and other detrimental costs inflicted upon smaller local government authorities.

From an academic point of view, a sustainable organisation is at harmony with its corporate governance, financial, social and environmental responsibilities. The actual size of the organisation is relatively minor provided that its key responsibilities are achieved to a level that is supported by its stakeholders, which are, in the case of Gwydir Shire, its residents and anyone who has more than a passing interest in the Council's activities.

In summary, the Independent Local Government Review Panel's option (significantly not a recommendation or preferred option) with regard to Gwydir Shire was outlined on page 115 and a review in 2020 by the proposed Boundaries' Commission revised structure:

Popn. 2011	Popn. 2031	TCorp FSR (Apr 13)	TCorp Outlook (Apr 13)	DLG Inf. Audit (May 13)	Rate Base	Grant Dependency	Merger Potential	Options
5,074	5,100	Very Weak	Neutral	Distressed		High	Medium	Council in Namoi JO or merge with Moree Plains

This outcome was based upon historical data and projected estimates provided in various reports but the Council did not have any prior knowledge that the information would be used in this manner. This has resulted in an outcome that does not fully reflect the work underway to address some of the issues highlighted in the data used in the assessment.

In line with the general view of other NSW local government authorities, Gwydir Shire supports the elimination of rate pegging as a tool of control, which has hindered the ability of Councils to adequately fund the services required by the community and has impacted adversely on sound financial management.

However, to be fair, overall the review process has created the opportunity to better assess the Council's strategic objectives with regard to asset management, and taking a longer-term perspective to the Council's operations.

In rural and regional NSW the geography, culture and demographics of an area are the important determinants to 'scale and capacity', rather than simply the population of an area.

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

Building and Infrastructure Asset Renewal

There is much industry debate over the calculation methodologies and use of a three year compliance period for assets that can last for decades, or even over a century. This is further complicated by the fact that depreciation is an 'historical' financial indicator, based on asset costs as they are constructed in situ. Changes in service standards or construction costs/methodologies for example, while having a significant impact on renewal costs, will not affect depreciation amounts significantly until significant portions of that asset class are replaced. Another problem is that assets identified as obsolete may either not be sold because of legislation, or have uncertain disposal dates due to inactive markets. Also affecting the result is depreciation revisions due to the road revaluation process, which is expected to have a significant impact on the outcome, but could vary significantly (+/-) from the forecast based on audit outcomes. This is further discussed in the improvement section.

Infrastructure Backlog Ratio

This ratio is subjective and is the subject of much industry debate. Historical figures especially are considered unreliable due to poor definitions, lack of standardisation and because they have not been subject to audit or genuine testing. Significant improvement is evident based on improved estimates. This is discussed further in the improvement section.

Real Operating Expenditure per capita

This ratio is expected to deteriorate in Gwydir Shire's case, but for the right reasons. Income is expected to rise as a result of a revised Special Rate Variation application, which will result in an increased capacity to perform the functions appropriately as defined in our service level reviews provided in our improvement plan. Improved revenues will aid in our ability to improve with the objective of meeting (over time) the benchmarks required for infrastructure renewal and backlogs. Linking expenditure reduction with population figures, especially in rural areas with reducing populations, seems unrealistic as a measure of efficiency without some counter measure of effectiveness.

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

The entire process has been driven in a manner which is detrimental to a considered and reasonable outcome. Even the timeframe given to IPART to complete its assessment work is extremely limited with the result that the assessment process will be open to accusations of being rushed.

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

Over the first three years of the newly formed Gwydir Council (2004-2005 to 2006-2007) the costs directly attributable to the amalgamation reached \$3,321,445 and a component of these costs are on-going due to increased equalisation of employee salaries and wages.

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

To a large extent Councils are already entering into beneficial strategic partnerships and the following examples from Gwydir Shire just reinforce the efforts already being undertaken.

Gwydir Shire is an active and positive participant in the Namoi Councils Joint Organisation Pilot, in line with the option for Gwydir Shire outlined in the ILGRP's report and has also continued its involvement in the Border Rivers Regional Organisation of Councils (BROC). A component of this involvement with the Namoi Councils' Joint Organisation Pilot is Gwydir Shire's membership of the Namoi Water Alliance.

