

**Submission
No 114**

INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

Organisation: Riverina Eastern Regional Organisation of Councils

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REROC

RIVERINA EASTERN REGIONAL
ORGANISATION OF COUNCILS

RESPONSE TO UPPER HOUSE INQUIRY INTO LOCAL GOVERNMENT IN NSW

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**Riverina Eastern Regional Organisation of Councils
RESPONSE TO
GENERAL PURPOSE STANDING COMMITTEE NO. 6
INQUIRY INTO AND REPORT ON LOCAL GOVERNMENT IN NEW SOUTH WALES**

The Riverina Eastern Regional Organisation of Councils (REROC) is a strategic alliance of fifteen local government bodies located in the eastern Riverina region of NSW. Originally formed in 1994 the aim of the organisation is to assist councils to operate more efficiently and effectively through working together to achieve economies of scale and scope and present a better informed and representative voice for its members.

The members of REROC are the councils of Bland, Coolamon, Cootamundra, Gundagai, Greater Hume, Junee, Lockhart, Temora, Tumbarumba, Tumut, Urana and Wagga Wagga as well as Riverina Water and Goldenfields Water County Councils. The REROC region covers an area in excess of 40,000 sq kms and a population base of approximately 140,000 people.

In November 2014, REROC was selected by the Office of Local Government to pilot the Joint Organisation model for regional collaboration.

This submission responds to Terms of Reference raised by the Upper House Inquiry in relation to its Inquiry into the Local Government in NSW.

Responses to Terms of Reference

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

REROC members believe that it is important that all tiers of government are prepared to review the way they operate and embrace change, where change leads to improved performance and better outcomes for communities. The willingness of REROC members to embrace change is amply demonstrated in the manner in which members have committed to regional collaboration and have used REROC as a platform to break new ground.

Therefore the REROC members were very open to the review process foreshadowed on the release of Fit for the Future which was evidenced by REROC's submission in October 2014 to become a pilot Joint Organisation.

However as Fit for the Future has progressed, members have increasingly doubted that there is a clear way forward, as the Office of Local Government has continuously missed deadlines for important milestones in the process. There has been a lack of clarity in relation to the vision for the process, particularly in relation to the concept of Rural Councils. The concept was identified by the Independent Panel which advocated the use of Joint Organisations to take on activities where a small council did not have the necessary strategic capacity or scale. However the Joint Organisation pilots are not required to test the JO's role in relation to the operation of Rural Councils which has resulted in confusion about the JO's purpose and its role in supporting Rural Councils.

Messaging in relation to the Fit for the Future templates lacked clarity and this was made worse by the release of IPART's Assessment Methodology which in part conflicted with the OLG's advice on the template content. Updates to the templates were released after the process began and continued until at least the third week in June.

The process, at times, appears to have been done in haste in order to meet deadlines that do not support a quality and considered outcome. Constantly our members are asking "why the rush?" If this is to be the most significant review of local government since the new Act was introduced in 1993, REROC believes that to hasten slowly would have been a better approach.

(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

Our members question the appropriateness of the benchmarks that have been applied. In particular we find it ingenuous that the State questions local government's "dependence" on grants when the State itself is dependent on the GST grants that are distributed to it by the Federal Government.

In rural and regional communities the burden of carrying local and regional roads as assets that must be depreciated undermines financial viability. The REROC region has 14,612 kms of local roads and 1,500 kms of regional roads all of which are listed on balance sheets and depreciated on Profit and Loss Statements. Our members argue that most of the money that the State claims local government is "losing" every day is, in reality, the depreciation on the road network and not actual expenditure on services and facilities. As roads are community asset that cannot be sold we question the appropriateness of continuing to treat them as if they have real value instead of what they are in practice for all levels of government, a community service obligation.

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

Our members found it very concerning that the Debt Ratio proposed for the assessment process required councils to have greater than 0% and less than 20%. Therefore councils who had no debt failed to meet the ratio. At a time when both State and Federal governments are constantly advocating debt reduction it is difficult to reconcile a situation where in order to pass this assessment criteria councils have to be in debt.

Similarly our members question the appropriateness of the criteria which required that councils spend greater than 100% on asset maintenance. The Ratio requires that the average should be greater than 100% over three years. Our members maintain that the ratio should be equal to or greater than 100% as to spend more on maintenance than is actually required would be an inefficient use of resources. We have struggled to understand why it is good financial practice to spend more than what is required on asset maintenance and doubt that the State would meet this requirement.

The use of the Efficiency Ratio also raised concerns for our member councils. This ratio works against councils in rural areas with a declining population. There are fixed costs of delivering services to a community including a community with a declining population, for example many declining rural communities have large road networks to maintain which must be maintained regardless of population size.

