

**REPORT OF PROCEEDINGS BEFORE**

**GENERAL PURPOSE STANDING COMMITTEE No. 5**

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

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**At Sydney on Thursday 23 October 2003**

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**The Committee met at 9.30 a.m.**

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**PRESENT**

Mr Ian Cohen (Chair)

The Hon. Rick Colless

The Hon. Kayee Griffin

Ms Sylvia Hale

The Hon. Charlie Lynn

The Hon. Ian West

**CHAIR:** I welcome everyone to today's hearing, the first of General Purpose Standing Committee No. 5's inquiry into local government amalgamations. After today's hearing the Committee travels to Orange tomorrow for a public hearing at which a large number of local council representatives will appear as witnesses. On Monday the Committee will be holding a third hearing at Parliament House. On 4 November the Committee is holding a public hearing in Tamworth and on 5 November a further hearing in Wagga Wagga. Transcripts, when published by the Committee, will be placed on the Committee's web site for public and media access. Before starting, I thank all those individuals and organisations round the State who have spent the time to send submissions to this inquiry. There is a great deal of interest in the issue. To date, we have received well over 200 submissions.

As with all hearings, I need to remind any members of the media present that the usual broadcasting guidelines apply. Copies of those are available at the table at the door, as are copies of the terms of reference for this inquiry. It is important that you have regard to the provision regarding not filming the audience during the hearing. To the rest of the audience, I need to let you know that you are not permitted to take photographs during the hearing. Finally, could all witnesses, members of the Committee and the audience please turn off your mobile phones during the evidence as this interferes with the ability of Hansard to report the evidence.

**PHYLLIS JUNE MILLER**, President, Shires Association of New South Wales, 215 Clarence Street, Sydney, sworn and examined, and

**DAVID JOHN HALE**, Acting Executive Director, Local Government and Shires Associations of New South Wales, 215 Clarence Street, Sydney, affirmed and examined:

**CHAIR:** Councillor Miller, in what capacity are you appearing before the Committee?

**Ms MILLER:** As President of the Shires Association.

**CHAIR:** Are you conversant with the terms of reference of this inquiry?

**Ms MILLER:** Yes.

**CHAIR:** If at any stage you should consider during your evidence that, in the public interest, certain evidence or documents you may wish to present should be heard or seen only by the Committee, the Committee will consider your request. Mr Hale, in what capacity are you appearing before the Committee?

**Mr HALE:** As the Acting Executive Director of the Local Government and Shires Associations.

**CHAIR:** Are you conversant with the terms of reference of this inquiry?

**Mr HALE:** Yes, I am.

**CHAIR:** If at any stage you should consider during your evidence that, in the public interest, certain evidence or documents you may wish to present should be heard or seen only by the Committee, the Committee will consider your request. Mr Hale, in what capacity are you appearing before the Committee?

Councillor Miller, would you like to make a short statement to the Committee?

**Ms MILLER:** The association welcomes this inquiry and supports an independent assessment of whatever action may be needed to improve the value of local government to local communities. The associations encourage change in local government but emphasises that genuine reform is not about boundaries, population size or organizational structure. Reform proposals designed to improve service delivery, infrastructure and governance must be underpinned by financial reform. The focus of the current reform process should be to rebuild the financial strength and sustainability of

local government, to allow local government to meet community expectations about service, functions, planning, regulatory functions and governance.

There can be no argument with the conclusion that local government requires a stronger financial base. The current funding arrangements are clearly inadequate to meet the expanding roles and responsibilities of local government. Funding requirements cannot be met only by increased special purpose payments or other one-off measures. There needs to be a stable, long-term solution. This involves either permanently increasing financial assistance grants to the States [FAGS] as a percentage of GDP and fixing it at a higher proportion of total Commonwealth tax receipts and/or providing for a direct allocation of a portion of the GST revenue to local government.

In New South Wales the solution also involves reforming the rate-pegging system to ensure that councils have access to finances adequate to meet the community's needs. The Minister for Local Government and Treasury are well in advance in their support for an improved system of rate-pegging. Legislation is required to protect local government from unfunded mandates and other impositions by State and Commonwealth governments. State and Commonwealth governments must be required to identify and quantify the costs their decisions impose on local government. Legislation must also ensure that adequate funding is available to meet their costs.

The State Government must make the reform process transparent, engaging both councils and their communities. My association has provided solid assistance to councils in the form of a well-documented discussion paper that advocates our exhaustive self-review of operations by all councils. I have travelled the State holding meetings with all divisions of the association, talking through the difficult points and ensuring councils of help and assistance wherever needed. We welcome the concept of regional reviews and have provided the Minister with suggestions on the areas that the regional reviews should cover. Our submission contains a summary of each topic of the inquiry. Of course, David and I are happy to expand on views expressed, as necessary.

**CHAIR:** Mr Hale, would you like to make an opening statement?

**Mr HALE:** I do not have an opening statement to make.

**CHAIR:** in your submission you argue that the financial base of local government has not kept pace with an expansion in its roles and responsibilities over the last 25 years. In what ways have the roles of local government expanded in recent years?

**Ms MILLER:** I believe in the last 20 years the services of local government have gone from rates, roads and rubbish to a real community service obligation. Communities are expecting a lot more services from local government. The State and Federal Government have foisted different responsibilities onto local government without any consideration of resourcing those responsibilities. In rural areas local government has gone beyond providing normal services to using some of its budget to attract doctors—paying for housing or some other kind of incentive just to keep doctors in our hospitals. There is an expectation now that councils will do that.

**CHAIR:** What are the major sources of revenue for local government and the deficiencies or limitations of each of those?

**Ms MILLER:** Of course, the financial assistance grants are one of our main sources of income. Our biggest difficulty, I would suggest, is rate-pegging. We are the only State in Australia that is still under a rate-pegging regime. The associations are well aware that across government there is no thought of even changing that rate-pegging regime. So we have put together a discussion paper to look at a new determination of rates that will make councils more viable and sustainable, so that they can charge for the services they are providing to their communities. We believe rate-pegging is one of the most serious drawbacks for councils seeking to set budgets that their ends can meet.

**CHAIR:** Have there been any particular impacts of changes to the Environmental Planning and Assessment Act 1997—for example, problems with private certifiers and complaints or support from community or developers?

**Ms MILLER:** I live in the country and representing the shires association and I do not believe we have the same sorts of problems as city folk. Private certifiers are few and far between in rural and regional areas and councils are still the certifying authorities in those areas. David might want to elaborate on that point.

**Mr HALE:** I do not think we have particularly identified the Environmental Planning and Assessment Act as an area where legislative changes have placed a great deal of extra responsibility on councils. But there are certainly many legislative changes to the Local Government Act, particularly in areas that require extensive planning from councils—planning and reporting arrangements—that create extra financial burdens not only in planning but in the expectations for services that that planning raises in the community.

**The Hon. RICK COLLESS:** Ms Miller, you talked about rate pegging and, as a former mayor, I am fully aware of the concerns that you expressed—they have been expressed universally across local government. The Government says that it will not change because some councils will embark upon extraordinary, uncontrolled rate increases. If rate pegging were to be dropped, how do you think rates would be controlled? Do you believe there should be some control on how rates are increased? If there is a maverick mayor and rates go through the roof what sort of comeback should you have?

**Ms MILLER:** I think basically the same as the State Government. Members are elected on the work they are doing and I think some of that responsibility should go back to local communities and the people they elect to the local council. The policy position of both associations is not to have rate pegging. But we are well aware that somehow we must work within that policy position of government. I would be satisfied if the Government were to look at the new rate determination model that we have put before it. It will make a hell of a difference to the financial base of councils throughout New South Wales. That is a big step forward. It is also a step forward that councils are aware that the empire building that perhaps occurred before rate pegging will never happen again. I think local government is more responsible to the electors and councils know they must not build Taj Mahals.

As to the rate pegging determination and the change in tier one, I think tier two should also be considered. If we are to have structural reform we need to do it on a financial basis, which is one of the most important reasons why councils are not viable. The second tier offers a community consultative opportunity if a council has some project that needs resourcing from the community. I believe the community should pay for some of the services it gets—what the community expects of the council. I am talking about proper community consultation and a management plan on a project that may take 10 years. I believe it is not unusual to put a management plan before government that will give you maybe a 0.5 per cent or 1 per cent increase per year over a 10-year period to pay for a project. I do believe there has been a change in government. They have special variations and they have been able to be achieved much more readily in the past two years than before. However, I think we are stuck with rate pegging for a hell of a long time—although I would like to think not.

**The Hon. RICK COLLESS:** It is politically unacceptable to whichever State government happens to be in power to hand over rate pegging or to abolish it because of public fears that the extravaganza you spoke about will occur.

**Ms MILLER:** Yes. I would like to peg the State Government as well and to see how viable it would be over 20 years. But we will not go down that path.

**The Hon. RICK COLLESS:** I have a couple of general questions. You spoke about the changing roles and responsibilities of local government and community expectations associated with that and funding problems, including rate pegging. Given those changing responsibilities and so on, what do you see as the optimum organisational structure for local government in New South Wales?

**Ms MILLER:** Unfortunately, I do not think there is an optimum structure that will go broadly across the State. Rural, regional and metropolitan areas have very different needs and expectations. I think it is a case of horses for courses. Too often we have generalised about how structures should be set up. I think we need to look broadly across local government and try to get the right structure for each community. There can be some principles, but I think every council should be

entitled to have a structure that works for its community in delivering services. I do not believe it should be broadly based. There should certainly be some principles about the structure but it should be done on an individual basis according to the needs of communities. We often forget the needs of the communities, and they are very important.

**The Hon. RICK COLLESS:** Do you believe there is a need to have a different procedure in place for city-based councils compared with country-based councils?

**Ms MILLER:** I certainly think we have different needs. As I said, there could be broad principles but they should be nitted down to areas of the State and communities' different needs. I suggest that no metropolitan council is supplying housing to doctors simply to keep them in the local community or giving bursaries to midwives to work in the local hospital. Needs are broadly different between metropolitan, regional and rural areas.

**The Hon. RICK COLLESS:** How would you recognise those different needs and if some reform—either to boundaries or in the operation of local government—were needed what sort of procedure do you believe should be in place to allow that to occur?

**Ms MILLER:** To allow boundary changes?

**The Hon. RICK COLLESS:** As the different needs of different councils are identified what adjustments would you make to best meet those needs? What procedures would you go through?

**Ms MILLER:** We must go through a huge consultative process. I think local government should make some of those decisions itself, in partnership. That is the time the State Government should be the stakeholder and we should be the partner. We are often only stakeholders in the State Government's eyes. There must be a partnership between the State Government and local government in trying to work out what is best for the community with regard to boundary changes. I get fearful about the regional review process that we have in place at the moment. I would hate to think the State Government had any preconceived ideas about what may come out of that process or the terms of reference it has given to the independent facilitators. I have not seen any evidence of that and I feel quite confident about the process at the moment. However, it is one area that creates some concern.

**The Hon. CHARLIE LYNN:** In the early part of your submission you refer to infrastructure and state:

Local government's capacity to maintain existing services and infrastructure is already compromised. In many instances councils are already being forced to cut services and defer critical infrastructure expenditure.

You then go on to say:

It is not an exaggeration to warn of a looming infrastructure crisis.

Would you like to elaborate on that point?

**Ms MILLER:** It comes back to the financial viability of councils due to the way that we are financed and due to rate pegging. I think the State Government has the same problem financing its infrastructure needs. Investment in infrastructure is down in local government circles across Australia. This is because governments of all political persuasions put infrastructure into an area, it is new for 10 or 20 years and then it is left to the will of local government to keep it up to scratch. I believe our financial base in relation to infrastructure grants has been dwindling slowly, and that is why our infrastructure needs are as bad as they are. I think that problem has to be addressed seriously through structural reform. It is not just about boundary changes but about how we will bring all our infrastructure up to scratch across New South Wales.

**Mr HALE:** As well as dealing with infrastructure requirements, community expectations of local government service provision is changing and expanding so the mix of expenditure is changing as well. The finances and the funds that would have been directed towards infrastructure are now directed over a wider range of services. Given the rate-pegging limits on councils and the difficulties they have expanding the rate base, infrastructure is suffering as budgets become tighter and

expectations grow in other areas. Figures in the submission reveal how the mix of spending on infrastructure and other services is changing.

**The Hon. CHARLIE LYNN:** It has been said that under the State Government agendas have been set that allow it not only to shift to local government costs associated with State legislation and regulation but also to transfer the blame for this legislation and regulation to local councils. Can you comment on that in relation to cost shifting?

**Ms MILLER:** Yes, there has been cost shifting but I do not believe it has occurred just in the past eight years or so. I think it has occurred broadly across all governments. I do not want to get into the politics of government today, but I think for the past 20 years State governments and Commonwealth governments have been guilty of that. How will we fix it? I think we need a cross-government solution. I do not believe anything to do with structural reform for local government should be politicised—I know that is very hard to do when sitting with two sides of government. However, this is one time when government should work together for the good of communities and local government as a whole. It should not be a matter of being Labor, Liberal, National, Green or whatever; the approach must go broadly across government. All parties and people involved in government in the past 20 years have been guilty of cost shifting.

**The Hon. CHARLIE LYNN:** In a submission to the Committee the institute of rural affairs said that it has just completed an extensive three-year project developing methodology to identify rural council boundaries and determining institutional arrangements that will be politically acceptable to communities and the public and deliver multiple benefits for local government, rural and regional development, planning and integrated national resource management. Are you aware of that study?

**Ms MILLER:** There are plenty of lines on maps and studies that have been done, and I think they should be put through the shredder. Let us go through the process we need to go through.

**The Hon. CHARLIE LYNN:** So you are not aware of that particular study?

**Mr HALE:** Is it the New England study?

**Ms MILLER:** Yes, we are aware of it.

**The Hon. CHARLIE LYNN:** Do you have any comments about it?

**Ms MILLER:** Yes, it should go through the shredder. Let us start from where we are now. The State Government has given us a job to do and let us try to do it well ourselves. Let us not rely on the so-called experts on local government; let us work through the process in a very well structured, consultative manner. Then I believe we may get somewhere. The academics can keep their studies and their lines on maps—we are not interested in them. We will draw our own lines and work out our own maps. I think local government is big enough to do that for itself.

**The Hon. CHARLIE LYNN:** I thought this bloke was on your side.

**Ms MILLER:** I am not interested in that. There are no sides: it is about communities and what they want. The Government has given us the opportunity to make that decision and I would like to stick to that line.

**Ms SYLVIA HALE:** Ms Miller, your submission looks at the possibility of a set allocation of GST to local government—I think it is about 1 per cent. Have you done any costings on that, and would 1 per cent address the current funding shortfall for local government?

**Ms MILLER:** I have no idea. I think sometimes we put figures forward. David might be able to answer that better than I could. I would be happy with half a per cent. Let us be honest here: we will take whatever we can get.

**Mr HALE:** The principle of talking about an allocation of GST is giving local government access to a growing revenue base, if you like, rather than the current arrangement, under which local government has access to a declining revenue base. GST is the growing revenue base that the other

spheres of government have access to. It simply puts us on an equal funding footing, if you like, and it would be one of the methods of allowing local government to respond to community expectations for growing services, by having access to a growing revenue base.

**Ms SYLVIA HALE:** Has the Local Government Association ever considered any mechanisms for local government to capture revenue from other areas where it currently bears the costs, such as tourism or even gaming?

**Mr HALE:** There are examples of levies that applied to tourism as a sector, for instance. I am not sure about gaming.

**Ms MILLER:** I suppose that prior to the kerfuffle we have with clubs at the moment, Clubs NSW had a community service. I am not quite sure how it worked, but after they had a certain income there was a certain proportion of money that they were giving back to their communities. Consequently, local government worked in with that; we did as well as we could out of that project. But otherwise, no, I would suggest not.

**Mr HALE:** Local government has the opportunity, within the powers provided by the Local Government Act, to charge special rates to reflect those sorts of industries.

**Ms MILLER:** But I do not think we have gone down that path.

**Mr HALE:** There are two real areas in which local government can charge. One is the rates area, which is pegged, and the other is the fees and charges area. There may be opportunities with gaming, tourism and other special sectors to recover fees for service. However, our studies show that local government recovers a lot more from fees and charges than the other spheres of government do, and that area is probably saturated. So the real question about financing local government is getting access to a growing area of revenue.

**Ms SYLVIA HALE:** As you are aware, all councils are required to come up with proposals for structural reform. Would you like to elaborate upon your comments in your submission on the way in which this process should have been undertaken?

**Ms MILLER:** I can honestly say that when the process was announced and there were not any guidelines or processes put in place, I immediately thought, "My God, what are we going to do here?" On consultation with the Minister for Local Government, there were never going to be any guidelines. I also spoke to the Premier. So I realised that was the way it was going to be. Consequently, I immediately turned that into a positive—and I believe it is a positive—and I went around to my councils and sold that to them because as the president I had an obligation to get the best I could out of the structural reform process.

My philosophy was: Okay, you do not have guidelines. And if you did have guidelines you would be whingeing anyway, because they would not be right. You now have the opportunity to set your own guidelines. The councils that whinged and whined the most were most probably the ones that were not doing as well as the others. I believe that it was an opportunity for local government to showcase the services that councils are giving to their communities, because I do not believe the State Government knows exactly what we do out there. You only get the bad news stories. You only hear about where a council might be in financial difficulty. I think this was a great opportunity for local government broadly, and I wanted to take a positive view of it.

I do not think there is anyone in local government who does not realise that we need some kind of reform. We cannot go on in the financial state we are in. But there is a responsibility on the State Government to address those issues as well. Putting two broke councils together is not going to solve anything. But I believe we have positively done what the Minister asked us to do, and I think that the Minister is quite amazed at the proposals that came back to him. I was complaining about the process, but I must say I took it between my teeth and thought, "How can I turn this around positively," and I believe that we have done that as an association and that local government is looking pretty good.