Gwydir Shire is an active participant, in fact the initiators together with Moree Plains Shire, in the [Australian Rural Road Group](#) (ARRG). The Council has co-ordinated several reports to highlight the need for better and more appropriately directed funding to the rural road network including [Going Nowhere: The Rural Local Road Crisis, Its National Significance and Proposed Reforms](#) and [Worth Feeding](#). In its collaboration with Infrastructure Australia, the Australian Rural Road Group has also assisted in the production of the [National Road Asset Reporting Pilot](#) and has signed the [Bingara Accord](#) following a presentation by Mr Michael Deegan the then National Infrastructure Coordinator of Infrastructure Australia.

The ARRG has recently completed the North-West Freight Network funding proposal, which is a collaborative effort of Gwydir, Moree Plains, Gunnedah, Warrumbungle and Narrabri Shire Councils.

Gwydir Shire Council is an active participant in the [Gwydir Learning Region](#). This strategic partnership has resulted in the Council producing several research documents in conjunction with [The Australian Centre of Excellence for Local Government](#) and the Australian Learning Communities Network Inc., including *Learning as a Driver of Change* and the *Learning Communities Framework*. Gwydir Shire Council has also partnered with the Federal Government in the development of three Trade Training Centres within the Shire, which were constructed by the Council with grant funding.

The Gwydir Learning Region has been successful in having relevant Certificate level courses conducted in both larger local towns rather than from remote centres. This has enabled a significant number of long term unemployed people to not only gain

tertiary qualifications, but to gain employment in the local hospitals, aged care facilities and local businesses.

The Gwydir Learning Region was the 2006 NSW Training Initiative State Award winner and was the NSW entry into the National Awards.

Gwydir Shire Council has already worked in collaboration with its adjoining local government authorities across a range of services such as Domestic Waste Collection (Narrabri, Moree Plains and Gwydir as a result of a joint tender through the Regional Waste Group), Joint Road Safety Officer (Moree Plains and Gwydir) and Library Service (through Tamworth Regional). The Council also has a long term service agreement with the Northern Slopes Landcare Association.

Also, as a result of the recent staff level discussions with staff from Moree Plains Shire Council, the potential for a shared Information Technology service is being evaluated. Once established this will form a solid platform for further shared services to be considered.

Where appropriate, the Gwydir Shire also forms partnerships with the private and not for profit sectors to achieve positive and productive outcomes for its residents. Examples include:

- The recent relationship formed with Rural and Remote Medical Services (RaRMs) to operate the two Council owned Medical Centres within the Shire;
- The agreement with a local business; Johnstone Concrete and Quarries (JCQ) to provide the equivalent of \$240,000 in material towards a road upgrade, which was in partnership with the Federal Government under the Heavy Vehicle Safety and Productivity Program (HVSPP);
- The close association that the Council has developed with the Campervan & Motorhome Club of Australia (CMCA) allowing free riverside camping for self-contained vehicles in designated areas; and;
- The Council works closely with the Myall Creek Massacre Committee to maintain and further develop the Myall Creek Massacre Memorial site, which is the 79th asset on National Heritage List.

Prior to the recent formation of the relationship with RaRMs, the Council had moved from a position where it paid all of the medical centres costs, including doctors, to one where the doctors took a percentage of the income and the Council retained the balance. Concurrently, the Council leased rooms to a pathology company and to visiting specialists. Significant savings and additional income were achieved through these initiatives.

On 4 June 2015, Gwydir Shire Council entered into a Memorandum of Understanding with Tasly Pharmaceuticals and Healthpac Int. (Aust) Medical Corporation to commence trials of growing herbs in Gwydir Shire for export to China.

1 (p) any other related matter

Over the last 20 years, sadly, local government's role and status has been eroded by a number of decisions that have diminished its role as the lead local agency within each of the communities represented by each individual Council.

Rather than use or involve the existing local governments where new service delivery options are proposed there has been a tendency to simply set up new, overlaying structures.

