

## **INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES**

**Organisation:** Shellharbour City Council

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## **Shellharbour City Council**

**Submission to the Legislative Council inquiry  
conducted by the  
General Purpose Standing Committee No. 6  
into local government in  
New South Wales.**

**3 July 2015**

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## Submission

On 23 June 2015, Shellharbour City Council resolved to make a submission to the Legislative Council inquiry conducted by the General Purpose Standing Committee No. 6 into local government in New South Wales.

Of the sixteen terms of reference, Council makes a submission relating to ten of these as shown below. The lettering of the issues identified below is as per those shown in the Terms of Reference of the Inquiry

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

#### Key Issue

It is recognised that reform of the Local Government sector in NSW is needed. Indeed reform should be ongoing and continuous in nature, identifying incremental improvement using self-examination to ensure the needs of the local community are being considered and provided for in the most responsible and economically sustainable way possible.

However the agenda of State Government in undertaking the Fit for the Future reform seems to be less about long term, incremental improvement and support for local communities and more about mandating benchmarks and expectations that are unrealistic and unreasonable in terms of their size and scale and the timeframes within which they are to be achieved.

There are many examples of Local Government's experiencing significant asset renewal deficits. Generally though, it can be said that it has endeavoured to ensure operational responsibilities are undertaken in a way that is commensurate with the funds available to do that. The history of Local Government since the inception of rate pegging is evidence of this.

The current reforms need to facilitate the identification of policy and resource gaps that lead to the creation of asset renewal deficits. Rather than do this, the reforms seek to impose relatively arbitrary benchmarks which do little more than set levels of performance that do not necessarily reflect the expectations of communities nor reflect the individuality of those needs across the state. This is exacerbated by establishing a timeframe that is unrealistic and an unnecessary burden on Local Government.

#### Recommendation

That the current reform process, expectations and timeframes are reviewed, with greater emphasis given to individual community needs.

### **(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,**

#### Key Issue

Rate pegging has meant that Local Government has not been readily able to introduce rate variations into the community that reflect the cost of service provision to that community in accordance with its expectations. This has meant that Local Government has been forced to explore higher risk sources of income, as well as be perpetually competing for grant allocations, thereby burdening it with further bureaucracy.

Local Government is currently forced to resort to Special Rate Variations, which produce a sporadic and uneven rate burden upon the community in order to deliver funding which is highly tied in nature and therefore not able to respond to the varying resource needs of communities. At the very least, the ability suggested in the LGIRP final report, for Councils to consider a short term rate increase of up to 5% above the rate peg without further reference to the IPART needs further consideration

The one-size-fits all nature of the Fit for the Future reforms may not recognise the individuality of communities nor the varying nature of financial sustainability. Considered and customised benchmarks, appropriate for individual local government areas may be more effective.

This unfair burden upon Local Government is further exacerbated by cost shifting from State Government which has negatively impacted the financial sustainability of Local Government. Waste levy charges are a case in point.

#### Recommendation

That State Government recognises and addresses the unfair burdens of rate pegging and cost-shifting on Local Government.

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

##### Key Issue

The Fit for the Future (FFF) reforms establishes the key elements of strategic capacity, identified in the final report of the ILGRP, namely:

- More robust revenue base and increased discretionary spending
- Scope to undertake new functions and major projects
- Ability to employ a wider range of skilled staff
- Knowledge, creativity and innovation
- Advance skills in strategic planning and policy development
- Effective regional collaboration
- Credibility for more effective advocacy
- Capable partner for State and Federal agencies
- Resources to cope with complex and unexpected change
- High quality political and managerial leadership.

However the FFF assessment only proposes to use the Fit for the Future Criteria and Measures as the basis for assessment of strategic capacity. It is unclear whether there will be any assessment on the other key elements of strategic capacity and if so how would the assessment be undertaken and what criteria would be used? Further, some of the benchmarks are beyond the control of Councils and are subject to political processes.