**Ms SYLVIA HALE:** But you believe that if the process has been salvaged at all, it has been by your stepping into the breach and coming up with the sorts of guidelines that should have been provided by the Government to councils when it asked for structural reform?

**Ms MILLER:** I would like to reiterate: Had they put out something like that, local government would still have whinged. At the end of the day, I think in hindsight—which is very clever—it was the best thing that could have happened, because I have the opportunity to set some guidelines for my councils.

**Ms SYLVIA HALE:** What do you see as the implications of possible amalgamations through democratic representation? What safeguards do you suggest should be put in place to ensure the representation of residents in potentially amalgamated councils—in other words, to avoid the kind of voter disenfranchisement that has occurred in relation to Sydney City Council?

**Ms MILLER:** Where there are councils coming together through amalgamations, as it stands at the moment they have opportunities to put forward proclamations on how they might structure their representational base. I do not believe that I can have an opinion broadly across the State, other than that everyone in the community is entitled to be represented by their local councillor. How that takes place is up to the councils that may be going through amalgamation or boundary change. I believe we do have the opportunity to put some of those views forward. I am just hoping that the goodwill of local government in doing what the Minister has asked us to do holds us in good stead to get some of those issues addressed.

**The Hon. KAYEE GRIFFIN:** Earlier you commented on amalgamating two councils that may be experiencing financial difficulty. If amalgamating two "broke" councils, as you put it, will not resolve the problem, what do you see as a way of resolving those financial issues with regard to councils that are already suffering from that problem at the present time?

**Ms MILLER:** I think it is a twofold issue. I believe we need to look at the way we do business where we have a duplication of services throughout small areas. I believe that unless the Government makes the changes required for the financial base of any council in New South Wales and addresses that pegged income, it will not matter what we do with lines on maps and putting councils together this time. We may save a little in administration costs, but the same road length, the same number of services, the same requirement for doctors, and the same amount of this and that will still be there.

Unless we look at the financial base of councils, where they can set their own income for the services they are giving, I do not believe we are ever going to fix the problem. I think we have been screwed financially for so long. Some of that is the reason why councils are in their present position; some is maybe poor management. At the same time, if we are going to start joining councils together and making local government a better business and a better place, we need to look at what the State Government can do to help as well.

**The Hon. RICK COLLESS:** Councillor Miller, do you believe that the Government's agenda is to reduce the number of councils across the State, thereby increasing the numbers of ratepayers that each council will represent?

**Ms MILLER:** I do not have the agenda, although I can assure you I have tried everything. I have spoken to the Premier—

**The Hon. RICK COLLESS:** What is your opinion?

**Ms MILLER:** In my opinion, as a local government person you are always thinking, "Where are they conning me? What's going on behind closed doors?" I have not had any evidence of anything behind closed doors. Everyone will hear from me if I do get evidence of that, because I am out there to represent the communities of New South Wales in rural areas.

To date I have not had any notion that it may be the Government's agenda. I have no doubt that there are bureaucrats within government circles that have maps with lines: what is the optimum; how many councillors? I know all that; I was not born yesterday. But I am hoping that we have kept our end of



the bargain with the Government; we have done what they have asked us to do. I believe the hammer will come down on some councils, and we will just work through that when it happens. Whether or not the Government has preconceived ideas, I do not know.

I could honestly say that we most probably could have fewer councillors. If you pay peanuts, you get monkeys, and you get lots of them. If we are going to do something about the number of councillors we have out there, at least we should remunerate them better—and fewer of them would do a better job.

**The Hon. RICK COLLESS:** I fear that if the remuneration for councillors is not looked at, we will get to the situation where individual councillors are expected to represent many more people than they currently represent, at largely on an unpaid basis. You know as well as I do that the remuneration of councillors is extremely meagre given the amount of work they putting. If that is going to get worse, people who have a lot of time on their hands may be the only people who are able to going to local government. I think that would be a great shame. We need to get good people who are active in the business community, and in order to encourage those people to local government they need to be remunerated appropriately.

**Ms MILLER:** Yes. That is something we will be taking up with the Government. I know that when I became councillor with Forbes Shire Council I got \$5,000 a year and I paid \$55 in casual wages to cover myself in my own business. I have never been in local government for money; I am there because I love it and I want to make a difference. But there are not many people in my position he could do that.

**CHAIR:** How far down the track is your organisation in presenting to the Government a remuneration package or reasonable wage for councillors? Has that been attended to; have you lobbied? Is there a defined position on that from your organisation and others?

**Ms MILLER:** We have worked on that for many years. We are quite like the Queensland model: They get lots of benefits and money. I think they are on about 75 or 80 per cent of the salary of a member of Parliament. I believe that is part of the restructure of local government. We cannot isolate council areas and communities. Everything has to be looked at broadly: the number of councillors; the way they are remunerated. All those kinds of things must come into the total reform of local government in New South Wales. I believe it is an opportunity to get it right, even if it does take more than one or two years, or three or four years. Whatever happens must be across government; it cannot be politically mucked around with. Let us get it right. Let us get some agreement, let us have our debates between parties, but let us get it right for those communities in New South Wales.

**The Hon. CHARLIE LYNN:** Councillor Miller, you said earlier that when you were first advised of the Government's intention, it sort of came out of the blue, you knew nothing about it, and that since then you have mobilised. Do you think the Government has allowed sufficient time for such an important reform process to take place?

**Ms MILLER:** The timing has been tough and I am the first to admit that, but I can also see the benefits. You give local government—and they are all going to read this in *Hansard*—three months to do something and they will take two months and 29 days. This is something that we had to push and we had to get councils off their tails and get them to get in and look at what they are doing. The timeframe is tough. I do not think there is anything that I have got from the Government in my eight years of being a councillor that has not had a tough time frame. I do not believe that this is just until March of next year. I believe that at the moment it may be a two-year process, but I believe it is most probably a four or five year process. We will be working with the Minister of the government of the day to make sure that nothing is rushed—no decisions are rushed as to what happens with local government.

**The Hon. CHARLIE LYNN:** What will be your reaction if they are rushed?

**Ms MILLER:** We will fight that one. We will fight it. I think we are being hurt. I think that local government is being hurt. As I have said previously, we have kept our end of the bargain. We have done what the Government has asked us to do and I think it is a little bit of payback time. We are

prepared to work for the benefit of those communities with the government of the day to get the best outcomes of service delivery to the communities of New South Wales.

**Ms SYLVIA HALE:** Your submission notes that at the same time that State responsibilities are being shifted onto local government, the capacity of State departments, particularly the Department of Local Government, is also being cut. Can you give us any examples of areas where you feel the department would have or should have contributed to the work of councils in the way that it is not doing at the moment?

**Ms MILLER:** As in the Department of Local Government contributing to the work that councils are doing?

**Ms SYLVIA HALE:** Yes.

**Ms MILLER:** With all this process, I mean I am five minutes in the job. I have been there since June. I have found that they have worked fairly well with me. With everything that I have had that has anything to do with local government and I have involved the Department of Local Government, I have found Garry Payne and his staff very helpful. I have not had any problems. I have had every bit of consultation that I have asked for on initiatives within the Department of Local Government. Basically I will wait until I have something to whinge about and then I will whinge about it; but to date, I have not.

**Ms SYLVIA HALE:** For example, I have a submission from the Pittwater Council which says that the State Government has cut back its staff in a number of key departments to the extent that it has reduced expertise in many fields, and that, as a result, time frames for actions have significantly increased—in particular, that the Department of Local Government should be providing strategic assistance for local government and should be constantly looking at ways that local government can be provided with access to necessary tools. That is a complaint about the loss of expertise and inherited knowledge and practical assistance to councils.

**Ms MILLER:** Yes. I think that is something that most probably the Pittwater Council would need to take up with the department. That is not something that has come to the attention of the two presidents. Basically if there were a number of councils complaining about the Department of Local Government, the department would certainly see Councillor Dr Sara Murray and me on his doorstep, so that may be something that needs to be sorted out just on a one-on-one basis.

**Mr HALE:** There is certainly areas where the resources that government agencies can bring to the needs of local government having an impact on the service we can provide, and councils complain quite regularly about delays in the planning process where a referral to State agencies has to be made. Those delays are then attributed to local government in local government reports, or are seen as a delay of local government, but the delay has actually been with a State agency referral. Whether that is a lack of resources or higher community expectations on that State agency needs to be determined, but that is an area of service from State agencies that certainly affects local government and is reported on.

**Ms SYLVIA HALE:** A common theme running through submissions from many rural councils, in particular, is the potential loss of employment at the council and implications this has the local communities. Would you like to comment on that?

**Ms MILLER:** And I believe that is very, very serious. In most cases the council is the largest employer in those communities. Somehow I think we need to safeguard that. A lot of times they are the professional people within the community and I think the social fabric of those communities, by losing their council, would really be gutted. I think that is something that I believe that has to be taken into consideration in whatever shape or form there are boundary changes or strategic alliances. We have to have some safeguards in there to keep those communities alive with the employment that they have got in their communities presently. We are looking at that—constantly looking at that. I do not know whether you are aware that there is a proposal that has been submitted by Wellington, Cabonne and Blayney councils for a strategic alliance. I believe that is a fairly good proposal. I believe that is still giving the opportunity for those communities to keep their employment, but coming together and working very well together. That is one of the best proposals that I have read.

I believe that could be mirrored in other areas across the State where people still have their autonomy as a council but they are broadly doing everything together: Their budgets are coming together, their planning is coming together, and I think it is really important. There has been some concern of councils that "Oh, if we do that, they are going to amalgamate us." I said that if that does happen, and this has worked with 10 years and there is a working relationship with your neighbouring council, it may not be the Government wanting to amalgamate you; it might be the two communities. The groundwork may have been set to bring those two communities together to work more collaboratively. I believe that that strategic alliance approach is a very good stepping stone to bringing communities together and working together to achieve the best outcomes for their communities.

**CHAIR:** Councillor Miller, your association's policy regarding amalgamation is that council boundaries should not be changed without the agreement of councils concerned.

**Ms MILLER:** Yes.

**CHAIR:** We have seen in certain circumstances a vote has been taken on this when it concerns some country areas. I am thinking of Richmond Valley Council where one much bigger inland council swamped the ideals and aspirations of the community in the original Richmond Valley Council. That is one point of view that has been put forward. I wonder if you could outline to the Committee a formula that would achieve a just outcome without small communities feeling that they are being swamped?

**Ms MILLER:** Yes. With a group of councils, just because you are larger does not mean you are better. I could give you examples—but I am not going to—where the larger council may be surrounded by three or four smaller ones but is not the best operator, does not run the best show, and does not deliver the best services. I believe that if there is a proposal from a so-called big council taking in the little ones, if there is one big one and five little ones and the latter are all against it but the big one wants them, I believe that that is a no-no. I think that the Government has really got to look at that. You are going to put Mexicans with Chinese and they are going to have a really big blue, so I think that some of that really needs to be looked at. Just because you are bigger does not mean that you should take over the councils around you. Let us look at communities of interest and let us get them together.

**CHAIR:** Can I put it to you this way: does your organisation have a formula whereby we can see the process can occur that would be to the satisfaction of perhaps the minorities as well?

**Ms MILLER:** No, we have not got a formula, as such. I believe that that is not our role. That is up to the local communities and the local councils. It is up to them to decide their destiny and where they are going to be, but we do have some principles. They should not put something up whereby there is one council and four council areas against it. We tell them to talk to their neighbours. We have got principles like that where communication on any proposal that is going forward should have been done. There is a proposal up at Muswellbrook way where there is Muswellbrook and five councils, and they are putting forward a super council for the Hunter. I will fight that tooth and nail to ensure that that does not happen because there was no consultation. There was a submission put before the Government, not even discussing it with the other four or five councils, and to me that is just not on. Councils have to come together themselves. Okay, I am sure the hammer will come down in some areas where there may be some problems, but at the same time basically those things should be able to be sorted out in a consultative way.

**CHAIR:** We are out of time. I appreciate that Councillor Miller has to get to another meeting. I thank both witnesses very much for what has been a very informative session this morning. If anything should arise out of this discussion that you might like to add by way of a further submission, the Committee would be very glad to receive that. Certainly the issues that were raised, such as rates determination models, were very enlightening for me personally and also your discussion about the remuneration of councillors, which I hope will be the subject of further communication. I thank you both very much for attending today. I appreciate your input.

**(The witnesses withdrew)**

**PROFESSOR GRAHAM SANSOM**, Director, UTS Centre for Local Government, affirmed and examined:

**CHAIR:** Welcome to today's hearing. In what official capacity are you appearing before the committee—as a private individual or a representative of an organisation or business?

**Professor SANSOM:** Essentially as a private individual.

**CHAIR:** Do you wish to make a brief opening statement prior to questioning?

**Professor SANSOM:** It seems to me that there are three questions underlying this inquiry that the committee might wish to consider in addressing the terms of reference. The first question in my mind is what we want local government in New South Wales to do. When I say "we", I mean the State Government, the community and other stakeholders. What role do we want it to play in the system of government? I had some experience in the 1990s as the chief executive of the Australian Local Government Association and was able to take a look across the country at systems of local government. It struck me that in a sense we are muddling through with the role of local government rather than having a clear policy framework around it. That is true not only in New South Wales but also other States. I venture to suggest that if we were to ask for a whole-of-State Government view in New South Wales about the role it wants local government to play we would have a lot of difficulty extracting one. I suspect the issue has not been thought through in great detail.

The second underlying question in my mind relates particularly to a number of financial and service delivery issues. Is continuing with a uniform or unitary system of local government viable in the longer term? There is a widening gulf between the capacity of larger councils and some very small councils, and even what might be regarded as middle-sized councils. They are having enormous difficulty keeping up with changing and increasing demands. Do we continue, in a sense, to pretend that the same legislative and organisational framework and so on can be applied across the board or do we think about the need for greater differentiation in the system to accommodate different capacities and requirements of metropolitan and regional areas?

Put bluntly, the third issue is whether we can continue to have good local government on the cheap. The average residential rate in this State, excluding garbage, water and sewer services where they are provided, is about \$2 a day. It is not quite the ABC 8¢-a-day bonanza, but it is pretty cheap. We have loaded all sorts of extra demands into the system, but we imagine that we can continue at that level. I am not convinced that we can.

I believe very much that the legislative framework available in this State around local government and managing its role and responsibilities is very good. The Local Government Act comes in for criticism from time to time, but the fundamentals are sound. The processes in the Act for management planning, state-of-the-environment reporting and social planning and so on are good processes by anyone's standards. The problem is that we have not applied the framework that the Act offers in a sufficiently rigorous and imaginative way. That goes back to the first point—we are tending to muddle through rather than developing a clear sense of how we want to use the legislative provisions which are available and which have been for the past decade.

**CHAIR:** You have touched on the increasingly precarious position of local government as it struggles with the greater and growing responsibilities and the obvious limited funding. Over the past few years there has been considerable discussion about possible reforms to overcome those difficulties, such as modifying or scrapping the rate-pegging system. Can you comment on the merits or otherwise of the proposed solutions?

**Professor SANSOM:** I certainly agree that the expenditure pressures have well and truly accelerated past the growth in revenues. That is the fundamental issue. I dare say that other witnesses have drawn the committee's attention to the review carried out by the Commonwealth Grants Commission two or three years ago that clearly documented that point. It has also been reflected in the papers produced by the current Federal cost-shifting inquiry. There is no doubt that revenue has not kept pace with expenditure. I am sure that in this State rate pegging has been a factor in that happening, but it is not the only factor. Many councils from time to time and for reasons of their

choosing, and they are entitled to choose, have decided to go for rate increases that are less than the rate-pegging limit. That has a cumulative effect over time and they get further and further behind the eight ball. Rate pegging is part of the issue, but it is by no means the entire issue. Fundamentally we have a system that is operating at too low a base. We often hear calls for more Federal grant funding. That is reasonable up to a point, because the Federal Government has access to certain sources of taxation which are not available to the State Government and local government and which are efficient and effective tax-raising methods. The notion that the Federal Government should pass on some of that capacity is entirely proper. However, I have a sense also that we are paying too much Federal tax and not enough local tax. We have an imbalance in our system. Until we address that and start facing up to the fact that we want local government to do x, y and z and that that costs one, two and three and it must be paid for in an appropriate way, we are putting our heads in the sand.

**CHAIR:** Community expectations about service delivery by local government have changed in recent times. Do you agree with that and do you have the evidence?

**Professor SANSOM:** I certainly agree with it. The evidence can be seen in two ways. First, it is obvious at the ballot box. People have been elected to local councils on platforms such as putting more resources into environmental management or community services. Obviously that reflects the views of significant sections of their local communities. So the very fact that people are elected on those platforms is clear evidence. Secondly, as has been well documented by the Commonwealth Grants Commission and others, the expenditure patterns have changed. I do not think they have changed because a few councils have decided to alter radically the way in which they spend money. They have changed because the demands have changed. That includes community expectations and other things such as State Government legislation and Federal Government grant incentives to get into new activities and so on. However, a key component of the changing balance of expenditure in councils is undoubtedly derived from community expectations.

**CHAIR:** At a recent international forum you described the relationship between local councils in New South Wales and the State Government as a loveless marriage. You argued that both levels of government needed to develop a more effective partnership. Can you suggest ways to improve intergovernmental relationships—not that you should be a marriage counsellor?

**Professor SANSOM:** That is correct. One should never put conference papers on web sites! However, I stand by that statement. As I said, I was involved in the Australian Local Government Association for four and a half years in the 1990s and looked at the way those relationships panned out throughout the country. It is my honest view that the relationship here has been very difficult. That is partly because of what I said earlier. I have never had a clear sense about what successive State Governments have wanted local government to do. If honourable members were to look back over the past 20 years at the range of initiatives taken in other States—such as negotiating protocols, partnership agreements, setting up high-level forums of ministers and local government representatives and the Tasmanian Premier's local government council and so on—they would agree that other States have been more inclined to experiment with ways and means of achieving much closer collaboration between State agencies and local governments than has occurred in New South Wales. I honestly cannot say why that is so. Given the range of initiatives that have been implemented elsewhere and the relative lack of initiatives in this State it is clear that something is not right in the relationship. It does not seem to me to be anywhere near as productive as we want it to be.