An example here is the most recent proposed new planning system, although not progressing as yet, that highlighted the myriad of consent agencies created over the last 20 years, which could have been consolidated within the existing local government structure either through county councils or direct delegation to individual councils.

Rather than use the structural advantages inherent in the operation of local government across NSW, the NSW State Government has failed to value add, if you like, by making the best use of an under-utilised service delivery resource, if adequately funded.

The *1993 Local Government Act* created a framework that could have, and should have, allowed local government to prosper as a delivery agent for an increasing range of services. But the opportunity was not grasped, probably because of a lack of appreciation by the State Government of the level of competence and willingness on the part of local government to lead change and improvement within each of its communities.

Ironically it has been the Federal Government over the last 20 years that has displayed a greater degree of commitment to *localism* than the States. In many ways this direct involvement by the Federal Government in establishing closer links with local government has meant that the States felt a need to keep local government in its rightful place; simply an administrative arm of the State Government, albeit an under-utilised one.

The Independent Local Government Review Panel requested answers to the following specific questions during its 2012 consultation period. Gwydir Shire's responses to three of the questions are still relevant and outlined below:

1. What are the best aspects of NSW local government in its current form?

This is, of course, a very important question.

The best aspect of local government is the fact that local communities have the right to elect their local representatives to administer their area. This cannot be understated and Australia has a long and proud history of local democracy.

The 1993 *Local Government Act* is also flexible enough to allow the elected representatives to pursue a wide range of initiatives when it believes that the chosen course is in the best interests of its residents.

Any erosion of this right to have 'local', not remote, representation should be resisted.

At the Guyra consultation information session, in response to this question with special reference to rural based Councils, Uralla Shire put forward the following points, which should be supported:

- Local is still in local government.
- Local government in the rural areas is still very democratic, broad based and non-party political.
- Meets local services with local priorities.
- It still is the level of government closest to the people.
- Communities identify with its local government in rural areas.
- The local council is the heartbeat of the community.

These views were supported in the recent research released by the Australian Centre of Excellence for Local Government: [*Why Local Government Matters*](#).

To ensure that this style of rural local government continues into the future the question becomes how the State Government determines the governance arrangements to ensure that this is the case. The answer seems to be that two or more governance structures may be required. Models could be reviewed from the British and USA experience for example.

2. What challenges will your community have to meet over the next 25 years?

Financial and demographic issues will be the most significant continuing challenges that will confront rural councils like Gwydir Shire over the next 25 years. These two challenges are also closely linked as the untied Federal Government Assistance Grant has a population component within its allocation process.

These two factors together seem to produce the only policy response usually promoted by the State Government to a very complicated problem – mergers, amalgamation or closer co-operation between Councils.

These responses are somewhat naïve to the extent that the financial situation of amalgamated areas remains basically the same, in that the rate base remains insufficient to fully service the asset base, whether the areas are amalgamated or not.

However, the demographic changes must be addressed in a coherent and productive manner.

Financial

The challenge here is quite simple and especially challenging to rural based local government that does not have access to the funding that comes with sustained growth through mechanisms such as developer contributions, an expanding rate base and the flow on impacts of user based charges such as parking fees. The existing rate bases do not generate the income required to fully discharge the responsibilities of these Councils.

An alternative revenue structure will be required into the future, or rural based Councils will continue to struggle. This revenue structure may require a broadening of the available tax base in some manner, or the direct funding of local government to a greater extent by either or both the State or Federal Governments.

The [Australian Rural Road Group](#), for example, proposes a greater reliance on direct Federal Government funding towards the maintenance of the rural road network and an acceptance that this network is an important component of the National transport infrastructure especially in terms of food security and productivity.

The taxation of land (rates) was historically reserved as the funding mechanism for local services. The re-introduction of the State Government's land tax over the last 60 or so years has assisted in eroding this income source.

Land tax has had a chequered career in New South Wales. It was first introduced in 1895, abolished in respect of all land **except that land not in a local government area in 1906**, reintroduced in 1956 and amended many times since.

The exclusion of land within local government areas was designed to protect the income stream for local government.