Local Governments must have a plan to improve operational and capital sustainability over the medium term. However it is unclear what IPART would expect from such a plan.

Further, three of the benchmarks are impacted by depreciation for which there is no state wide standard. A better measure would be to assess how well a council is funding its infrastructure asset renewal requirements on an annual basis. Here, the Auditor General could play an important role in undertaking audits of Special Schedule 7 of Local Government Code of Accounting Practice and Final Reporting (Guidelines). That is, as

assets are due for renewal, how well are we actually matching the funding to the renewal requirements?

The performance criteria and benchmarks do not recognise the individuality of communities, their stage of growth their histories, their future, aspirations and their capacity. A degree of customisation of benchmarks may increase efficacy in this regard.

#### Recommendation

That the criteria and benchmarks in FFF be reviewed and adjusted to reflect the individual needs of communities in NSW and to better reflect the other key elements of strategic capacity.

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

No issues raised.

#### **(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,**

#### Key Issue

It is considered the role of the IPART in reviewing the future of Local Government in NSW is positive in as much as it has a thorough understanding of Local Government, the financial challenges it faces and the barriers to financial sustainability it needs to address.

As a result of its assessment of Special Rate Variations, it is considered the IPART has developed expertise in understanding the unique challenges Local Government faces. It has established a reputation for thorough process, impartiality and fairness and this is to be supported.

Conversely though there are some criticisms of using the IPART to undertake the assessments. Primarily this concern relates to the involvement of the IPART in the development of the criteria and benchmarks. Concern exists that as the IPART has established the language of 'must meet' or 'must demonstrate improvement in' for all Local Governments, it will be more difficult for that same organisation to be suitably cognisant of the need for some flexibility and pragmatism in determining whether individual Councils have demonstrated sufficient commitment to achieving them. In short, the same organisation that has established criteria that must be met will be asked by some Local Governments to consider a more merit-based assessment of their individual circumstances. This could be conflicting for the IPART.

#### Recommendation

That a separation be established between that organisation setting any definitive criteria and benchmarks and that organisation charged with determining whether a merit based assessment of the individual circumstances of a Local Government warrants a more pragmatic assessment of their result against those criteria and benchmarks.

**(f) The appropriateness of the deadline for ‘Fit for the Future’ proposals,**

Key Issue

The deadline for the FFF proposals is manifestly too short. The specific concerns in relation to councils that have been asked to consider merging are articulated above.

The concerns for all Local Governments are similar. Firstly, there has not been time to gather the evidence needed to comprehensively populate the templates that have been provided, nor complete them to a level of detail and accuracy that such an exercise warrants.

Secondly, the criteria and benchmarks drive significant change within the Long Term Financial Planning of councils. This in and of itself is not problematic, however the timeframes to consider the implications of such changes are.

Thirdly, there has not been an opportunity to consult the community on the measures developed to ensure future fitness. State Government has driven real community engagement through the Integrated Planning and Reporting reforms. This has been a great success. Yet this same level of importance of community consultation has not been ascribed to the FFF reforms. This is considered to be a lost opportunity and denies a voice to the communities Local Government serves.

Recommendation

That the Councils be given an opportunity to further develop and refine their response, including consultation with the community beyond the nominal deadline of 30 June 2015.

**(g) Costs and benefits of amalgamations for local residents and businesses and  
(k) The known and or likely costs and benefits of amalgamations for local communities,**

Key Issue

The question of whether to merge is one for the Council to consider in consultation with its community. The benefits and shortcomings of such a merger are difficult to quantify and so a level of subjective consideration needs to occur.

Local Governments that have been identified as possible amalgamation candidates are forced to either support such a proposal or rebut the suggestion without being given the time and resources needed for a realistic position to be taken.

Recommendation

That the timeframes set for Local Governments to determine whether they are best serviced by an amalgamation be extended in consultation with them.

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

No issues raised.