The bottom line is that the State Government and local governments are two parts of the public sector meeting community needs. If their activities are not effectively dovetailed, and if they are not enjoying a productive working relationship, they are not using the resources available to meet community needs as efficiently and effectively as possible. We know that resources are scarce. It is like the State-Federal relationship, we cannot afford to waste resources on endless squabbling, although I know that we do.

**Ms SYLVIA HALE:** Can you tell us anything about the overseas experience of amalgamations, for example in Canada, where I understand there have been tensions in relation to amalgamations and councils there are now in the process of deamalgamating?

**Professor SANSOM:** I am not by any means an expert and have not looked in detail at the Canadian situation. I have had some discussions with people and I understand what you are saying to

be the case. I know that some of the amalgamations carried out in Canada—I am thinking particularly of some of the changes in big cities such as Toronto—were absolutely wholesale amalgamations establishing huge city governments. I do not think we are contemplating anything along those lines in Australia: one Brisbane City Council is probably enough for all the State governments in Australia. Another case that I am very familiar with, which perhaps has some relevance even though it may not immediately appear so, is South Africa. A couple of years ago the government made major changes to local government boundaries. The underlying force behind that was the need to address resourcing problems of smaller councils. Obviously, that was accentuated by the history of apartheid and the need to do something about plugging more resources into what had been black townships and so on. But the underlying philosophy was one of spreading the available resources more effectively by bringing units together. The interesting element of that experience which I think may have some lessons for us here is that in rural areas they decided to go for a two-tier system with the major service delivery in district councils and the old local councils, the old municipalities, playing much more of a community management role. There may be something in that.

**Ms SYLVIA HALE:** By community management do you mean allowing for representation and articulation of particular interests?

**Professor SANSOM:** Yes, and the smaller scale supplementary service delivery at the local level but the major services—water, sewer, roads and so on—being delivered at a broader level.

**Ms SYLVIA HALE:** In relation to problems in New South Wales particularly with, say, doughnut councils, there is often a sense of unease that the larger council may be providing services which the smaller councils are not contributing to, but obviously the smaller councils are held very dearly by the local residents, and they have been very vocal. Do you see any way of evening out the inequalities?

**Professor SANSOM:** That is why I mention the South African case. In the final analysis the only way you can even out the financial inequalities and the service delivery inequalities is by moving to a more broadly based organisation in a geographic sense. In thinking about this many times over the years I am also very much convinced of the value of local democracy and people's desire to have the sense of local belonging and representation. You tamper with that at your peril. Going back to the Canadian case you talked about, when people move for de-amalgamation often that is an underlying factor. If you follow the logic of the arguments through you wind up, not everywhere but in some cases, coming to the conclusion that perhaps we need a two-tier arrangement to maintain the sense of community, which I agree is often very important in different parts of the areas of those doughnut councils, but at the same time address the obvious service delivery problems.

**Ms SYLVIA HALE:** How effectively do you believe the regional organisations of councils or similar bodies are dealing with those sorts of problems?

**Professor SANSOM:** I think you would have to be honest and say that in most cases the ROCs are playing a marginal role.

**Ms SYLVIA HALE:** Why do you think that is?

**Professor SANSOM:** Whilst over the years there has been greater informal recognition of the role of ROCs, they are not a formal part of the system. It is entirely up to the member councils what legal framework they put around the regional organisation of councils. Obviously, a number of regional organisations have made excellent strides in joint planning activities, joint purchasing agreements and those sorts of things. But I am not aware of any ROC that you could really say is tackling those underlying service delivery problems that you were referring to. That is not to say that they could not, but I think there would need to be—it comes back again to my very first remark—very clear policy guidance from the State Government as to potential directions for the developing role of ROCs and perhaps thoughts around the kinds of legal framework that might be appropriate if you were going to substantially expand the service delivery role of a ROC.

**The Hon. CHARLIE LYNN:** When Victoria went through its amalgamations there was a lot of angst. Have you had a chance to review the effectiveness of the amalgamations?

**Professor SANSOM:** Yes, not in detail but I have certainly kept in touch with some aspects of the Victorian situation. The first thing that must be said—it may already have been said to you—about the Victorian situation is that from the turn of the twentieth century Victoria had persisted to the mid-1990s with the same number of councils. The pressures for change had built up and built up without any kind of release valve. That is very different from the situation here in New South Wales, where we have had a series of rounds of changes to boundaries and amalgamations during the twentieth century which cut the number of councils in this State by about 40 per cent from the number at the beginning of the twentieth century. So the starting point is very different. In Melbourne there was a highly fragmented system of councils, particularly in some of the inner and middle ring suburbs, much more so than we have in Sydney. So the underlying case for radical change was much stronger in Victoria. I certainly do not endorse the way it was done but I can understand how the pressures had built up. Most of the people I speak to from Victoria say that, on balance, the change has been beneficial in terms of establishing more robust local government units that have the capacity to do more things.

People certainly did not regard the enforced 20 per cent rate cut as beneficial. Many people in Victoria think they have probably gone too far in reducing the number of councillors. Having local governments of 100,000 or 150,000 people with only seven councillors to me is imposing an almost impossible representation load on part-time people. I have had that view reflected to me. The process has not gone down well in some of the rural areas for the same reason we were discussing a minute ago, that the sense of community representation of rural communities was lost in some of the areas where new councils were imposed over very large geographical areas with a multiplicity of individual communities. That has been a source of tension. The other interesting part of the experience which came out in some of the evidence given to the Federal cost-shifting inquiry was that some of the amalgamated councils in rural Victoria are still facing very severe financial problems. So amalgamation on its own was not a magic wand to solve the underlying financial difficulties of some of those councils.

**The Hon. CHARLIE LYNN:** That is an interesting point. As you have said, some of the councils have covered large geographical areas and some of the smaller towns had the councils taken away from them, so to speak. That has impacted on the esprit de corps of the local communities. I suppose that exists in a lot of Sydney councils as well, that sense of community, that feeling of esprit de corps. Would you like to comment on the importance of our taking that into account in the reform process?

**Professor SANSOM:** It is absolutely fundamental. Increasingly, with concerns about globalisation and the rapid social and economic change of the last couple of decades, people are looking to local community life as some kind of anchor in a turbulent sea of change. That factor has to be given tremendous weight. The point that also has to be made is that community life is something that has to be worked on within many existing council areas, within current boundaries. It is not simply a problem that emerges post amalgamations; you can see the same issue within existing councils. Some local communities within a council area may feel that their voice is not being heard adequately at the top table. That is something that has to be worked on whatever we do in terms of the overall system. Professor Kevin Sproats, who preceded me as the director of the centre at UTS, when he wrote his report on the inner Sydney region a couple of years ago made the observation that managing community expectations and needs at the suburban level is already a challenge for all councils.

**The Hon. CHARLIE LYNN:** Do you have a view on the role of political parties in local government? Do you think that political parties as such should be involved in local government or should that be left to committed individuals?

**Professor SANSOM:** Life is politics and politics brings forward political parties. I do not think we can do a King Canute job on that.

**The Hon. RICK COLLESS:** You spoke briefly about the changing roles and responsibilities of local government a little earlier. Could you expand little on the social and economic aspects of the changing roles of local government?

**Professor SANSOM:** Probably since not long after the Second World War—certainly in the early fifties—there were clear signs that the old rates, roads and rubbish syndrome was already dead. If I can be permitted a brief anecdote, back in 1997 for the fiftieth anniversary of the Australian Local Government Association we were digging out old archives. We found this glorious promotional movie for local government that had been made in 1956. It is fascinating because it has examples back then of things like composting of refuse and local government starting to get into community services. There was quite a strong emphasis on the community role of councils, particularly services for the aged, child and maternal health and all sorts of things like that. So those things were already there and sufficiently prominent to feature in a 1956 film. So, the change was well and truly under way. I think it has just accelerated more and more, and it has been into community services, into environmental management and economic development, and all the rest of it.

The key point, which again comes back to my very first observation, which the Committee might wish to consider, is that those changes have been very patchy. We often have difficulties. Only yesterday at a community meeting in a local government area that shall remain nameless, one of the central issues was the concern of some sections of the community that its council had not moved with the times, as it were, and was not getting into, particularly in this instance, environmental management and community services to the extent that some sections of the community would wish. Again, the Local Government Act contains a range of provisions for State of the Environment reports and social plans, and so on, but it is not prescriptive as to the extent that council should pursue some of those new, for want of a better word, functions. That creates some tensions in that some people in the community think that all councils should be doing those things. Some properly elected councillors take a different view and decided, no, we are not going to go down that road. I would not want to see the Local Government Act go back to the old prescriptive type, but maybe more policy guidance is necessary so we can get a better feel for what the average community can expect from the average council.

**The Hon. RICK COLLESS:** Those changes that you referred to, back in the 1950s, were they being driven by the community or driven by this unfunded mandate concept that we have today coming down on local government?

**Professor SANSOM:** I think back then they would almost certainly be community driven. I think they were a reflection of that post-Second World War reconstruction ethos, a better country, and so on. They were local governments in various parts of the country responding to that new sense that was coming through from the community.

**The Hon. RICK COLLESS:** From a policy perspective, you are saying there is no clear policy framework at the government level. Should that framework be developed by local government itself or should it be driven by the State Government or a partnership between both? What do you see as the optimum model?

**Professor SANSOM:** I think the optimum model is a partnership approach. It has to be. I am not saying there are not State government policies for local government, there are hundreds of them. The issue is thinking through how it fits together into a coherent framework, and you can only do that on a partnership basis.

**The Hon. RICK COLLESS:** You made comments about improving the funding arrangements, particularly in relation to the adjustment between local taxes and federal taxes, and so on. Have you any further comments to make about the sort of framework you would like to see for local government funding other than the taxation issues?

**Professor SANSOM:** It may be pie in the sky but I would like to see at a national level the issue of adequate funding of local government being discussed in the context of the Commonwealth-State financial agreements. I think that is the appropriate place to do it.

**The Hon. RICK COLLESS:** Is that possible, given there is no formal recognition of local government at the constitutional level?

**Professor SANSOM:** I do not think the lack of constitutional recognition gets in the way of that at all. Obviously, under the constitutional arrangements, the States would have to agree to have



those issues on the table, but through the Council of Australian Governments and ministerial councils, local government issues are considered all the time nationally. So, it would not be a radical departure in practice. I would not be optimistic about the outcomes, because we do not seem to be very good at Federal-State financial relationships, let alone bringing local government into the equation. Certainly, there is nothing to prevent the State Government making its own decision that it will allow and even, dare I say it, encourage local government to raise more tax to make sure its services are adequate. In some other States—in Victoria, for example, at the moment—there is a clear understanding between State and local government that council rates need to rise faster to try to get on top of the infrastructure-funding problem. Similarly, in Queensland there has long been a very clear understanding that councils need the flexibility to raise appropriate levels of revenue so they can get on and do the job. In Queensland they have a bigger job to do because they have all water supply and sewerage as a local government function throughout the State. There are plenty of precedents for dealing with this thing simply on a State and local government relationship. You do not have to bring the Federal Government in, but there would be great merit if we could have a national discussion about appropriate levels of local taxation.

**The Hon. RICK COLLESS:** Do you think it would be preferable to allow local Government to levy its own taxes or would it be preferable to look at something like dedicating a proportion of the GST to local government?

**Professor SANSOM:** I cannot see the latter happening. Local rates are not a bad taxation measure. I think we can make better use of them and raise more money through them. It would mean getting serious about measures to deal with cases of genuine disadvantage. We have not really gone into that very much in local government. So, we would certainly have to have a closer look at how a regime of higher rates impacted on disadvantaged people and what councils individually or collectively could do about that. I simply think it is an underutilised area of taxation.

**The Hon. RICK COLLESS:** One of the problems with rates, as you would be aware, is it is very difficult to levy rates appropriately and evenly so everybody pays a fair amount. One of the criticisms that we always hear about rates is that those who live at the far end of the road, 90 kilometres or more from town, have 80 kilometres of dirt road to get into town and they are being charged \$4,000 in rates on their property. They ask what they get for their \$4,000 and why should they pay it. How do you get around that problem if you are going to look at rating as a bigger proportion of funding for local government?

**Professor SANSOM:** We have to clearly understand that rates are a tax, not a service charge. One of the big changes in local government revenue in the past 30 or 40 years is that rates as a proportion of total revenue have declined substantially and service charges have been the main area of growth. In a sense, we have already recognised the problem of some people paying a lot of tax and not getting much service by loading in much more fee-for-service into the overall revenue picture. Having said that, what we have done is taken our foot off the pedal too much on the underlying rate revenue, which, as I say, has to be seen as a tax not as a service charge. It is a tax on asset value, and that creates some difficulties, but I do not think it is impossible to get around those difficulties and to make better use of that tax base.

**The Hon. RICK COLLESS:** Given your comments about community expectations and the changes required to funding, and so on, have you any thoughts about what sort of structure local Government should have as opposed to what it is now, the organisational structure of it?

**Professor SANSOM:** As I said earlier, the underlying issue there is whether we persist with a single organisational structure and apply it everywhere or whether we say there are very real differences in circumstances from place to place, and particularly from the less populated rural areas to the metropolitan areas, and maybe we have to face up to the fact that a different structure is required in the less populated areas. The only one I can think of is some kind of two-tier arrangement of, in effect, going back to the old county council concept with community-level bodies to provide that local representation and the capacity to make a marginal difference locally. The systems are there already. I think the county councils are still on the statute book. We have the provisions for special rates, local improvement rates, and so on. The framework is there. It is a matter of deciding whether we are going to use it, as I said before, in a more creative way to address some of the problems we are facing.

**The Hon. RICK COLLESS:** Finally, if there is a need to have a reorganisation of a council area or a number of council areas, as may be appropriate, what do you believe should be the trigger that initiates that reorganisation? Should it be financial or social?

**Professor SANSOM:** I am not sure that there can be one trigger. Undoubtedly finance is fundamental. If an existing council cannot pay its way or is clearly incapable of providing adequate levels of service, then that has to be a trigger that we take note of and do something about.

**The Hon. RICK COLLESS:** But that may be person or personnel related. It may be mayor or general manager related rather than an inherent problem with the structure, might it not?

**Professor SANSOM:** Yes, it could be. It could be that the thing is not being managed appropriately, but you can quite quickly look at that and come to a conclusion whether it is just a management problem or something more fundamental in the resource base. Certainly finance has to be a trigger, and I note that the State department maintains a fairly close watch on the health of finances and there has been some recent publicity about numbers of councils that are in deficit and under financial watch, and so on. That is a fundamental one. The other thing—and again I refer to Kevin Sproats' report on the inner-city—which I think is very important, in the metropolitan area in particular, is the capacity of local government to make a good contribution to strategic planning. One of the reasons that Kevin recommended—one of his main two reasons, really, for recommending—the amalgamation from eight into four in the inner-city region, was that the four new councils would be better strategic players. That is an important issue, but it is only an issue if we know that we want local government to play that role, which brings me again back to my first point. It is not by any means clear in my mind that the State Government really wants local government as a key partner in strategic planning. I think the messages are a bit mixed on that. That is another important trigger.

The third thing I draw attention to, which relates to your question about whether it could be just the mayor or general manager being the problem, is that in a complex world it is a big ask, in a State still with a population of only six million or seven million, to find currently 172 highly skilled general managers, 172 highly skilled chief engineers, senior planners, and all the rest of it. I am not sure that our current human resource base is adequate to do justice to the number of councils that we have. That is something that needs attention.

**The Hon. KAYEE GRIFFIN:** Can I go back to a couple of comments you made about changes that happened in Victoria. Along with amalgamations came compulsory competitive tendering. In your opinion, how did that impact, particularly in rural areas, considering the comment you made that there are rural councils in Victoria that are still having financial difficulties? Can you make a comment about compulsory competitive tendering?

**Professor SANSOM:** I could not be certain of what I am saying. My impression is that the critical issue was perhaps not so much the compulsory competitive tendering but the forced 20 per cent rate cut and the damage that did to the financial base, particularly for infrastructure maintenance and provision in some of those councils, and that they are still suffering the effects of that. It is that problem. Once you lower the base, you have to work so much harder to get back up to a viable level of funding.

I think that is what was being reflected largely in the submissions made by some of those rural councils to the Federal inquiry that I mentioned earlier. The concern with compulsory tendering that I picked up was that suppliers in rural areas might miss out to suppliers coming in from Melbourne, interstate or internationally, impacting on the local employment base and the local economic base because the council money was not being recirculated in the local community; it was being sucked outside the community in the profit margins of successful tenderers from elsewhere.

**The Hon. KAYEE GRIFFIN:** You are familiar with what happened with the dramatic changes that occurred in the early 1990s in New Zealand, where there are levels of regional councils as opposed to local councils.

**Professor SANSOM:** Yes.

**The Hon. KAYEE GRIFFIN:** From your knowledge of what has happened since then, how effectively does that regionally based system work for locals and for service delivery and so on?

**Professor SANSOM:** It is a bit different to what I was suggesting was the South African experience, in that the New Zealand regional councils are not a kind of supervisory layer above the locals; they have a number of specialist functions, particularly in environmental management, land management and so on. My understanding is that there are still tensions between regional councils and what they term the territorial councils as to where the dividing line is on some functions. So I am not sure that the New Zealand experience necessarily tells us much about what a more genuinely two-tier approach might produce. And, of course, New Zealand has only national and local government, so it is not the dreaded fourth tier of government; it is, so to speak, two and a half tiers.