In 1906, the then NSW Premier, The Hon. J.H. Carruthers, abolished land tax altogether as part of his major reform of local government in conjunction with the introduction of the 1906 *Local Government Act*. The aim was to provide local councils with an independent revenue source - land, for which they no longer had to compete with the State.

This situation existed until 1956, when the State again imposed a land tax on the unimproved capital value of freehold land and land held from the Crown on tenures, such as conditional purchase, settlement purchase, or a lease in perpetuity. The re-introduction of State-imposed land tax was necessitated in part by the Commonwealth's centralising the imposition and collection of income tax during the Second World War, thereby denying the States access to revenue of this type.

It is highly probable that the total Land Tax collected by the State Government will eventually, within the next 10 years, exceed the total amount of rates collected by all local government bodies within NSW, and this is a definite challenge to the on-going financial sustainability of local government and may, in part, be one of the underlying rationales for the continuing reliance on rate pegging legislation within NSW.

However, the abolition of rate pegging is not an easy answer because the magnitude of the increases required to meet the current shortfalls across local government would, in all likelihood, simply be beyond the capacity of the various communities to afford. This problem is even more acute in rural areas. This is the direct result of not allowing councils to set reasonable annual increases, above the artificial rate pegging limits that actually meet the annual increases required to maintain services over the past 38 years. This is certainly the case for Gwydir Shire Council.

The foresight shown by former Premier Carruthers is required again to be displayed to adequately ensure a funding source that allows local government to properly fund the work that it is tasked, [under legislation](#), to achieve.

Stillwell (Australasian Journal of Regional Studies, Vol. 9, No. 3, 2003), in an article entitled *Stamp Duties and Land Taxes in NSW: Patterns, Problems and a Policy Proposal*, noted:

The relationship to local government finance is also relevant. The principal 'self-generated' revenue source of local government is also based on land value. This is the revenue generated by local council rates, levied according to the unimproved capital value of each individual property in the relevant council area. According to the NSW Department of Local Government, these local government rates generated an annual total of approximately \$ 1,515 million dollars in NSW in 2001-02 (comprising \$1347 million from residential property and \$167 million in farmland rates). A policy change that replaced these local government rates with an apportionment to local governments from a uniform land tax could be an economically efficient, and electorally palatable, reform.

This should be seriously investigated.

Another possibility is that the State and Federal Governments consider paying any rates applicable to the parcels of Crown Land within each local government area, rather than relying on the rate exemptions that currently exist. There may also be the potential for the State and Federal Governments to make better, fully funded, use of local government in rural areas as service delivery agents for an expanded range of services.

The future financing of local government in NSW and across Australia is certainly the most pressing challenge to local government.

Demographics

The demographic challenges presented by reducing population densities also have long term repercussions. The declining populations in rural areas is usually coupled with an aging population profile that creates a demand for services to address the particular needs of this aging population.

This change in the demographic profile of rural communities is the result of improved labour reduction and methods used on rural properties, the on-going consolidation of rural properties into larger holdings and the historic drift of people to larger urban centres.

The problem also manifests itself in the difficulty in attracting and keeping competent professional staff. This can, in part, be addressed by the better use of co-operative arrangements between rural councils.

This drift in the population has been slightly offset by the inward migration from urban areas towards rural centres, but all too often a dwelling that had previously had a family with children living there is replaced by an aged couple or single person.

Given the development costs of each new greenfield site to the State Government in expanding the urban footprint within larger urban centres such as Sydney and given the under-utilised infrastructure capacity (water, sewerage, land, etc) that exists within many rural towns, a more concentrated effort to encourage intra-state migration should be pursued.

Obviously the State Government can't make people move, but genuine financial incentives encouraging rural re-location, based upon the very real opportunity cost savings to the State Government by reducing the need for urban expansion, should be implemented.

3. What 'top 5' changes should be made to local government to help meet your community's future challenges?

1. A sustainable revenue base, probably still based upon a rating base, that adequately meets the needs of each local government area, but with adequate untied grant funding based upon a 'needs' model and not the current 'growth or population' model.