Increasingly rural and regional councils are asked by their communities to provide services that fill the gap left by departing State agencies or where the market is too thin to support private enterprise providers. For example a rural council may offer a child care service which increases the community's satisfaction with council but impacts on expenditure. Councils who undertake such activities at their community's behest increase the likelihood that they will fail the Efficiency Ratio.

Rural and regional communities do not measure their council's performance by cost per head of population but rather by the council's ability to deliver the services and facilities that the community considers to be important. Therefore it is extremely important that the Efficiency Ratio is considered in contextual terms relating to the operation of the council and the expectations of the community which it serves.

It is for this reason that it was disappointing that council performance was not assessed in terms of council's ability to implement its Community Strategic Plan (CSP). The CSP is the cornerstone of the Government's Integrated Planning and Reporting (IP&R) regime introduced in 2013. IP&R requires that councils consult extensively with their communities in order to prepare a long-term CSP which then informs the content of council Delivery Plans, Financial Plans and Operational Plans.

Councils are expected to report on their success and failures in delivering the CSP through an Annual Report so that residents can hold them to account. It is therefore somewhat frustrating, given the time, energy and resources that have been ploughed into the IP&R process and the preparation of CSPs that they have not featured in the assessment of performance for Fit for the Future. In addition it creates a conflict between the way that communities are expected to measure a council's performance and the way in which the State does.

REROC argues that the Fit for the Future assessment process has been far too focused on finance and too little attention has been paid to performance in terms of delivering the services and facilities that communities want. The assessment is on a very limited quantitative basis and there is insufficient attention paid to qualitative measures – the measure by which most communities assess a council's performance.

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

Our councils do not believe that scale should be a measure of a council's ability to meet its responsibilities to its community. Scale, where it is important for example in procurement, can be achieved through regional collaboration.

In rural and regional areas one of the issues that must be considered is landmass. Scale appears to be determined by population, however in a rural and regional areas in order to secure large population bases for councils, local government areas have to cover thousands of square kilometres. As an example, the REROC region covers an area of approximately 40,000 sq kms which is about the same size as Switzerland. The region's population however is only 140,000 and there are just 3.5 people per sq kilometre which presents considerable challenges in ensuring that even the most remote residents are properly served.

Therefore any discussion about scale needs to be informed by distance – how far should a ratepayer have to travel to attend their local council or utilise its facilities? How does a council ensure representation if councillors have to travel a hundred kilometres to get to a council meeting? In addition these questions need to factor in the lack of public transport in regional and rural areas, in our region the only commuter bus service operates in Wagga Wagga, this means that residents in the rest of the region must pay for a taxi where a service is available or have access to private transport.

We often hear the argument that if councils are merged to achieve “scale” that residents must make better use of technology to access council services. This argument ignores the fact that for many people living in rural areas internet access continues to be slow and unreliable. In addition such arguments cost shift service delivery to residents, forcing them to invest in technologies and equipment in order to have access basic council services.

Our members would also argue that the “scale” question goes to the “big is better” viewpoint. Big is not better, it's just bigger. Local government prides itself on being the level of government that is closest to the community, the bigger it becomes the harder it is to achieve coalface engagement with residents and business.

Scale should not, in any circumstance, be the basis upon which a decision is made as to the viability of a council.

(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

Our members were surprised by the announcement that IPART, with the assistance of a single consultant who had local government experience, would be conducting the Fit for the Future assessments.

REROC does not believe that IPART has sufficient experience or understanding of the operation of local government in rural and regional areas to grasp the nuances of coalface service delivery that is the cornerstone of council operations.

Further we are very concerned that the timeframes set by the Terms of Reference for the assessments which requires that IPART report by 16 October, allows sufficient time to properly consider the lengthy submissions made by councils. We are concerned that the assessors will be

forced to fall back on the financial ratios as their main assessment focus because timeframes will not permit them to do anything else.

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

The Government announced Fit for the Future last September, therefore councils knew that they needed to start preparing to respond to the Government's new agenda. The major issue that our member councils have with deadlines is with the Government's on-going failure to meet any of the ones it set for itself.

The templates for responding to Fit for the Future were released late, the Review Panel was announced over a month late which meant the Draft Assessment Methodology was released late, consultations on it were held in a rush with IPART having barely a week to consider all the submissions before it was required to release its Final Methodology. The rush meant there was a disconnect between the Office of Local Government template guidelines and IPART's view of what was required.

Our members also question the choice of the last day of the financial year as the closing date for Fit for the Future submissions. It undoubtedly added to the pressure to complete the documentation as senior staff involved in end of financial year activities were also the staff involved in producing the financial information required for Fit for the Future submissions.