**The Hon. KAYEE GRIFFIN:** My last question relates to regional organisations of councils [ROCs]. In New South Wales obviously there are a number of ROCs that participate to varying degrees. To my knowledge, the one that has probably operated longest is the Western Sydney Regional Organisation of Councils [WSROC]. Do you have any comments regarding comparisons of WSROC—because it is the oldest and probably has been more involved in particularly social issues than have some of the others—and whether there are good things with that older version as opposed to some of the things that are happening in the other ROCs? You said you thought ROCs could probably do some of the things we are talking about. But would the question be funding, and what sort of control there is within the region?

**Professor SANSOM:** As you say, WSROC is generally regarded, in a sense, as the leader amongst the ROCs, obviously in terms of the population within its area and the number of things it has done over the years, and also I guess very much in the recognition it has received from successive State governments. I am not closely familiar with where WSROC is at these days, but my impression is that it could still be described as a more supercharged version of what other ROCs are doing. It is a bit bigger and better, but I am not sure that it is fundamentally different. I know that you would be familiar with the Southern Sydney Regional Organisation of Councils [SSROC]. We at UTS do a lot with those councils. I think, although SSROC is somewhat smaller in terms of its secretariat, budget and so on, it is still doing much the same sorts of things as is WSROC.

Then in rural areas there are ROCs that are still really at the level of a voluntary association wanting to do a few things now and then. They do not have permanent secretariats, and they rely on one of the council general managers or whatever to look after their activities. So I do not think we have an example yet of a ROC that is really in a position even to think about playing that major service delivery role. If we wanted to go down that line, if we wanted to use ROCs as a vehicle for addressing some of the service overlaps, inequalities and other issues that we were talking about earlier, I think we have a major developmental task on our hands. As I was saying, it would require a much clearer policy framework, and maybe even a legislative framework, to enable them to do that, because I am not sure that many councils would be happy about handing over large sums of money to a regional organisation that did not have a much clearer framework around it than exists at present.

**CHAIR:** Professor Sansom, there have been criticisms in some submissions that the Committee has received from local councils about the roles of the New South Wales Department of Local Government. One of the main criticisms is the lack of resources available to the department to enable it to provide strategic advice to councils. What are your views on this? What should be the role of the department in the current process of amalgamation and reform?

**Professor SANSOM:** That is a curly one! The short answer, as far as the resources available to the department and the adequacy of them, is that I do not know. From time to time I talk to people from the department, and I am conscious of the fact that the department has got smaller over the years, but whether that means it is desperately short of resources or not, I simply do not know. A number of other States—in fact, most other States—have given the local government function to an office of local government within a larger department, perhaps giving a bit more flexibility to bring in resources as required when you have a major exercise like the current reform agenda.

As far as the role of the department is concerned, I do not want to appear to be evasive, but the role depends on the role that you want local government to play. As I was saying earlier, in this State we have, in my view, a very good legislative framework around management plans, corporate

plans, state of environment reports, and all the rest of it, which could be used in all sorts of additional ways. But I suspect to do that we would need to ensure that the department had the resources to properly monitor a council's performance in implementing those plans.

One of the criticisms that I have heard is that people send copies of the management plans, their annual reports and so on to the department and they know they never get read; they sit on the table, and so on. In a sense, I think the State Government is missing out there on an opportunity perhaps to raise the bar a bit in terms of the quality of some of that planning work in councils and the rigour with which those plans—which go through a very comprehensive process of preparation, public consultation and so on—are then implemented. Really, I do not think anybody is watching. I suspect some people believe they can get away with just paying lip service to the planning processes, which in my view ought to be fundamental and should be actively promoted by the State Government as central to the way local government manages itself.

If you go back to the issue of rate-pegging, I can well understand the State Government's view that it does not want councils willy-nilly putting up rates and then being inefficient in the way they deliver services. But a mechanism is already in place to monitor whether councils are being efficient and effective. That mechanism is in the Local Government Act with regard to the current framework for the management plan and the annual report. It just needs to be used, in a sense, more constructively.

**CHAIR:** Is the problem, perhaps, that the department sees itself as an advocate for the State Government and not local government?

**Professor SANSOM:** I am not sure that the department should be an advocate for local government—obviously, not in a political sense. That is why you have local government associations. They are there to do that. I think departments of local government and offices of local government around the country have a very important role to play in ensuring that local government issues are adequately considered in the formulation of State government policy. So, if the criticism is that that is not happening to the extent it should be, then perhaps that is something for the department to look at. But I just do not know what advice the department is giving in the corridors in Macquarie Street. It could be very active, but none of us know.

**Ms SYLVIA HALE:** Perhaps you will be able to shed some light on my understanding that the ratios of councillors to residents in Australia are considerably higher than in many overseas countries. I am thinking here of parts of Europe and the United Kingdom.

**Professor SANSOM:** I would have to go back and check the numbers.

**CHAIR:** Perhaps you could take that question on notice.

**Professor SANSOM:** Yes. Off the top of my head, I would suspect that we do not have a high ratio. When you say a high ratio, do you mean lots of residents per councillor?

**Ms SYLVIA HALE:** Yes.

**Professor SANSOM:** So, in a sense, we have too few councillors?

**Ms SYLVIA HALE:** Too few councillors, yes.

**Professor SANSOM:** I think that could be the case. Whether it is too few is a decision for people to make. But I think it is probably right that our number of councillors per head of population is not very high by international standards. Similarly, our average number of people per council is quite high by international standards. We carry on as though we have all these tiny local governments, but internationally we are actually somewhere in the middle rank.

**Ms SYLVIA HALE:** There is a huge disparity within this State, is there not, in that there are more than a quarter of one million people in Blacktown Council and possibly 30,000 people in Hunters Hill.

**Professor SANSOM:** Yes.

**Ms SYLVIA HALE:** Is there any indication as to what is an optimum size for a council, or does that depend very much upon particular circumstances?

**Professor SANSOM:** I have never seen any academic or other report that has come down with a definitive answer to that. A few studies have suggested that there are efficiencies to be gained as we head up towards around 100,000, and that above that number the gains are not much greater. Of course, you then have to balance that against the quality of community representation. But I do not think you will find a definitive answer to your question. In fact, our colleagues at the University of New England Centre for Local Government did a report called "Is Bigger Better?", which they prepared for the Australian Institute of Urban Studies, New South Wales Division. That report was quite clear that they had not found any conclusive evidence. Kevin Sproats said the same thing in his report: that there was no conclusive evidence. But, as I say, there is maybe a little bit of evidence that suggests that somewhere round 90,000 or 100,000 might be all right. But we have larger councils than that which seem to function just fine. Councillor Jim Soorley, as he then was, would assure you that Brisbane City, with 850,000, worked just great!

**The Hon. CHARLIE LYNN:** Do you have any views on community consultation mechanisms for councils that seek to run political agendas outside the delivery of services to the community? I use, as an example, the erection of nuclear-free-zone signs, which is not really a council issue, but maybe a radical political issue at a national level. Should there be a mechanism for those sorts of issues to be conducted through referendum and then, if the community decides it wants that, they get it; or, if it is rejected, they stay within the bounds of what is regarded as council's responsibility?

**Professor SANSOM:** There are a couple of issues there because the Local Government Act does not define council responsibilities prescriptively. Those councils that choose to engage in these issues are doing so quite legally and properly in terms of the legal provisions under which they are required to operate. The difficulty with referenda is that once you head down the road of saying that certain things can be decided only after a referendum, where do you stop? You may think you have some nice tight criteria in place but it goes on and on and you run the risk of lowest common denominator politics taking over. I understand some of the frustrations but I think we should probably stick with what we have.

**CHAIR:** Could you comment briefly on the pros and cons of popularly elected mayors?

**Professor SANSOM:** I am in favour of it. One of the issues that comes up in local government—I do not know whether it has been brought to the Committee's attention—is the relationship between elected members and senior management. The Local Government Act could be seen very much as a managerialist model, whereby the general manager is set up as the chief executive with all sorts of powers and prerogatives. That creates tensions with the elected members in many councils. The idea of a popularly elected mayor with some additional prerogatives over and above those that the Act currently provides is well worth trying in order to, in a sense, even up the balance between the elected arm of the council and the management arm. However—I am conscious of some of the people on this Committee—with extra powers would have to go extra responsibilities in terms of leadership, ensuring that certain things get done and so on. But I think it would be a path worth pursuing.

**CHAIR:** Thank you for your attendance before the Committee today. I am sure Committee members will agree that we have gained some valuable information from this session, particularly regarding the relationship between State and local government and meeting community needs. You have added a lot to the Committee's deliberations. If you would like to add any information as a result of this morning's discussion, the Committee secretariat will receive it gratefully.

**Professor SANSOM:** I will give it some thought.

**(The witness withdrew)**

**GREGORY JOHN McLEAN**, Assistant National Secretary, Australian Services Union, Level 8, 321 Pitt Street, Sydney, sworn and examined:

**CHAIR:** Thank you for your attendance today, Mr McLean. Should you consider at any stage during your evidence that certain evidence or documents that you may wish to present should be heard or seen in private by the Committee, the Committee will consider your request. However, the Committee or the Legislative Council may subsequently publish the evidence if it is decided that it is in the public interest to do so. However, that has never happened on any Committee of which I have been a member. Before proceeding to questions from Committee members, would you like to make a short opening statement?

**Mr McLEAN:** Yes. I will go briefly through the sorts of issues that I would like the Committee to consider as it develops its responses. The submission that we have put before the Committee has some attachments, which are submissions that were made to the House of Representatives cost-shifting inquiry. I have also included our submission to the General Agreement on Trade in Services and the United States-Australia free trade agreement, because there are obvious effects in respect of services in the community and local government. We have consulted widely with local government in respect of that matter. I draw those two items to your attention.

First, in any reform or consideration of local government we must look at maintaining services to the community, not reducing them. We must clarify a few things about Australia as a whole when considering that issue. We are an ageing population that is also increasing in size and we are a population that is increasing its standard of living. Those issues mean that we will demand more services from our society and from local government, in particular. Think about community services such as swimming pools. For instance, Ian Thorpe trains at the Sutherland Shire Council's swimming pool, which is a publicly owned swimming facility. Local government provides a range of services to the community. We need to think carefully about that and realise that there will be greater demand for those services as our population grows and as our standards of living increase. That is an important issue.

Secondly, we must ensure that service provision is balanced with the financial security of councils that are in a position to continue to provide those services. For example, rate pegging is an interesting issue, which has different connotations in different States. Some councils have chosen in the past not to avail themselves of the full increase in their entitlement under rate pegging. In other words, the Government says that they can increase to 7 per cent but they say, "We'll be really good and go up by only 5 per cent". Unfortunately, the community not only does not get the extra 2 per cent for the reign of the current council but is 2 per cent behind for the next two, five, 15 or 20 years. I have a particular view about councils that do that.

Most important to our union are employee issues and matters. These are linked solidly to the community. I ask you to think about regional New South Wales, where many council depots and administrative offices are the mainstay of country towns. They also provide the services to which I referred earlier that keep our communities working well. The councils are part of the community and provide direct employment and opportunities for spin-off jobs through the money they spend in the community. The fact that councils and council workers own houses, shops, buildings and whatever else in the town has an effect on land values and upon other community members who are not attached directly to the council.

When you start pulling services out of councils and jobs from country towns some bureaucrat will start asking, "Do you have enough for a school class? Do you have enough for an ambulance service? Do you have enough for a hospital?" People start looking at those issues. So local government alterations, such as boundary changes, must take account of not only the top issues but the detailed issues. We must ensure that it is not simply an opportunity for councils to grab power and attempt to consolidate support services in a particular town at the expense of another town.

Local government cost shifting is also important. Both State and national governments expect local government to do more for the community. Moneys can be provided for a particular project for a period of time but after a while that money disappears or dries up and the council must then decide whether to tar a road, maintain a park or continue with a scheme for which it received only seed

funding. So long-term funding for specific projects is an important issue. I raised the matter in my evidence before the House of Representatives committee and it is mentioned in our submission.

We must also remember that local government is about providing quality services to the community. Local government represents a broad socio-economic diversity across the country and we must ensure that all Australians get a fair shake and a fair opportunity to access those services. I think local government is delivering quality services to the community. For instance, the Sutherland shire, where I live, has a large council that moves politically between a couple of parties. It employs quality labour, has little contracting out and, in my experience and that of my family, provides quality services to the community.

I also think local government changes provide an opportunity to have some community consultation. This can be done in a number of ways but I suggest that the consultation undertaken by the Kennett Government in Victoria during its council amalgamations less than 10 years ago is not the way to go. I understand from talking to my unions officials in Victoria as recently as this morning that those amalgamations were undertaken in a very forceful fashion, with little consultation. Some 220-odd councils were reduced to 70. While local government is always concerned about change, there are ways of going about it. My union is a bit more comfortable with consultation, discussion and some of the techniques being used now in New South Wales than with the style adopted in Victoria in the mid-1990s. I am certain that people in rural Victoria would share that view.

As I came into the room a question was asked about the number of councillors and the size of councils. We must think about how large this country is. A population the size of New York is living in the entire country of Australia. We are basically the European Union brought together through a series of States. We are the same size as the European Union and mainland America and we require services that maintain a similar standard of living over a huge geographical area. This means that rather than consolidating a council down to a certain size in order to meet community demands perhaps we need many councils simply because of how close a local government authority is to the services it delivers. I do not know whether there is a perfect world model to look at. I urge the Committee to remember also that the services that Australian councils provide often differ from those provided in Europe. They often differ from State to State. For instance, local government in the United Kingdom employs its own education staff, runs its own schools, police force and many of the systems that are run in Australia by State governments. The system may be different in Canada, the United States and in Europe. Municipalities exist and their functions often differ depending upon their relationship with States and the opportunity for local authorities to provide services to the community.

It is also interesting to think about the services differences between Sydney City Council and Brisbane City Council. I will not call Brisbane the principality state, but Brisbane City Council provides its own railways, water services, public transport system, and a range of services that in other States would be provided by a State government. I urge you to think about that issue. I also urge you to think about the wide variety of services that councils provide. The small council that was referred to earlier—I think it was Hunters Hill council—

**CHAIR:** Mr McLean, I am very conscious of time here. I appreciate the material you are providing the Committee, but members would like to ask you questions and we have only 15 minutes left. Unless you have other burning points to make, we will go to questions.

**Mr McLEAN:** I was simply going to say that a wide range of services are provided to councils in New South Wales. I urge you to think about water services, child care, and the whole range of services outside the Sydney Basin area.

**The Hon. RICK COLLESS:** You said that the local council is the mainstay of many smaller regional communities. Do you accept that, given the communications systems, the Internet, and so on, that we have today, it is possible to incorporate the staff of those councils within a wider regional council type of management structure? This is what the reform of local government is all about, is it not?

**Mr McLEAN:** Yes, that is a very valid point. There are perhaps two issues here. The ability of people to work down communications lines—for example, we see how Country Energy operates in

New South Wales, where they do a lot of that. You have regional offices, but nevertheless you have the ability for call centres to be in three or four different locations.

I urge you to think about the fact that you have those towns and depots that are located in regional New South Wales, and those towns and depots do not just have trucks and bulldozers that are there to look after the roads; they are also there for bushfire control, flood mitigation, and a whole range of services. If the roads go out, there is a problem in getting equipment through.

You can have some of that centralisation, if I can use that term, for the top-heavy arrangements and providing customer database systems, and so on, that can stretch some distances, again because of those telecommunications issues. Also, in the footprint of the council there needs to be the establishment of those regional depots and offices, so that the public can call in to the office and also so that those vehicles are located regionally.

I refer to the example I gave earlier regarding Country Energy, where they are now building joint depots with local councils so that they can be assured of keeping their services in the community. That is perhaps a good example of how local government can co-operate with other departments, without losing its independence.

**Ms SYLVIA HALE:** We are currently witnessing the experience of the amalgamation of portions of Leichhardt and South Sydney councils with Sydney City Council. What is your union's perception of that process, and of the protection safeguards that the Government has put in place?

**Mr McLEAN:** My union has both a national and a local State structure. I am from the national office of the union, and we also have a couple of branches in New South Wales. One of those branches, the USU branch is, I think, scheduled to appear before this Committee as its inquiry continues, and that branch and those local officials have dealt with those issues more closely at a local level regarding the merges of those two authorities. I could perhaps make further comment, but I think it would be more valuable from your point of view to get those issues directly from that organisation, because the organisers are the ones on the ground who have been dealing with it. But I know there have been some difficulties with it.

**CHAIR:** Can you provide any examples of council amalgamations leading to job losses or a decline in working conditions for local government employees?

**Mr McLEAN:** In New South Wales local government merges have been a feature that has been around for a while. They took place in the late 1970s, early 1980s period under previous State governments. At that time guarantees were put in place for local government employees' awards, entitlements and conditions—not just the ones written down, but a lot of those put in place by local workplace agreements. There were also commitments for depots and offices to be maintained within specific geographical locations. That was of significant assistance.

One of the issues we have in local government is that we have one award that covers the whole State for employees, which is that principal contract of employment, for want of a better term, but there are local agreements that are entered into. Since the period of 1979 onwards, there has been more opportunity for local governments to reform individually at local levels, and more flexibility. There are many flexibility issues that are being dealt with in different councils. I think one of them was in Orange-Bathurst or Orange-Mudgee, where one council has brought even a flexible structure for its workers where they are multifunctioned and they receive a higher rate of pay. The other council has a fixed structure for its workers, that is, a fixed plant operator, a fixed grader operator, a fixed truck driver, or whatever, rather than a person who may be able to do all of those. That is a decided concern to those workers, because of the flexible arrangements that one council has introduced to another, and they may see that as a loss.

In Victoria, where I understand council merges were done by force, there were substantial concerns with employees there, and loss of local conditions, and large industrial arguments to maintain those rates of pay. The local government industry is highly unionised throughout Australia. We have been in a position where quite often that has worked very well for the citizens of the community, the employees, and also the council. Quite often we have been able to prevent the loss of those conditions and rates of pay, by the various exercises that we would go through, such as



appearing before this Committee, to ensure that that does not take place. With regard to the changes to Sydney City Council and Leichhardt council, I am certain you will find some issues of concern to the employees there.