This would need to be a wide ranging review, which includes both the higher levels of government and builds upon the work already undertaken in the Allen (2006) and Hawker (2003) Reports, as well as the recent Financial Assistance Grant funding review.

Gwydir Shire Council contends that the fundamental problem with the ongoing financing of local government across Australia, but especially in rural areas, is the inequity in the distribution of taxation revenues - the vertical fiscal imbalance.

2. A governance structure that acknowledges that 'one size does not fit all'. Each local government area should have the ability to choose from a range of governance options that best suits the historical character and culture of each local government area.

For example, where a local government area directly elects its Mayor, should it have an executive governance structure with the elected Mayor as head of the organisation in a full time capacity, especially where the Council is dominated by candidates elected on a party political platform?

The governance models should also acknowledge that the level of oversight should be commensurate with the risk and that 'over the top' regulation, where it is not necessary, should be curtailed.

An example is the onerous political donation requirements on Councillors who receive little or no external election funding, and simply have an annual 'nil' return but still require an agent; it is surely bureaucracy gone mad and appears to be designed to drive genuine 'independents' away from running for office. Local government was just an 'add on' to an existing piece of legislation without, apparently, any real thought to differing cultural issues between State and Local Governments.

A risk analysis would clearly highlight that the issues at a Wollongong, Liverpool, Burwood or Strathfield Council, with strong development pressures, should not place unreasonable demands upon all local governments. The consequences of these knee jerk reactions to issues make the 'one size fits all' problem even more pronounced.

3. A genuine acknowledgement of the fundamental role that local government fulfils within the Australian political system. An acceptance by the NSW Government that local government could and should play a more substantial role in the delivery of a range of services to its local community that are currently offered by the State with corresponding safeguards, defined parameters and full funding, especially where cost shifting has occurred.
4. A review of the overall political management of local government with a view to establishing an independent Local Government Commission to monitor the overall performance, promote the importance and role of local government, review boundary change options and recommend any legislation amendments considered necessary.

This would also assist in lifting the profile of local government as a legitimate level of government and not an offshoot from a State Government Department.

This style of overall governance is in place in New Zealand and some states within the USA.

5. That each local government body has the power to develop its own local laws that are directly relevant to its community. These local laws could sit in the Upper House of the State Parliament for a set period and only become binding if there is no objection from the Upper House.

This system operates in WA and allows communities to address local issues directly but, obviously, with accountability mechanisms built into the process.

Conclusion

Gwydir Shire Council has endeavoured to apply the Local Government Charter as outlined in the Local Government Act, 1993, to the best of its ability given the increasing call on its limited resources.

The focus of the current Fit for the Future process has been on financial sustainability with little recognition of the social and cultural challenges being faced by rural local government as it attempts, in many cases, to compensate for the declining level of services being provided by other levels of government in rural and regional areas.

There is a definite need for more comprehensive, supportive and targeted programs to address the issue of declining populations within rural areas.

This current Fit for the Future process, in the absence of a genuine conversation about Federalism and cross levels of government funding, means that the review is not addressing the issue that is fundamental to the continuing growth and prosperity of regional and rural Australia.

In 1991-92 the Commonwealth's Financial Assistance Grants (FAGs) were around 1.1% of the Commonwealth taxation revenue. It is now less than 0.6% and dropping.

The diminishing FAGs grants over the last 20 years are one of the fundamental causes of the current crisis in rural local government. If FAGs had have maintained its 1991 value in terms of a percentage of Commonwealth taxation, Gwydir Shire would be receiving approximately an additional \$3.5 million in FAGs' funds.

Gwydir Shire Council provides direct employment for around 10% of the Shire's eligible workforce and is the main employer within its area. The loss of the Council would, over time, be a significant blow to the Shire's economy. These details are outlined in a recent Regional Development Australia, Northern Inland NSW, [Issues Paper](#).

Council is committed to standing alone because it believes that it is the best outcome for this community. It has the support of its community to continue to stand alone and provide the on-going services expected by its community.

Thank you for the opportunity to submit these comments for the consideration of your inquiry.

Yours faithfully

Max Eastcott
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Gwydir Shire Council