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

REROc is firmly of the view that local residents should be the prime decision makers in determining whether or not an amalgamation will generate more benefits than it costs. In making this assessment we believe that residents will rarely look at the kinds of financial benchmarks that the Government is using to assess council performance. Instead they will value the quality of the services, whether they meet community expectations and how well the council responds to community needs.

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

REROc is not in a position to comment on the Queensland experience except to note that it was undertaken against the wishes of most of the affected communities and to reiterate that it is the affected communities that should make the decision on mergers. Further we note that there have been de-amalgamations as a result of the high level of community dissatisfaction with the process and outcomes.

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

REROc is not in a position to comment on this issue.

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

REROC has not collected evidence on this issue. However our members note that inevitably where amalgamations are forced through it is justified by a claim that rates will be reduced. Rates can only be reduced if costs are reduced and as labour is the biggest cost councils have then by extension there must be an impact on employment.

If an amalgamated council is required to meet the costs of redundancies the expense is taken from council reserves, thus weakening the new council's financial position. Therefore our members strongly recommend that where any merger takes place that the State provide funding to the new council to enable it to meet the cost of any redundancies that result.

We note that in previous amalgamations that the Government has included guaranteed employment provisions, so that there is minimal impact on employment outcomes. However this approach forces the new council to retain staff that may be excess to requirements, while some might be able to be deployed this will not be the case for every staff member. Therefore our members strongly recommend that if the Government does include provisions to guarantee employment that the State provide funding to enable the council to meet the cost of implementing the State's policy.

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

REROC has not undertaken any research in this area.

(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,

REROC is proof of the value of co-operative models for local government. As a result of REROC's success most of the councils in our region have chosen the option to remain a council within a JO. However IPART has asked that councils who choose this option in preference to a merger provide robust evidence that regional collaboration does achieve strategic capacity. As a result REROC reviewed over 15 years of the Organisation's operations to produce *Achieving Strategic Capacity through Regional Collaboration*.

The publication showcases many of the activities and projects REROC has undertaken in each of the key elements of strategic capacity that were identified in the Independent Local Government Review Panel's Final Report and which IPART are using to assess capacity. The elements are:

- 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
- Advanced 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

It summarises the many ways that the REROC member councils have worked collaboratively to achieve outcomes that have resulted in the Organisation being recognised as a leader in its field and which resulted in REROC being chosen by the Office of Local Government as one of five Joint Organisation Pilot regions.

The Report also estimates the financial benefits that have accrued to member councils as a result of their involvement in the ROC is over \$45 million. A copy of the publication is attached to this submission.

(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

In most of the communities REROC represents, the council is either the biggest or one of the biggest employers in the LGA. Council staff are highly skilled professionals that make contributions beyond their council work to the communities in which they live, for example they take leadership roles in sporting clubs, community groups and service clubs. In rural and regional communities their contributions are pronounced and essential to the well-being of the community.

The State government is often encouraged to consider decentralising its departments and agencies to regional areas in order to bolster economies and create jobs. Local government is already decentralised government, it is actively improving economies and creating and sustaining employment. It would make far more sense to support local government to continue its role as a decentralised government than it does to pursue a centralisation agenda and then wonder why rural and regional economies are not prospering.

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

In relation to rural and regional councils REROC argues that the larger the landmass that a council covers the more difficult it becomes to provide effective representation for ratepayers and residents.

Good democratic process survives on a foundation of robust representation, which requires that councillors are able to meet and discuss the issues and needs of their communities in an open forum where they can be observed and held to account by the people they represent. The larger the landmass that is served the more difficult it becomes for residents to participate in the democratic process. It is not acceptable to assume that a drive of several hundred kilometres in order to participate in council discussion and debate constitutes fair and equitable access.

There were suggestions made in the Independent Panel's Report that representation could be achieved through a parish council approach. Our members believe this watered down, community committee solution will not provide residents with appropriate or acceptable levels of representation.

(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

REROC's understanding is that IPART will continue to manage the Special Rate Variation process and that the submission process for obtaining an SRV will continue.

It has been argued that mergers will result in lower rates because of the efficiencies that will be generated. However given that the 2006 Percy Allan report identified that

"...corporate efficiency in the very small, small and medium councils outperforms the State Government benchmarks (and even more so most state agencies' results) in each category..." (pg 252).

It seems unlikely that there would be any significant drop in rates as a result of the Fit for the Future process.

Conclusion

Fit for the Future is an important milestone in the evolution of local government, therefore the process needs to be allocated appropriate timeframes, resources and consideration if it is to achieve quality outcomes. Our communities are heavily reliant on their local governments for key services and facilities, the rush to reach an outcome is a disservice to those communities and fails to recognise the vital role that councils play in creating and sustaining them.

REROC welcomes the opportunity to provide input to the Inquiry. Representatives from our Organisation would be happy to address the Committee on this important issue should the opportunity arise.