**CHAIR:** Do those concerns relate to the loss of jobs and conditions for those employees, using that or any other example?

**Mr McLEAN:** Yes. I understand there has been a loss of employment in that area, particularly full-time positions. There were two philosophies at those councils. Sydney City Council had introduced extensive contracting out and competitive tendering, whereas Leichhardt council had chosen to do more work internally. So when it came to the councils merging, I was in the union office and I saw employees coming in individually saying, "Please don't send me to Sydney City Council." I saw people that I knew saying, "I don't want to go there. I have been marked, but I don't want to go to this council." That was a concern that they had.

As I said, local government has changed a bit since 1979, since the last extensive round of local Government alterations and boundary changes. There are fears that as councils merge, because of the reforms that have taken place in different councils, people do not necessarily want the things that took place on the other side of the hill to take place on their side of the hill. Whenever you undertake merges of local government authorities, there are work practices that have developed for the good of that community. When you merge them, there is a balancing effect that needs to be maintained, otherwise there are significant issues that face all of us.

**CHAIR:** Are you able to give reasons for the union's recognition of local government in the Australian Constitution?

**Mr McLEAN:** There are two issues here. I see local government being sometimes treated as the poor cousin to State Government. I have seen the sort of things that took place in Victoria during the Jeff Kennett era, when councils had council administrators appointed by whomever. Melbourne City Council was a classic example. Ratepayers and local constituencies felt that they had had the democratic process bypassed. We all get used to popping down to the local primary school on election day to vote, in a democratic process. We do that for Federal elections, State elections and local government elections. We all have an expectation that once our vote is cast, that operation will continue and no-one will circumvent that vote.

Unless you give local government some degree of constitution and protection, the vote of the citizens who have voted in their local council hangs there by loose threads. So that if a State government says, "We are going to remove this council or that council and make these changes," people will ask, "Where is the democratic vote that I cast at the local primary school in my local council elections last time around?" I get pretty concerned about that. I also see enough globally, through my work with Public Services International, which represents about 20 million public-sector workers worldwide, to reflect the same concerns: that local government needs to be able to stand up and fight against any State government or Federal government, without fear or favour. It should be able to do that by not being starved of financial security, not feeling as though someone is going to send the dogs in to inquire about their financial aspects before it is given more money by either the State government or the Federal government, but by being truly independent. I cannot see how we can have a democratic process and be a government, without being able to stand up to State and Federal governments when it is in the best interests of our community to do so.

**Ms SYLVIA HALE:** What we see often with council amalgamations is staff being merged, and then a fairly aggressive process of downsizing taking place. Does the union have a perspective, from the staff point of view, on the appropriate mechanisms that should be in place when there is the prospect of council amalgamation occurring?

**Mr McLEAN:** There are a number of ways in which you can do that. One of those ways can simply be that there are no forced redundancies. They may even say there are no redundancies for a period of time, and force the management to shake those issues through and sort those problems out. If you go down that pathway, you then have a period where councils are not running out there and giving people redundancy money, putting them out the door, simply to reduce their staffing levels.

In the electricity industry, for example, where a fair amount of redundancies have taken place, there was a period of time when they did not train new staff, and now they are going back to training new staff. That can often be the effect in local government, where you need to keep having that little spin-over. There are a range of ages within any local government authority. People are there simply because they applied for jobs at a council each year as they came up. If you fail to advertise those jobs for a couple of years, you can create some issues that you need to be aware of. But you also need to be aware of not wanting to lose skilled staff before you have had an opportunity to shake down those management structures and get them into place. Giving employees guarantees of entitlements, and having no forced redundancies, as has taken place in the New South Wales electricity industry, has allowed us to continue to be competitive, and not to be put in a position where people are downsized simply for the sake of downsizing.

Often there is a tendency to say, "Let's get rid of these people; we have got too many. Let's shake this down." Then you find you often lose the wrong people. Starting off with security of no forced redundancies, or, for that matter, no redundancies; extensive consultation with the social partners, the unions and the local community, about how it is going to be developed; and requiring councils to develop work plans about how they are going to restructure their councils are other matters you can look at. You also need to look at council business plans, rather than some councillors simply saying, "Firstly, let's get rid of some of the staff, so it looks like we are balancing the books out." Perhaps some of the councillors or senior managers are the ones that are shaken out. They are on significantly different employment arrangements from the truck drivers and council labourers in rural New South Wales.

**The Hon. CHARLIE LYNN:** With regard to the consultation process for the reform, the President of the Shires Association of New South Wales told us earlier that the amalgamation or dissolution of councils was not on the agenda and that it was almost sprung upon councils. Do you think there has been adequate consultation with the peak bodies of the councils concerned to date? It is only a recent initiative, but do you think that there has been sufficient time for the proper reform process to be researched in detail so that we get it right?

**Mr McLEAN:** I suppose, having been involved in industrial issues for many, many years and negotiating awards for employees sometimes in workplaces at which there are literally thousands of employees, everybody needs to see consultation takes place, but how much consultation? You can consult and you can consult and you can consult forever and a day, if you so want, but there comes a time when you have to make a decision. Quite often, taking consultation, how far does it need to go is the issue. Having consultation go far enough so that an opportunity is provided for all levels of the community to have input and for people to have an opportunity to be heard and for the Government to walk through and say "These are the major issues that you guys are concerned about. Let's start ticking off those issues. We have achieved that. You have told us what you want. We have ticked off on those issues. Consultation is completed on that process because we have gone as far as we can." Quite often it is up to both parties to say, "Let's sit down and let's talk."

Maybe some of the councils may seek to engage within their constituency and they can have consultation processes to talk to local youth clubs, local sporting associations and such. There is a lot of consultation that a council can do on its own without necessarily waiting for the State Government to come along. The council can consult with the local union, the workers, the employees, the business community in its local area and look at those needs as well, while the consultation might be going on at a State Government and local government level. It is a bit of horses for courses, I suppose, but I would like to feel that the debate or the discussion is mature enough that people would undertake reasonable consultation. I think that is what this Committee needs to make sure of, or ask for—that reasonable consultation takes place. We should not be hamstrung but we also should not be to the stage of wanting to go totally overboard, if I may use that term, and allow consultation to work against the wishes of the community as well.

**CHAIR:** We are out of time. Mr McLean, I thank you very much for your contribution today. If anything comes to mind as a result of this discussion that you would like to forward to the Committee, I know that we would appreciate it very much. You have certainly expanded the awareness of the Committee on those vital workplace relations issues, which are all part and parcel of the Committee's deliberations. I thank you very much for your contribution.

**Mr McLEAN:** I thank the Committee for the opportunity to appear today. I wish the Committee well in the work that it is undertaking.

**(The witness withdrew)**

**KEN MORRISON**, Executive Director—New South Wales Policy, Property Council of Australia, Level 26, Australia Square, 264 George Street, Sydney, affirmed and examined:

**CHAIR:** In what capacity are you appearing before the Committee—as a private individual or as a representative of an organisation?

**Mr MORRISON:** As a representative of the Property Council.

**CHAIR:** If you should consider at any stage during the evidence that certain evidence or documents you may wish to present should be heard or seen in private by the Committee, the Committee will accede to your request. However, the Committee or the Legislative Council may subsequently publish the evidence if they decide that doing so is in the public interest. However, this has not occurred with any Committee that I have been on so far.

**Mr MORRISON:** I hope it will not now, either.

**CHAIR:** If you wish, you may take this opportunity to make a brief opening statement before the Committee goes to questions.

**Mr MORRISON:** Thank you, Mr Chairman. I also thank the Committee for the opportunity to appear before it. I thought I would just make a few comments before we go to questions. Firstly, I will outline who the Property Council is and who it represents and what we have to say about this issue. The Property Council is the national representative of the property investment community. Our members include property owners, property investors, developers, managers and other companies in the property food chain. We have about 1,200 corporate members nationally. In effect, most of the money that our members are playing with is effectively superannuation money in one form or another through property trusts, superannuation funds or life insurance. If you look at the Sydney CBD, approximately 70 per cent of the Sydney CBD is held by retirement savings in one form or another.

Why are we interested in local government issues, local government reform or amalgamation issues? There are a couple of main reasons. The first is that, obviously as property owners, property investors and property developers, our members are very interested in the efficient operation of the planning and development control systems. As property owners, they are very interested in councils' responsibilities for local infrastructure and city upkeep et cetera, and also as ratepayers, councils provide our members with key services. We see a number of different problems with local government structures in New South Wales as they are at the moment. Firstly in relation to size, we think that many councils are too small, particularly those in the eastern part of the Sydney region. It limits economies of scale to really provide some financial benefits back to the community, and I will talk more about that later.

Certainly councils are often very underresourced. We see that particularly in the planning and development control area where, as a general statements that is mostly correct, I think there is underresourcing of that planning and development control function. It is certainly becoming increasingly difficult for councils to attract good staff to that function. I think councils are feeling it and I think certainly the industry is really feeling it. I think the size also allows councils to get caught up too much in minutiae. We have this gap where there is not enough real strategic planning occurring, particularly in the CBD but right across New South Wales, really. Another problem quite often is inappropriate boundary locations. Following the Sproats inquiry, the Government moved to fix up those, namely, Bondi Junction where the commercial retail area was split between two councils. It was positive that that was done, but there are plenty of other examples around.

We have artificial boundaries really impeding development and the urban form of what exists. A couple of them are the Epping Town Centre and King Street, Newtown. The government structures issue bites hard in the development, assessment and planning arena. There is no separation of powers within local government that exists at State and federal level. You do often have councils acting in a legislative capacity as well as in a judicial capacity on issues, and that certainly creates a highly political environment for decisions to be made. It also adds significantly to the inefficiency of those processes. We see that as an issue that needs to be dealt with.

Development assessment [DA] does seem to be getting slower. The latest council report card from the Department of Local Government shows that DA processing times on average have increased by 5 per cent since 2000, even though the actual number of DAs fell by 12 per cent whereas the legal costs went up by 7 per cent. We are seeing this slow grinding down of the system. There are a number of reasons for that, but certainly one is the council structures issue. The other one is infrastructure. We do not believe that enough money is being spent on infrastructure at both the State and local level. It is a matter that we have had a lot to say about just recently, particularly at the State level. We have a report which I would like to leave with the Committee for its deliberations in more detail.

What is it that the Property Council is looking for? We are looking for council amalgamations—as I said, particularly in the eastern part of the Sydney metropolitan region where council boundaries are generally a lot smaller and in many cases had been pegged out by men on horseback almost a century ago. We are looking for revised government structures, particularly for DA processing. We think that there are a number of models around the place which are useful to examine. Certainly a greater use of the advisory panels, which the Government has picked up in relation to design issues, is something that we should be looking at much closer. We are strong supporters of planning reform at a number of different levels. I will not go into much detail here, but certainly we are interested in planning and system reform. I have just come off the Plan First task force which Minister Knowles has had running. The task force has made its report to the Minister and I understand that we will be seeing some Government action on that soon, which will be pleasing.

DA processing is obviously a key issue for us and I guess the Government is moving to reform processes there. We strongly believe there needs to be a metropolitan strategy or a plan for Sydney. It has been a long time since we have had something of real merit and we have been urging the Government very strongly to move forward on that one. We think that both State and local governments need to rethink the way infrastructure is funded, particularly at a State level. In the report I mentioned earlier, we commissioned the Allen Consulting Group and the respected Vince FitzGerald to examine existing infrastructure funding options and to do both a qualitative analysis and a quantitative analysis. There was a very strong recommendation from that—that the Government has a lot of capacity to use debt much more than it is doing at the moment. In fact, the finding was that there is \$5 billion capacity to use debt which would not affect our triple-A credit ratings. Again, I will leave a copy of that report for the Committee's deliberations. It also has a fair bit to say about local government financing arrangements.

We see a number of benefits from council amalgamations and council structural reform. I guess one of the things that drives our thinking on the issues is that, although the Government has showed renewed faith since the election, it was not a long time prior to that when we had efforts from within the local government fraternity to look at voluntary reform, and that had been very slow. It has achieved some changes in some instances but they have been pretty minor, so I think that the ability of councils or the local government sector to really reform itself is limited.

**CHAIR:** I am mindful of the time and I appreciate that the Committee members would like to ask questions. On that point that you are making, does the Property Council have a policy of local government amalgamations, including voluntary amalgamations?

**Mr MORRISON:** Yes. We support amalgamations. We are quite supportive of the role that the Government is taking at the moment. Beyond that, we think the Government, if it emerges that there is not enough impetus for voluntary amalgamations within the local government fraternity, should look at forced amalgamations. Again the primary area we are looking at is the eastern elements of the metropolitan area. When we look at regional New South Wales, yes, those doughnut councils are an anomaly and are largely being addressed, but there are different factors which apply to regional New South Wales and city regions.

**CHAIR:** You mentioned that you were on a committee that looked at Plan First. Has there been any particular impact from the changes to the 1997 environment protection legislation, for example, problems with private certifiers' complaints or support from the community and developers?

**Mr MORRISON:** The major impact of the 1997 amendments was the inner greater development amendments. The aim was to speed up the system and to stop applicants being required to get a number of different forms signed off.

**CHAIR:** It did not work.

**Mr MORRISON:** It did not work big time. That is a real issue, particularly with larger developments and the fact that as well as the EPA legislation we have many other Acts dealing particularly with environmental issues. That framework does not gel, particularly with separate administrative structures looking after them. Whole system is disconnected and that is a big concern.

**CHAIR:** You mentioned that there was a slowing down despite the fact that there were fewer applications. Are planning and private certifiers the main reason or is it more litigation from disgruntled communities against developments?

**Mr MORRISON:** It is at a number of levels. We should reflect on where New South Wales stands vis-a-vis other States. New South Wales has a very complicated and poor planning system by other States' standards. The Government recognises that and it has been pushing for changes, which are welcomed. The answer is at a number of different levels. First, we need more macro strategies to handle growth and change and to fund infrastructure support. We do not have a framework for that. The Government is looking at that and that is welcomed. Our planning system is in the Plan First arena. It is horrendously complicated, with 70 or more steps in a particular council area. Some of the local planning instruments are older than the EPA legislation. It is not a good situation. We need a simplified process, and hopefully it will occur. Development application processing procedures are also an issue. The integrated development issue has not been picked up strongly in the Government's reviews. We urge it to pick them up. We must also look at where we are in the development of Sydney. The Government has been encouraging compact city policies. The low-hanging fruit has been picked. We are now seeing a cultural change in Sydney. As we try to accommodate growth it is harder and there is more kickback from the community. People are more litigious and they love their increased property values, but they do not want anything to change next door.

**Ms SYLVIA HALE:** In your 28 August press release you came out very strongly in support of the Government's move towards structural reform and amalgamation. Why did you not make a submission to this committee to support your organisation's position?

**Mr MORRISON:** We put a lot of effort into this issue during the Sproats inquiry. I am sure the committee will look at the excellent report produced by Kevin Sproats. Given the new round of focus on the issue we decided to provide public support where we could and to refer people to the work we had done. I will provide the committee with work we commissioned from Arthur Andersen, as it was at the time, on financial savings modelling the potential amalgamation of three eastern suburbs councils. It came up with an annual recurrent saving of \$31 million, which obviously could be used as rates dividends or to fund services or capital works of some kind. That has been the general approach; we have not put as many resources into that area as we have in the past.

**Ms SYLVIA HALE:** Was any representative of your organisation consulted by the Minister or his office about the process of amalgamation reform?

**Mr MORRISON:** We have spoken to the Minister about the process a couple of times this year. We sought him out rather than the other way around.

**Ms SYLVIA HALE:** In the past six months there has been a series of meetings.

**Mr MORRISON:** A couple.

**Ms SYLVIA HALE:** What kind of future involvement do you expect on this issue?

**Mr MORRISON:** We will keep urging the Government on. We are standing back to see the results of the current processes. Will we get much reform? One of our concerns is that most of the candidates for reform could be impoverished rural councils. There is less momentum for reform in

metropolitan areas, which have great scope for it. If that is the outcome, we will press the Government to go further.

**Ms SYLVIA HALE:** Your press release also states that industry is sick of council inefficiency and that faster development application approvals are a clear priority for landowners. Given that you have identified these as the main issues in amalgamations, how do you respond to residents' concerns that larger councils are more receptive to developers and more likely to allow a higher level of development?

**Mr MORRISON:** I do not think that is the case. A larger council allows more resources to be spent on planning functions—not development assessment functions, although it is both. There is a greater chance of clearer planning rules, which is partially an expectation of management issue. People will know what development can and cannot be provided in their area. Applicants will also know what they can and cannot do. That can be the direct result of more resources. More resources can also be allocated to the development assessment function.

**Ms SYLVIA HALE:** Professor Sansom referred to a University of New England study entitled "Is bigger better?" It states that there is no conclusive evidence that larger councils are necessarily more efficient. Have you examined such evidence and do you have any comment to make?

**Mr MORRISON:** I agree that there is no guarantee. Economies-of-scale efficiencies can be made, but we still need the management and will to make them. They can be passed on in a real dividend to the community in rates and services. There is no doubt about that.

**The Hon. CHARLIE LYNN:** The Local Government Association and Shires Associations of New South Wales report states given that the requirement for councils to cut services and to defer critical infrastructure decisions there is a looming infrastructure crisis in New South Wales. Would you like to comment on that?

**Mr MORRISON:** It is looming all over the front pages at the moment. I agree. It is not only at the local government level; it is also at the State Government level. The current State Government and councils should not wear the blame for that. It is a feature of the past decade or so and it will require big solutions, and big dollar signs will be involved. That is correct. The consulting report was designed to address an efficient way to fund the enormous infrastructure task in front of us.

**The Hon. CHARLIE LYNN:** Is that a result of the lack of maintenance of infrastructure over the years? Are there two categories: catching up on the maintenance backlog and the development of new infrastructure?