**(i) evidence of the impact of forced mergers on local infrastructure investment and Maintenance**

No issues raised.

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

No issues raised.

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

See (g) above.

**(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,**

Key Issue

Cooperative models are considered to be the most important medium through which sustainable reform in Local Government is able to be achieved.

Shellharbour City Council (SCC) has been a member of the Southern Councils Group for many years and in that time has established with that group a form of regional cooperation that is a model for all of NSW. The success of that group has been in the areas of resource sharing, shared contracting, interchange of technical expertise, regional decision making, strategic planning, strategic capacity building and collective advocacy.

SCC has more recently joined with three of the former members of Southern Councils Group in establishing the Pilot Illawarra Joint Organisation (PIJO) as part of the first tranche of FFF reforms.

This is proving to be a successful model to date and it is considered the PIJO has established the basis of a structured regionalism that has not been seen previously in the Illawarra and which will provide mutual benefits to the communities of the four member Councils, while contributing to each member council's sustainably.

If co-operative models are implemented successfully and SCC has been involved in two examples of this, forced amalgamations cease to need to be considered, as the supposed benefits of such amalgamations are able to be achieved through effective regionalism.

Recommendation

That co-operative models be acknowledged as a successful means of achieving long-term sustainability



**(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.**

No issues raised.

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

Key Issue

It is considered imperative that no forced mergers be imposed upon Local Governments in NSW. The institution of Local Government is based on serving the needs of the local community. In this way it is different to State and Federal Government. As a result each local government is unique.

Merging Local Governments against the will of local communities is anathema to good local government and should be discounted as an option. Those Councils that choose to merge should be support and indeed, the FFF reforms propose to do that. However to force mergers will discount the positive outcomes of the reform process and will create a level of resentment in the community which will be toxic to the future of Local Government in NSW.

Mergers distort democratic structures and create a risk that the ability for Local Government to remain close to the people it serves will be mitigated. It is therefore important that local government be allowed to remain local.

As part of its resolution of 24 June 2015 to make a submission to this Inquiry, it was resolved that Shellharbour City Council believes that mergers should only occur with the concurrence of the Councils and communities affected.

Recommendation

That well run and accountable Local Government be acknowledged as an effective provider of services to the people it serves and that mergers should only occur with the concurrence of the Councils and communities affected.

**(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.**

Key Issue

The impact of the FFF benchmarks and IPART performance criteria on council's current and future rate levels will be significant.

To meet the benchmarks, in particular the Building and Infrastructure Asset Renewal Ratio, the Infrastructure Backlog Ratio, the Asset Maintenance Ratio and Operating Performance Ratio, the need for rates increased revenue will grow. This will put even greater pressure on the ability of Local Government to provide services and operations. The valid demands of communities for these services and operations to be delivered will mean councils will need to seek alternate revenue sources.

Many Local Governments will need a longer time than has been provided for to achieve the benchmarks without seeking to increase revenue (and if the Shellharbour experience is anything to go by in many cases it will be significantly so). This does not mitigate the importance of the reforms. Rather, it applies a more realistic timeframe within which to achieve them. If this time is not allowed for, then upward pressure on rates will occur and

additional Special Rate Variations will need to be considered. This outcome is not one Local Government should be forced to impose upon the communities it serves.

Recommendation

That it be acknowledged that a need for increases in rates is expected as a result of council needing to comply with the Fit for the Future benchmarks and performance criteria.

**(p) Any other related matter.**

No issue raised.

**Summary**

Council believes the Legislative Council inquiry conducted by the General Purpose Standing Committee No. 6 into local government in New South Wales is an important opportunity for the concerns that exist in regard to the FFF reforms to be considered.

The opportunity to undertake much needed meaningful and sustainable reform of Local Government runs a risk of being lost unless significant amendments are made to the current reform package expectations of councils in NSW.

Thank you for the opportunity to make a submission to the Inquiry.