**Mr MORRISON:** That is correct; it is both. The State Government seems to be focused on getting public transport services right and is forgetting about the extension of services for growth. It must do both or it will leave itself open to more problems. Councils have severe problems.

**The Hon. CHARLIE LYNN:** I am confronted with every day by the M5 east tunnel. It was supposed to solve the transport problems of the future. It has been developed at great cost but cannot cater for today's demand let alone the future. Should it have had an extra lane, a toll lane or something else to provide some relief? We have a crisis looming in that development.

**Mr MORRISON:** Someone once postulated that if the Sydney Harbour Bridge were built today it would have two lanes each way. That is probably correct. There was much more forward thinking about capacity and building in previous decades than there is today. It is a big issue. It is not only about the infrastructure itself; it is also about how to maximise existing infrastructure. Although everyone likes to bag the rail system, it is good by world standards, particularly given the compact city policy. It is about how we ensure that existing centres can be maximised and how we get as much of the new development as possible around transport nodes so that we get the best bang for our buck with the existing system.

**The Hon. RICK COLLESS:** You mentioned forced amalgamations and said that many local government areas are too small. Do you have an idea of the size they should be? If not, what criteria would you use to determine the ideal size?

**Mr MORRISON:** We do not have a magic number. They are probably fallacious and I will not throw one on the table. Not many councils in the east, south and inner west and on the North Shore—in fact, I cannot think of one—are of a size that would allow them to operate on an efficient basis.

**The Hon. RICK COLLESS:** Should they be double or triple the size?

**Mr MORRISON:** Yes. We recommended to the Sproats committee that three councils in the eastern suburbs be amalgamated to create a greater eastern suburbs council. The Sproats report suggested that eight of the four councils be amalgamated. That is probably the minimum.

**The Hon. RICK COLLESS:** You also mentioned inappropriate boundaries, particularly the boundary at King Street, Newtown. Please expand on that situation and why it is inappropriate.

**Mr MORRISON:** It is a good example of a retail high street cut by two council boundaries—Marrickville and South Sydney. When councils plan to spend money on that area they must deal with the degree of alignment.

**The Hon. RICK COLLESS:** Does the local government boundary run down the middle of King Street?

**Mr MORRISON:** Yes.

**The Hon. KAYEE GRIFFIN:** My question relates to development assessments. You raised concerns about development assessment staff or the lack of them at councils.

**Mr MORRISON:** Yes.

**The Hon. KAYEE GRIFFIN:** Can that problem be addressed? I know many councils have problems filling those vacancies.

**Mr MORRISON:** It is a very big problem with no easy solution. I do not think the planning profession is as respected as it once was. So you are perhaps not getting the same talent going into the area as you used to. I think there is an issue of capacity within the educational institutions as well. I have heard figures in terms of what our universities can actually produce in terms of qualified planners, and it does not meet the demand. You see a lot of the more experienced planners jumping out of the local government system and going to the private sector. It is not just for the dollars; I think it is because the work is more interesting in the main. A lot of council planning staff did not get their teeth into the big strategic planning issues that they did perhaps in days gone by. A lot of that has been outsourced. It is a big issue. In terms of how you address it, I guess part of it is looking at the supply of graduates from universities. We would see the opportunity for amalgamations and the greater economies of scale that could create to be paying staff more and providing a renewed focus on strategic planning. Hopefully, that would be a motivator for staff to join. But it is a big issue. It is something that our members come to us all the time with, particularly where we have a larger or more complicated DA. In some instances there is just not the skill at the other side of the table to really deal with it effectively.

**Ms SYLVIA HALE:** Just a short question arising from that—and this is just an opinion if you wish to give one—do you think that because of people leaving local government in terms of development assessment that the consultancies are growing and probably that they have got more local government people in them or there are more consultancies out there?

**Mr MORRISON:** Planning consultancies?

**Ms SYLVIA HALE:** Yes, just an opinion if you feel you can give it.

**Mr MORRISON:** Yes. I think probably planning consultancies are growing because the processes are becoming more complicated. Major projects have always used planning consultancies—for a long, long time—but I guess you are seeing house extensions using planning consultancies



whereas they might not have used them in the past in the same way. So perhaps it is a reflection of the increasing complexity within our system.

**The Hon. IAN WEST:** Mr Morrison, in the great debate about bigger is better and trying to define what those nebulous words mean, you indicated earlier that there was some magical number. I assume that in the definition of better, or bigger, that there are a whole lot of issues that relates to geography—all sorts of issues. Are you saying to us that you can attempt to define bigger purely on the basis of the number of residents?

**Mr MORRISON:** No, that is exactly what I am not saying.

**The Hon. IAN WEST:** Good.

**Mr MORRISON:** I think we would say bigger is better, but I do not think there is a magic number. I think you have to be sensitive to the fact that when you go outside urban areas things are pretty different. If you have an enormous territory to cover then you just cannot count heads. But certainly, particularly in metro Sydney, there is no question that there is huge scope for reform.

**CHAIR:** Given the time, Mr Morrison, it would be appreciated if you could answer with a one-liner here. I really appreciate the information that you have input to the Committee but we are out of time.

**Mr MORRISON:** Sure.

**CHAIR:** At the end of the inquiry the Committee will produce a report that will most likely include recommendations for action to be taken by the Government. What would you most like to see as a recommendation of the report?

**Mr MORRISON:** That structural reform is necessary. It is a necessary part of looking at local government going forward.

**CHAIR:** Thank you very much for your input today. You have certainly given quite an extra dimension to the Committee's deliberations. If anything should become apparent to you from the discussions that we have had today and that you might like to input to the Committee in written form at a later stage we will gratefully accept it. Thank you very much for taking the time out to come today.

**Mr MORRISON:** Thank you very much for the opportunity.

**(Luncheon adjournment)**

**CHAIR:** Before this hearing resumes I need to advise the witnesses and Committee members how I intend to proceed regarding an incident raised in the Legislative Assembly on 14 October by the honourable member for Burrinjuck. The matter raised referred to one of the witnesses put forward today by the department. I am advised that the matter is currently the subject of an investigation by the department at the request of Dr Gellatly, Director-General of the Premier's Department. As Chair, I do not believe it is appropriate that the Committee seek to investigate the details of the incident, as the details of what occurred are not relevant to our terms of reference. Any questions that seek to address the specific incident will be ruled out of order. Likewise, I will also rule out of order any comments any witness seeks to make on this specific incident. However, I will allow general questions to be put regarding the regional reviews being conducted by the department.

**GARRY JOHN ALFRED PAYNE**, Director-General, Department of Local Government,

**PAUL ROBERT CHAPMAN**, Director, Legal Policy and Special Programs, Department of Local Government, and

**GRAHAME RUSSELL GIBBS**, Director, Performance Management and Compliance, Department of Local Government, sworn and examined:

**ROBERT ALEXANDER BULFORD**, Executive Officer, Reform Program, Department of Local Government, affirmed and examined:

**CHAIR:** Would any of you seek to make a short opening statement before being cross-examined by the Committee?

**Mr PAYNE:** No.

**Ms SYLVIA HALE:** Mr Payne, if you had an unlimited budget, what do you think are the services used to local government that the department could provide? For example, would the department ideally like to respond to requests from councils for greater strategic input, assistance with networking and sharing best practice, councillor training and induction?

**Mr PAYNE:** I think the department's role is one of helping bring about a better performance in a corporate sense. Whether that goes to individual training of councillors and/or staff, I suspect that would be not only very resource intensive but probably best left to the industry itself through the associations. The department would have a role and has had a role in assisting with training. For instance, we publish a booklet once every four years "So, you want to be councillor". We have done a number of other training-type brochures, but I would not particularly want to steer the department in the way of providing face-to-face training on a regular basis.

**Ms SYLVIA HALE:** What about strategic planning and much broader?

**Mr PAYNE:** I think we do that now. Through the councils' management plans we try to get councils to focus on the future and have a vision for the future for their areas—whatever that vision is. It is not our concern to judge the merits of that. We encourage councils to be forward thinking, both in their overall planning and their overall finances, which obviously lock together. It is a valid question and one we strive to assist councils. Of course, councils vary in their ability to tackle those issues. Some of the larger councils have resources to help them. We try to focus on those that need more assistance. So, we do that, yes.

**Ms SYLVIA HALE:** I think your submission made to this inquiry has been that people are disappointed in the cutback of the department's numbers and that they do not perceive the department as providing that sort of strategic assistance or assistance with strategic planning?

**Mr PAYNE:** I think that is probably reasonable comment. However, I would say we have moved on and our focus is at a much higher plane now. In the past two or three years, I suppose, we have been working very closely with a number of councils who sought our assistance to develop forward plans for their financial needs. There have been a number of cases that have been very

successful and very good plans, looking at five, seven, 10 or 15 years out. That has been a focus in the past two or three years.

**Ms SYLVIA HALE:** Can the department quantify the amount paid by local government to the State Government in various fees and charges, including heavy vehicle registration fees, waste minimisation charges and the Fire Brigade levy?

**Mr PAYNE:** It would have to be caught in the accounts of the councils.

**Mr GIBBS:** We do not separately identify those.

**Ms SYLVIA HALE:** You could or you could not?

**Mr GIBBS:** No, we do not track the amounts paid by individual councils or an aggregate.

**Ms SYLVIA HALE:** So, no attempt has been made to assess the value of these charges against the value of grants made by the State Government to local government?

**Mr GIBBS:** We do not administer any of the grants that councils might receive.

**Ms SYLVIA HALE:** But, presumably, if the Government is taking more on one hand than it is giving on the other, this must have a great impact on the ability of local councils to function efficiently?

**Mr PAYNE:** I am not sure that is right.

**Ms SYLVIA HALE:** I am not sure it is right either. I am asking you for the evidence.

**Mr PAYNE:** We look at councils finance in a macro sense. If the council feels it needs additional revenue, it always has been opened for the past 10, 15 years for that council to seek a special rate variation over and above the yearly rate limit. On average, about 40 councils a year apply for a special rate variation. Some come back more than one year and several councils have not sought any increase. If there is a particular problem with a financial issue in a council, it is always open for it to come back to the department to seek a special rate variation. I would say, and I am guessing now, that the majority of those would be approved—whether they are approved as a permanent fixture of the rating regime or for a fixed period because of a particular project, whether it is an environmental cleanup or something like that. We have generally been sympathetic. We encourage councils, rather than just respond to individual needs, to think what their requirements are over the broad-spectrum and then come to us with a forward program.

**Ms SYLVIA HALE:** A complaint common to many of the submissions made to this inquiry and indeed to the Federal Government's inquiry into cost shifting is that councils are subjected to a lot of unfunded mandates as well as to a vast increase in community expectations of councils. In the light of this structural reform process, sparked by so-called inefficiencies within local government, and desires somehow to address that question, how do you perceive that councils should respond to these difficulties with which they are confronted?

**Mr PAYNE:** I am not sure what you mean by unfunded mandates. In some cases, councils claim there is an unfunded mandate, and in other cases councils are just doing what is normally expected of them. So I am not sure I actually understand what you mean by that term.

**Ms SYLVIA HALE:** Could I give you the example of remediation of contaminated lands, where the contamination may not be the direct result of the council's activities, where the contaminated land may fall beyond council's own land but remediation of it is a requirement on the council, without the council being provided with additional funds to deal with the problem.

**Mr PAYNE:** I do not know whether that is right, because we have provided rate variations to a number of councils for environmental issues covering not just a single local government area but a number of areas where the problem covers a number of councils. So I think we have been quite sympathetic to that over the years. In terms of the community being more demanding, I think that is

true of society generally, not just at the local government level. We are aware of that. That is one of the reasons we are asking councils to do a bit of forward planning to work out what they think their communities need now and into the future. That is why we are keen to sit down with the councils and develop a forward program. Whether that be for five, seven, ten or fifteen years does not really matter. It is to get them to think the issues through. For instance, has a council that has a large number of kilometres of unsealed road a program to seal those roads? If so, what is the program, and over what period does it intend to do that work, et cetera? Of course, the community cannot provide unlimited resources. But there should be some type of forward programming for those types of activities.

**Ms SYLVIA HALE:** Given the short timeframe within which councils had to respond to the Minister's requirement that they submit proposals for restructure or change, what assistance did the department give councils to come up with proposals? Did it give them any financial compensation for having to employ consultants to produce proposals? Did it give them any strategic assistance or any indication of what was expected of them?

**Mr PAYNE:** There were no funds provided—and I do not think there should have been for what is something to assist themselves. What we did provide to them—and I provided personally to a number of general managers and/or mayors—is advice on the types of things they should be considering. Some took that advice, others did not. That is fine. We will now look at those proposals over a period of time. That will not happen overnight. Yes, advice and assistance were provided to councils when sought.

**CHAIR:** I would like to pursue the unfunded mandate concept for a moment. I understand that councils can apply for particular special circumstances, called a disability I think in this case, under the financial assistance scheme, for instance, a large aged population, Aboriginal issues, disabled and so on. My own council presented tourism as an additional cost that it was servicing. How has your department dealt with these requests? Have they been successful? Do you have a budget for this type of occurrence? How many times has the department been approached by local councils for this type of funding?

**Mr PAYNE:** Chairman, could I ask whether you are talking about financial assistance grants funding or rate variations?

**CHAIR:** I understand it to be under the financial assistance scheme.

**Mr PAYNE:** Which is the grants scheme.

**CHAIR:** You might be able to clarify that.

**Mr PAYNE:** The disability factors?

**CHAIR:** That is correct.

**Mr PAYNE:** Mr Gibbs is on the Grants Commission, and he may be able to assist there.

**Mr GIBBS:** Are you talking about the Commonwealth financial assistance grants?

**CHAIR:** Yes, in this case.

**Mr PAYNE:** They are called disability factors.

**CHAIR:** That is correct.

**Mr GIBBS:** There is a formula that is prepared. The grants are split into two components: a local roads component and a general component. The general component looks at two aspects of councils: one is their revenue raising capacity, and the other is expenditure needs. It is on the expenditure needs that the disability factors come into play. There are a range of disability factors that the Grants Commission looks at it when calculating what the great amount should be. At the end of the day, the whole amount is completely untied, the general purpose and the roads component, so that the council can then spend it on whatever purpose it likes. The purpose of the grant is to compensate

the council for relative differences between councils. It is not designed to absolutely compensate them for particular issues. There is simply not enough money to do that. We operate within a limited pool of funding from the Commonwealth. The grant is distributed under Commonwealth grant principles set out in Commonwealth grants legislation.

**CHAIR:** Your department does the distribution, does it not?

**Mr GIBBS:** Yes, according to the formula for all councils. That has to be approved at the Federal level. When we come up with the amount for the grant, that goes back to the Federal Minister, who approves the actual amount.

**CHAIR:** From your department's perspective, in terms of supporting local councils—and Ms Hale has indicated that unfunded mandates are becoming an increasing problem for councils, particularly those in high growth areas—do you have a particular formula? How adequate has this funding been?

**Mr GIBBS:** The formula is effort neutral, which means it completely neutralises the council's policy side of things. So, if a council has a particular policy for a waste minimisation strategy, or another council does it, the grant really does not take that into account in any way. The grants, as I said, are designed to assess the relative needs of councils; they do not take into account specific things, such as the so-called unfunded mandates.

**CHAIR:** Your department has not made a submission to this Committee. To assist in providing background to the terms of reference, could you outline the role and structure of the Department of Local Government, the Boundaries Commission and, if you have anything further to add to what you have already mentioned, the Grants Commission?

**Mr PAYNE:** In terms of the internal structure of the department?

**CHAIR:** Yes.

**Mr PAYNE:** Basically, it is a small department of around about 60 people, split into primarily four functional areas: finance, investigations, legal, and policy. They do exactly as their names suggest. The finance people monitor the council's finances through their annual reports. We work with councils if they have a particular problem or general problem. The investigation people look at complaints that come in, problems that emerge in councils, whether council-wide or a particular issue, and they also look at pecuniary interest complaints. Policy development and legal both provide legal advice to the Minister and the department itself, develop policy and drive the actual legislation, such as legislative reform. We generally are very keen to keep amending the Act and the regulations to keep them current—rather than, as happened in 1919, let things get out of hand.

Associated with the department, but quite separate to it, are a number of bodies. The Grants Commission is a separate body with a departmental representative on the commission. Similarly, the Boundaries Commission, of four people, has a departmental representative, but that is separate. There are also two tribunals associated with the department. One is the Pecuniary Interest Tribunal and one is the Remuneration Tribunal, on which I am an assessor. Those two latter tribunals are a product of the 1993 Act. As I said, we are a small department covering local government in the State.

**CHAIR:** Has there been any particular impact, from your department's point of view, arising from the changes to the Environmental Protection Act of 1997, such as problems with private certifiers, or complaints or support from the community or developers?

**Mr PAYNE:** Problems for my department?

**CHAIR:** From the perspective of your department. Impact, I am talking about, positive or negative.

**Mr PAYNE:** Well, there is no impact. We do not get involved in the planning issues.

**CHAIR:** There are no complaints from councils at all back to your department on these matters?

**Mr PAYNE:** I could not guarantee there have been no complaints. There would have been very little. But the complaint would not come to us.

**CHAIR:** How does your department see its role in development regarding local government? For example, when commenting on or assessing programs with cost implications for local councils, do you review your primary role to be as an advocate for local councils?

**Mr PAYNE:** If we are asked to comment on a policy by another agency, yes, we will have examined the financial impact, the social impact and the impact on the council generally and make comment in that regard.

**CHAIR:** The Premier recently indicated that councils with an annual turnover of \$10 million and a population of less than 5,000 are prime candidates for amalgamation or boundary adjustment. Will councils with low turnovers and low resident populations be expected to amalgamate even if they are financially viable?

**Mr PAYNE:** Chairman, I cannot comment on what the Premier said. What we are doing at the moment are the regional reviews, three of which have been announced and are under way, with more to be done. They will look at all councils, irrespective of their size in terms of population or budget.

**CHAIR:** Will the regional reviews occur throughout New South Wales?

**Mr PAYNE:** I expect to see most areas have a regional review.

**CHAIR:** Can you describe to the Committee the process that the reviews will follow—public submissions, public hearings and so on?

**Mr PAYNE:** The Minister, in an endeavour to stimulate some reform in local government, called for some proposals from councils, and all councils responded—some with extensive proposals for boundary changes, alterations and so on and others not so extensive. I am talking not just about boundary changes but about structural change generally in terms of the way in which councils operate et cetera. Rather than looking at individual councils it seems that many people think regionally. Therefore, we should look at councils in a region as defined not by us but by the locals. We go to an area and ask the locals where they believe the region is and then look at councils in that area.

The process involves the appointment of an independent facilitator who, after advertising and so on, will talk to community groups, individuals, councils and a whole range of people. That process has been undertaken in three areas—it has finished in one area and two are ongoing. That will then lead to the development of a proposal that may or may not proceed to the Boundaries Commission or elsewhere. The purpose is to consult interested people in that community and region, not just the councils. We may consult sporting associations, cultural groups, individuals and government agencies—both State and Federal.

**CHAIR:** Are there public hearings?

**Mr PAYNE:** There is a combination of public meetings and individual meetings.

**CHAIR:** Are minutes kept of the public meetings and is there public access to those records?

**Mr PAYNE:** There is public access; they are advertised meetings. I saw today that the facilitator in Clarence has advised that a meeting will be held on a certain date at a certain time in a certain location and that he will remain outside the location for about an hour at the conclusion of the meeting in order to talk to members of the public generally. Each review will be somewhat different because there are no riding instructions to the facilitators other than to consult. Submissions are coming in—and we are encouraging those submissions—from interested parties. Submissions have been received from business groups, for example, who operate outside the area but who have an

interest in that area. All those submissions will be assessed. There is no formal transcript of the public meetings.

**CHAIR:** How does your department assess or deal with the concept of community, which has been raised in Committee hearings and about which people are becoming increasingly concerned? Small communities often feel as though they are being overrun. Perhaps I can point you to an appropriate example. There was a referendum about Casino and Richmond River councils on the North Coast and, while the majority of people voted in favour of a merger, it was a majority from the Casino council area and many people in the smaller coastal community were upset. How does your department represent the rights of a minority community in that situation?

**Mr PAYNE:** That is a fair question. One of the small councils that you mentioned was fearful that in its discussions with its neighbours it was being overrun because of its size. The process of using a facilitator will give small councils an equal voice—they will be heard exactly the same as the larger adjoining councils.

**CHAIR:** What if the matter goes to a plebiscite or referendum, which looks on the surface like a fair option but which tramples on the rights of people in a community?

**Mr PAYNE:** All I can say is that we are attuned to the position of those in more remote communities and smaller communities. We are very anxious to make sure that they are heard. I have spoken personally to a number of smaller rural councils, which have expressed concern. It is not that they do not want to change but that they feel somewhat inadequate and they need their views to be heard. They also want to ensure that their area—not necessarily their local government area but their geographical area—is preserved. That is fine; I have no problem with that.

**CHAIR:** Did that happen in the case of Casino and Richmond River? Do you think that coastal community believes its community integrity was preserved?

**Mr PAYNE:** We are not hearing any adverse comments from that community as a result of that amalgamation—nor out of Armidale Dumaresq, which was another council amalgamation from that time. It has generally gone well.

**The Hon. KAYEE GRIFFIN:** You said that one regional review is in the process of being completed and two others are ongoing. You mentioned that others might occur. Do you anticipate that those reviews will take place in the not too distant future?

**Mr PAYNE:** From the point of view of capacity to manage the process, we will be looking to do between four and six reviews a year.

**The Hon. KAYEE GRIFFIN:** So it is an ongoing process.

**Mr PAYNE:** That is right. Some proposals that have been submitted to us involving two councils that have decided they would like to get together, for example, can be referred separately to the Boundaries Commission as an additional process. However, we reserve the right to look at the area regionally later. We have announced councils around the Australian Capital Territory, the Peel—which is Tamworth et al—and the Clarence Valley and I expect that there will probably be another two or three this financial year.

**The Hon. KAYEE GRIFFIN:** How much time elapses from the time the review is announced to the time it takes place?

**Mr PAYNE:** It varies. We normally appoint a facilitator, advertise it and get on with it. It is probably a period of a couple of weeks. The review is advertised extensively in the local media, including now on local radio. Basically, the program—it is flexible depending on need—involves about 20 working days, or three or four weeks, face-to-face consultation in a region and a couple of weeks to put a proposal together. It involves going not just to a major centre but to all smaller centres in the region. I stress that we do not define the region: we ask the locals to tell us where they think the region is. If they think the region is from the top of the mountains down, that is fine. The classic case

is Walcha—does it relate to Tamworth or to Armidale? I do not know and I do not have to know because the locals will tell me.

**The Hon. RICK COLLESS:** How do you think the roles and responsibilities of local government have changed in order to justify the changes being enforced at the moment?

**Mr PAYNE:** I am not sure what changes are being enforced, but the roles have definitely changed. As was said earlier, I think the community is now more demanding. The level of precision that a council has to exercise in terms of environmental issues, for example, is now much greater. There is no doubt about that. I suppose it comes back to community demands. While some more traditional areas remain, it is starting to change. I think the 1993 Act took councils away from being organisations that were all the same and allowed them to respond to local needs. Councils are now probably similar in name only—their functions vary greatly. As a department, we try to reflect that fact. It is fair to say that we expect a greater level of precision in financial accounting from a large, complex and sophisticated council than from a small rural council. We constantly tell councils that we do not look for glossy publications; that is not what we are on about. However, if a glossy publication suits a council's needs for tourism purposes or whatever, that is fine. We are trying to move with the times as well. Yes, there are increasing demands and I think they will continue.

**The Hon. RICK COLLESS:** Given that those roles and responsibilities are changing—and I gather from your comments that they are changing pretty much in line with community expectations—do you consider the current level of funding available to local government to be adequate, particularly in relation to local revenues, rates and State and Federal grants?

**Mr PAYNE:** I am concerned about councils' reliance on grants, which is a fact of life. Of course they cannot be guaranteed in the future. There is an inquiry looking at that.

**The Hon. RICK COLLESS:** But it is the only option councils have given that we have rate pegging.

**Mr PAYNE:** That is true. We have rate pegging but councils have the capacity to go outside it with special rate variations. For instance, in the past five years about 140 or 150 councils have sought special rate variations. There is that capacity and I do not think it is fair to say that councils must simply accept the annual rate-pegging limit and not do anything else. If they want to go ahead with some programs, they can do so subject to our approval—and we would approve most. Councils across the board generally bring in 50 per cent of their revenue in rates and the other 50 per cent comes from other sources, largely grants. We obviously encourage councils to think of other, innovative ways to generate revenue. They do not need us to tell them to do that. The reliance on grants is a concern. We work with councils on rating structures to ensure that their existing rates base is structured appropriately and that one section of the community is not being disadvantaged unnecessarily as opposed to another. The other large component of the revenue of non-metropolitan councils is water and sewerage, which is not pegged.

**The Hon. RICK COLLESS:** Do you believe the roles and responsibilities and community expectations of local government have been met adequately over the past four or five years?

**Mr PAYNE:** By whom?

**The Hon. RICK COLLESS:** By the community. I am trying to get at why we are moving forward with this reform agenda at present. The fact that the reform agenda is in place suggests to me that the roles, responsibilities and community expectations are not being met, and that is the justification for proceeding with the reform process.

**Mr PAYNE:** Not necessarily. I can answer that question generally, not specifically. We have a general concern arising from councils' annual reports about the number of dollars that would be needed to bring infrastructure up to a satisfactory standard. It is quite a large figure. You may dispute how councils apply that valuation. It really does not matter; the fact is that it is still a large figure. We have about 30 councils on a watch list for a variety of reasons, largely because their auditors have expressed concern. There is an issue regarding the financial management of councils in general—I stress "in general" because some councils are in a better position than others. We do not want to look



only backwards; we need to look forwards also. We seem to agree that communities' demands will increase so councils must start to improve their capacity to meet future needs. It seems to me that one way to do that is by looking at it on a regional basis. That is really where we are coming from.

**The Hon. RICK COLLESS:** With regard to the cost of that depreciation on infrastructure, I know that many councils are in good shape financially in terms of their reserves, debt service ratios, and so on, but when you put in the depreciation on their infrastructure it seems they are absolutely gone to the wall. I know for a fact that that is not the case, in the way councils are being managed. Is the use of that infrastructure depreciation the reason why you are saying that all these councils are unviable?

**Mr PAYNE:** We are not saying they are unviable at all. I am pointing to one area that is of concern to us, and that is the overall number of dollars that needs to be spent to bring infrastructure up to standard.

**The Hon. RICK COLLESS:** There is the difference, is there not, between the number of dollars that need to be spent to bring infrastructure up to standard and the depreciation on infrastructure that is now part of the local government accounting system?

**Mr GIBBS:** You are quite right, there is a difference. The depreciation figure is an accounting mechanism to represent the consumption of the asset. The other figure that Mr Payne was speaking about is based on a separate report that we get from councils which forms part of their financial accounts, in which they are asked to comment on the condition of their public works and infrastructure. That is quite independent of the depreciation figure.

What we are trying to do is to assess the council's future capability to provide infrastructure and maintain that infrastructure. The concern is that the numbers we are seeing relate to the current infrastructure. It is largely roads, but there is an element of drainage, water and sewerage assets, and so on. It only relates to the current infrastructure; it does not talk about what infrastructure might be needed for the future. So we are not just talking about a depreciation figure; we are talking about an actual assessment of what the council thinks it might need to spend.

**The Hon. RICK COLLESS:** Do you come to that decision based on the infrastructure expenditure the councils need, or the depreciation schedules?

**Mr PAYNE:** Not necessarily either. The councils are on that list because the council's auditor has expressed concern on a particular aspect in the report that accompanies the audited financial statements, and we have followed up that issue. It may be liquidity, or the level of reserves. I cannot recall whether any relate to infrastructure. But it is not a direct correlation.

**The Hon. RICK COLLESS:** In what way do you think local government needs to be restructured or reformed in order to better reflect community expectations, and roles and responsibilities?

**Mr PAYNE:** That is why we are doing the reviews now; it is exactly what we are seeking community input into, to see how local government services can best be delivered in a particular region. At the end of the day, it may be, of course, that we have councils doing different things. That is fine too, as long as it reflects reason. As you would know, the problems are different across the State, from the coast out to the west. I do not think one size fits all, and that is part of the problem.

When you are talking about a sphere of government such as local government, the whole system needs to be flexible enough to reflect the differences in the regions. We have gone out of our way not to prescribe what those things should be. We are getting some very good feedback on the types of things that people see as important in the region. Even though we have only three under way, they are varying from region to region, which I expected but it is good to see it confirmed.

**The Hon. RICK COLLESS:** Mr Payne, with regard to the community forums that have been held, do you have a policy of not allowing elected members from any level of government to address the forums?

**Mr PAYNE:** No.

**The Hon. RICK COLLESS:** Have any elected members been prevented from addressing the forums?

**Mr PAYNE:** They are community forums. My only concern is to make sure that the forums are not dominated by one particular group or individual, that they are open.

**The Hon. RICK COLLESS:** Have elected members been allowed to address those forums?

**Mr PAYNE:** I believe elected members have addressed the forums. I have not been there, but I believe they have.

**The Hon. CHARLIE LYNN:** You said that a number of councils have applied for variations to rate pegging. Could you give us an indication as to how many councils applied for rate pegging variations and how many councils got everything they wanted? What is the criteria for approval; how do you evaluate the council's application?

**Mr PAYNE:** I will have to take the second question on notice, in relation to the number of applications approved. Over the last five years, starting in 1999-2000, there were 33 applications, then 46, 26, 28, and 23 for 2003-04. We can provide the Committee with a five-year overview in relation to such applications. Councils are advised of the criteria by circular every year. The circular is on our web site, but we will provide a copy to you. We add to and subtract from the circular from year to year, depending on what the issues are, but they are generally fairly broad. I stress, sometimes councils will apply for a general increase—in other words, an increase that they want permanently built into their rate base—whereas others will come in with specific projects, for five, seven or 10 years. I think the clean-up of Lake Macquarie was a three or five-year project, and that was funded. Then it would drop off and the rates would go back down.

**The Hon. CHARLIE LYNN:** If you got a figure in which the Rural Fire Service levy was increased by, say, 12 per cent and the rate pegging limited the council to 7 per cent, would that be justification for an increase?

**Mr GIBBS:** Yes. We have told councils that where they cannot absorb that type of charge, they can make application. It is not limited to the fire levies; I think we have made it a lot broader than that. The difficulty is that, while we can look at the percentage increase on a fire levy, the general variation is expressed as a percentage of the council's rating revenue and you cannot just include a specific percentage to reflect the whole of any increase in a particular levy because the percentage varies from council to council. So we have had to do it on a case-by-case basis. But only a handful have come back to ask for an increase to meet specific —

**Mr PAYNE:** In past years we have found councils have run themselves into problems when they have forgone a rate increase, for whatever reason. Whether it be local politics or whatever, they have decided not to take it. The trouble is that once a council does not take a rate increase, it compounds. In fact, this year a council that we had supported for a fairly large increase was \$12 million to \$15 million behind because it had not taken increases some years before.

**The Hon. CHARLIE LYNN:** Would you be able to provide the Committee with a list of councils that have not taken full advantage of such rate increases?

**Mr PAYNE:** No. We do not collect that information.

**Mr GIBBS:** In some cases, we are going back quite a few years. But because of the cumulative effect of it, they feel the effect of it in later years.

**Mr PAYNE:** I would be fairly confident in saying that we have now heard from most of those councils; because of community demands, they have had to do something. They have come to us with a chart of where they have been with their rates over the last 10 or 15 years and where they want to go, and you can see the gap. We have been sympathetic to that. We encourage councils quite openly to make sure they do take the full increase.

**CHAIR:** Does your department have a view regarding the appropriate proportion of total revenue in a particular local council that should be contributed to by rates?

**Mr PAYNE:** I think the simple answer to that is no.

**Mr GIBBS:** In our comparative publication we look at the sources of revenue across councils. You would see in that publication that we identify the percentage of income from rates and charges compared with total income, grants and other sources. In terms of a benchmark, there is no figure. There is a divide between city and country councils: city councils seem to have a much higher rating component, whereas rural councils are significantly less. There are reasons for that. But we do not make a call on what the percentage should be.

**The Hon. CHARLIE LYNN:** In its submission the Shires Association spoke about a looming crisis in infrastructure investment for councils. Have you seen the submission, or do you wish to make a comment on it?

**Mr PAYNE:** I have not seen it. I assume it refers to the issue we were talking about a couple of minutes ago.

**The Hon. CHARLIE LYNN:** Would you agree with the assessment that there is a looming crisis in infrastructure investment?

**Mr PAYNE:** I am always very keen to avoid using terms like "crisis" and "looming". There is an issue there. It is not general; in some areas the impact is greater than in others. But you would have to say that there is an issue there now, and I suspect it will not go away.

**The Hon. CHARLIE LYNN:** I suppose one of the things that led to that was the declaration of a lot more national parks. Although this removed councils' rating base, as a result of more people visiting the area councils have to put more money into roads and so on, and they do not have the money to put into unfunded commitments.

**Mr PAYNE:** I have heard the argument. From my department's perspective, we just look at the financial position of the council and try to assist it the best way we can. The issues that come up from councils in terms of their financial needs, or the problems that are promoting their financial needs, will often change over the years; one problem seems to go away and another emerges. Overall, we look at the demands of that community. We do take into account things such as the impact of tourism, as we have on the North Coast. I think the council there has made two bids for tourism, one through grants as a disability and one through rating, which is quite valid. It is a problem. Some of these towns do have large influxes of tourists, which they say puts a demand on the council. There are winners in the community in other senses, in terms of accommodation and so on, but there is no doubt that there is a demand on the council. But you cannot put the gates up and ban the tourists. So we tend to support the councils in that regard.

**Ms SYLVIA HALE:** Mr Payne, would you agree that it is virtually impossible for older inner Sydney councils to even contemplate the upgrading of their sewerage and drainage works because the infrastructure, which often they have inherited, and the cost of upgrading it is beyond the capability of those councils?

**Mr PAYNE:** I cannot say. I do not know. It would be terribly expensive. Are you saying water and sewerage? Of course you are talking about really the Water Board.

**Ms SYLVIA HALE:** And councils, proportionately.

**Mr PAYNE:** In terms of the drainage and some of those infrastructure items, yes, it is a large ticket item.

**Ms SYLVIA HALE:** Huge.

**Mr PAYNE:** Yes. Some councils have actually assessed that and some councils have started to work towards fixing it up. From memory, the Ryde City Council had a problem with flooding out that way, at west Ryde, and they tackled that. They have got new drainage, but it was big dollars. We supported that. That was a special rates variation as well.

**Ms SYLVIA HALE:** Just returning to the issue of structural reform, would you agree that the requirements that councils produce proposals for structural reform and the interpretation that the community has placed on that generally—that there will be amalgamations whether they like it or not—have resulted in acute anxiety within both country areas and within city areas such as Hunters Hill, Strathfield, or whatever? In the light of that consternation, do you think the way in which the process has been handled has been the best that it could have been?

**Mr PAYNE:** I recognise that there is some anxiety out there. We get some letters and emails. I would have to say that we have not been deluged. But there is anxiety. There is always anxiety with change. Was it an appropriate way to handle it? I suspect it was.

**Ms SYLVIA HALE:** Then why did you feel the necessity to intervene subsequently with this regional review? Would it not have been better, if your whole inclination was to consult the community, to do the regional review process first?

**Mr PAYNE:** Some of the proposals proposed taking over their neighbours.

**Ms SYLVIA HALE:** I know. It has caused great concern.

**Mr PAYNE:** It seemed to me to be the fair way to do this—to go in and look at the lot. When you had large councils suggesting that it may take over a small council, my point earlier is that we have to make sure that the small council has an equal voice and you do that through the Regional Review Facilitator. That is exactly what we are doing.

**Ms SYLVIA HALE:** Do you not think, given that the requirement that people come up with proposals has resulted in a lot of predatory claims, or what are perceived to be predatory claims and that this has forced smaller councils to respond, that the process has greatly alarmed communities?

**Mr PAYNE:** Of course.

**Ms SYLVIA HALE:** Do you not think that this is an inherently negative way in which to approach the matter?

**Mr PAYNE:** No, because some councils actually went out and consulted widely.

**Ms SYLVIA HALE:** But some did not.

**Mr PAYNE:** Some might not have, but some did. All I am saying to you is that we are out there now consulting extensively. It is just not about boundaries.

**Ms SYLVIA HALE:** The process has not produced the best of all possible results because of the lack of guidance on what was being looked at. What you seem to be suggesting is that we are getting widely differing responses from varying councils which do not necessarily address any of the problems that we wanted to redress.

**Mr PAYNE:** No. It was not the lack of guidance. It was a conscious decision to allow councils and locals to look at where they wanted to go in the future, not to have us sitting in Sydney prescribing what they want. I personally feel very strongly about this: let them say to us what they see. There might be a bit of aggro and there might be a bit of upset, and I understand that, but this is also not just about boundaries changes. People are obsessed about boundary changes. It is also about structural reform generally, other things—better ways to do things. We have just asked people to think laterally about how they would like local government services delivered in a particular area. Do they want some services, or do they prefer not to have a service? I do not know.

I could write out and say we want to think about structural reform along these lines, but that is the wrong way to go. We have had some very innovative proposals that have come in, and some are not so innovative. But the innovative ones are really well thought through. A lot of them have included extensive public discussion in their local area before we have arrived, and there is a fair bit of harmony. But you also want to be careful that if you put four councils together, you do not alienate another council sitting on the border, because that would not be fair, either. That is all I am saying: We need to look at the whole.

**Ms SYLVIA HALE:** Do you agree that the amalgamations that took place at Drummoyne and Canada Bay—that the latter was one that produced a lot of unhappiness within the community, and that that unhappiness still persists?

**Mr PAYNE:** You have to put it into perspective. I get little to no correspondence on it now. It was debated at the time. From memory, there was a postal survey but there was only about a 30 per cent response. I would not anticipate that that meant extensive community unrest. I think people want services and facilities, and who delivers them probably is a secondary issue.

**Ms SYLVIA HALE:** I have certainly received a lot of correspondence from people telling me not to go down that track because people say that now the council's chambers have been relocated from one end of the municipality to another and that they no longer find them accessible. I think that if we go from there to rural areas, the concerns seem to be that the geographic distances that might be involved, should amalgamations take place, again could considerably disadvantage rural communities.

**Mr PAYNE:** I think that is right, and that should not be allowed to happen. I think that people, wherever they are in that area, are entitled to a reasonable level of service. That is part of the review program—to make sure that those more isolated communities in fact do get access to services, the same services that that city or the bigger-town people get.

**The Hon. IAN WEST:** Just as a point of clarification, the Wellbank Street office is still open at Concord. It has not closed, so I do not know where the honourable member got that from.

**CHAIR:** I will allow the questioning to continue.

**Ms SYLVIA HALE:** If you say that everybody is going to be entitled to the same level of service and if there is a prospect that smaller councils will be merged or will enter into some sort of arrangement, how do you intend to ensure that those services are still going to be available equally across the region or in the area?

**Mr PAYNE:** It will happen. It has happened. Services may change. There will be change and there will be different emphasis on things, but at the end of the day, unless the level of service and facilities improve, then really it has not been worthwhile. So it will improve. How do we do that? We can do it in a number of ways. I think the organisation could do it without our interference anyway, but we can write into proclamations—and I suppose even through legislation—certain requirements. It depends on where you are in the State but when you get to the more remote areas I think we are going to see probably a greater use of community committees, precinct committees or section 3 committees, or whatever they are, in those areas to look after local needs, and I think that is probably a reasonable way to go. I do not know the answer to these things, but one thing we will insist on is the maintenance of appropriate services and facilities to all people in the area.

**Ms SYLVIA HALE:** I think that, particularly in rural areas, the other major concern is the perceived loss of jobs and the adverse impact this will have on the community as a whole. How do you see this being dealt with?

**Mr PAYNE:** There is legislation that in place to protect jobs for a period. But once again you could—and I am only theorising now—by proclamation require a council to maintain a certain level of workforce in certain locations there now, but not necessarily the same people.

**The Hon. RICK COLLESS:** Who could—the department?

**Mr PAYNE:** By proclamation, yes. I do not think it is going to be a major worry because the councils will all have to provide staff to some of these outlying areas to do the works and services. I think it will just happen. That is the type of thing I would expect that we would negotiate as part of the review process.

**The Hon. CHARLIE LYNN:** The Victorian experience with some of the towns down there was that a lot of the services that were provided by the local council depot were outsourced. The ones who won the contracts were the bigger contractors from the bigger town who travelled 100 kilometres and got it. The blokes in the council depot were virtually out of a job. We spoke earlier about the importance of that in regard to the esprit de corps of a town, if you like. I suppose that is an issue.

**Mr PAYNE:** The Victorian experience is a totally different one from what we are doing. A large slab of that was contracting out with, I think, a certain percentage brought in to what the council had to outsource, but that is not been prescribed here at all.

**CHAIR:** Mr Payne, you said that the regional review is a mechanism that is being used to determine what needs to be reformed in local government. I take it that the outcomes of the regional review can be more than just recommendations for amalgamations or boundary changes. Is that correct?

**Mr PAYNE:** Oh yes. It is about structural change generally. There are a number of ideas coming out about how councils should operate—forgetting boundaries—in terms of their governance, their administration and the relationship between the elected body and the staff and so forth. We are looking at all that. It is about structural change and boundaries are just one part of that.

**CHAIR:** So you did say that the findings of the regional review may or may not go to the Boundaries Commission. Obviously there are issues that you have just mentioned, but how will the findings of the regional review that are not related to boundary changes be advanced?

**Mr PAYNE:** Without knowing what is going to come out of them—as I said we have not seen the first one yet, but it is getting close—it will only go to the Boundaries Commission if it involves boundary changes, obviously, because that is what the Boundaries Commission does. In some other instances, if there are other recommendations for change that can be catered for within the Local Government Act or regulations, then that can be endorsed. In some cases you may be looking at legislative change. There is a whole range of things.

**CHAIR:** So it would go from your department to the Minister? Is that what you are saying? Your department will make recommendations to the Minister?

**Mr PAYNE:** No. The facilitator will provide the report to the Minister. It is up to the Minister then to either refer it, if it involves boundary changes, to the Boundaries Commission, or not. I would expect the other part of it—the non-boundary stuff—would go to the department for comment.

**CHAIR:** There has been some criticism in submissions that we have received from councils that New South Wales has not passed on national competition policy funding to local councils and that we are the only State that did not pass on this funding to local government. Is this correct? If so, can you explain the basis for the decision not to pass on the funding?

**Mr PAYNE:** Mr Chairman, I do not know whether that is correct. I cannot answer it. It is not within my department's responsibilities.

**The Hon. RICK COLLESS:** Mr Payne, is it the department's agenda that ultimately we will end up with fewer councillors in New South Wales? If so, is it fair to expect those who are left or who are re-elected next March to do what is basically an unpaid job, except for the very small allowance they get to cover the expenses, while having a lot more people to represent at that level?

**Mr PAYNE:** The department has no agenda whether there should be fewer councils or councillors, but of course if you are talking about some of the proposals we have on board now from the councils themselves about voluntary amalgamations, there would be fewer councils. There is an

independent remuneration tribunal that has the capacity to determine categories and fees associated with those categories. I am an assessor on the tribunal. I think that is something that would be worthy of looking at, definitely, in terms of the additional responsibilities and the additional workload, even within the context of its still being a community service by the council. When you think that prior to 1993 councils were paid about \$60 a meeting, up to \$3,000—

**The Hon. RICK COLLESS:** That is right.

**Mr PAYNE:** —some said they had meetings, when there were really no meetings. There was a substantial increase in the 1993 Act. I take the point that if there is a change in the structure of the organisation the councillors are serving on that must be looked at in terms of categorisation.

**CHAIR:** You said the failure to pass on funding was not your responsibility. I take it that Treasury is responsible.

**Mr PAYNE:** Yes.

**CHAIR:** Treasury deals with those funds and it has nothing to do with the department in terms of recommendations or anything else.

**Mr PAYNE:** The payment from the Federal Government to the State Government has nothing to do with the Department of Local Government.

**CHAIR:** Is it not intended that the local councils receive that funding?

**Mr PAYNE:** I cannot comment. The funding does not come near us; we are not involved in the distribution or the policy.

**CHAIR:** I understand that all other States receive a share of that funding and that it is passed on to local government.

**Mr PAYNE:** I cannot comment.

**CHAIR:** Perhaps you can take that question on notice and respond.

**The Hon. KAYEE GRIFFIN:** The department has about 30 councils on the watch list because of financial concerns. Councillors and auditors often express concerns and that results in a council being listed. Given the reform process, is the department concerned about funded liabilities for staff?

**Mr PAYNE:** The department has initiated the listing of some councils because concerns have arisen from our investigations or examination of the annual statements. I do not know the percentages. The department looks at the funding of employee liabilities.

**CHAIR:** Mr Payne, you advised that the regional review reports will go to the Minister. Will they be made public given that they are largely the product of community consultation?

**Mr PAYNE:** Until they reach the Minister nothing has happened. I expect them to be made public when they go to the Boundaries Commission.

**CHAIR:** What about the reports that do not go to the Boundaries Commission?

**Mr PAYNE:** I do not know what is in them. My general position is that it has been an open process and we will keep it that way.

**CHAIR:** Given that they are the product of community consultation, would you agree that they should be made public?

**Mr PAYNE:** Precisely. I do not think those reports will contain any shocks in the sense that people might not agree with the issues, but they will have come from the ground.

**CHAIR:** If honourable members want to ask further questions, they will be provided on notice in writing. You may be recalled for further questioning as the inquiry proceeds. I thank you for your attendance today.

**(The witnesses withdrew)**



**ANGUS DONALD GORDON**, General Manager, Pittwater Council, P.O. Box 882, Mona Vale, affirmed and examined:

**CHAIR:** In what capacity are you appearing before the committee—as a private individual or as a representative of an organisation or a business?

**Mr GORDON:** I am appearing as a representative of Pittwater Council.

**CHAIR:** If at any stage during the hearing you believe that certain evidence or documents should be heard or seen in private, the committee will consider your request. However, the committee or the Legislative Council itself may subsequently publish the evidence if it is deemed to be in the public interest. In my experience that has not occurred. Do you wish to make a brief opening statement?

**Mr GORDON:** The ideal size for councils is a very vexed question in the metropolitan area and in country areas. I will obviously concentrate on the metropolitan area rather than the country. Areas within Sydney can at times be very well defined by topography. The nature of the Sydney basin is such that areas such as Hunters Hill, Mosman and Pittwater are isolated by their topography. People in those areas feel a strong sense of identity. In other areas, identity is less well defined because the divide is simply a road. There is a big difference in how communities see themselves or where people find themselves within communities.

The age of an area is also an important factor. People in areas with a stable population—the residents have lived in the area for generations—have a different view from that of new residents. We must understand the difference between the brownfield sites and the greenfield sites. Our area is 90 per cent brownfield and 10 per cent greenfield—we have a land release area within Pittwater. It is interesting to see the dramatic contrast in those communities, how they react to council and what they look to receive from council. I suspect that a better understanding of how councils in our situation find communities and how communities find councils would provide insights. We must have a much better understanding of that community-council relationship rather than simply look at dictums about amalgamations or whatever.

We need to understand that councils do two fundamental things: provide services to the community and manage the assets. I do not know that there has been sufficient focus on understanding those fundamentals. Our problem is that the way in which we attract revenue is only partially related to the way in which we deliver services. That is a problem because the community's expectations do not line up; there is no clear nexus between the service and the charge. There is an even bigger problem in the asset area because there is no nexus between the rates and asset management. In fact, there is no clear delineation in the community's mind about how the assets are delivered and who is responsible for them. There is a fundamental problem in the community's understanding and even in council's understanding of the service and asset management roles.

We have not had the necessary changes to reflect the shifts occurring in the outside world—in the private sector—in how services and assets are managed. That is understandable given the convoluted way in which some of the assets are owned by council, some are owned by the State Government and some are owned by other parties. We must step back to get to the heart of the issues and to arrive at a much better understanding. Service delivery by councils needs to look at models of good service delivery used by larger outside corporations. That means using the Internet and electronic services very well. I do not see that very much. Local government is trying, but it probably does not understand what it needs to do or how it can utilise those resources more effectively. Many web sites are advertising sites rather than proactive, interactive sites. They are not customer service centres.

As we move into the future it will be important that we deliver services over the web. It can be argued that not everyone is on the web and will not be for a long time. I agree with that. However, to deliver services well, council officers must have access to the web. It is much easier to come up with far more flexible arrangements by having shopfronts that do not involve much manning. A council officer will be able to deal with clients in a much more customer-oriented environment, but at the same time use the web as if he were a customer. Good use of electronic systems and the web

means that we build quality-assured systems. One of the biggest problems with councils is that if a client asks the same question of two different people in two different areas he gets two different answers. It is vital that we move to the Internet and intranet so that there is only one reference document. If any reference is made, it is to that one document.

By putting much of our material on the web and on an intranet system we can offer a 24-hour-a-day, seven-day-a-week service through our normal telephone number. When our call centre closes down at 6.00 p.m. we throw a switch and a commercial call centre at Nowra takes over. That centre uses our site and interactive systems to respond to customer requests for information. The call centre operators can provide information over the phone and automatically record details about, for example, potholes, and that can then be emailed to be picked up the next day, and standby crews can be contacted in the case of an emergency. We do a reasonably good replication of a 24/7 service. That is what people expect; it is the way the community is heading. Communities are being trained by service industries. If councils want professional status and to have standing in these areas, they must respond to community expectations. The same is true of asset management.

**CHAIR:** The Committee notes that Pittwater is the recipient of the 2003 A. R. Bluett award for being the most progressive council in New South Wales. We congratulate you on that. What are some of the fundamental factors essential for a successful council?

**Mr GORDON:** Probably the most fundamental is good connectivity with the community, but also credibility with the community. Credibility does not necessarily mean that the community likes you, because they will not necessarily like you all the time. Credibility means that they trust you. Credibility is very hard to gain and extremely easy to lose. It requires a great deal of customer focus. One of the key issues is the connection with the community. It is also obviously the ability to realistically deliver the expectations of the community. It means that if you cannot deliver them you should tell the community that you cannot, or tell the community how you and the community need to work together to deliver those services.

**CHAIR:** How has that compact translated to the community regarding the EP and A Act 1997 and problems with private certifiers, complaints or support from the community or developers? Has that had an impact on your council?

**Mr GORDON:** Yes, it has. Unfortunately, I think it is a demonstration of the lack of partnering between the State and local government. I think that is a particularly good example of that because prior to its introduction we raised a number of issues with what was then DUAP I believe. We invited them out for a time and took them around and showed them some of the issues that we believed were problems with private certification. One of the fundamental issues with private certification is that the council is actually a competitor and therefore cannot be the regulator. Therefore there is a regulator outside, except that the community thinks that we are the regulator. As such, they hold us accountable for the private certifiers. The Act has been structured to stop us from interfering with the private certifiers. I can understand why that is the case: if we are going to be in a commercially competitive situation we should not be able to frustrate them. The Act was also brought in to stop frustration by councils concerned at the concept that the empire may be taken away through this. So I can understand the reasons. Unfortunately, if you are going to bring in something like that there needs to be much better education of the community so that the community understands the role of council and the role of the private certifiers. There needs to be a mechanism by which the community can easily follow through with complaints. At present complaints about what is happening on the ground fall into a vacuum. That means that the councils are blamed, no question.

**CHAIR:** Have you been able to calculate additional costs involved in the operation of the council due to the operation of new legislation such as this since, say, 1995? I am referring also to costs in terms of loss of staff. Have you experienced that with the privatisation of certification?

**Mr GORDON:** Since the privatisation of certification I think all but about two of our development staff have turned over. In a period of 12 months just after it came in we lost nine of our development officers but we retained our planners.

**CHAIR:** Your submission nominates rate pegging as one of the major constraints on the ability of local government to raise revenue in New South Wales. Could you expand on those comments?

**Mr GORDON:** In our experience the rate pegging does not keep pace with the real rates of inflation that we experience. We do 90 per cent of our capital projects out in the private sector. We contract out 90 per cent. Of our total expenditure, around 60 per cent is spent in the private sector. We have difficulty entering into some long-term contracts because, under the rate pegging as it stands at the moment, we do not know whether we would be in a position to sustain those contracts because we know that rate pegging will not keep pace with inflation. This means that the assets of the community are suffering. I would be surprised if anybody would argue that there has not been a running down off the assets because of rate pegging.

Because councils are not a constitutional level of government—they exist under the State—they really therefore are extensions of the State. Hence, the liabilities that are being built up as a result of assets not being able to be managed are in fact liabilities of the State as much as they are of the council. That connection does not seem to come through. I do not have a problem with rate pegging as a concept—in other words, controls on what occurs—what I have a problem with is the way in which the rate pegging is established and operates.

**The Hon. KAYEE GRIFFIN:** Pittwater has had an interesting history. It is a fairly young council, having been a ward of Warringah Council. In terms of the proposals for structural reform and possible changes in boundaries, does Pittwater have a view as to whether regions or geographic things relate to a possible change in boundaries? Earlier an example was given about a line being drawn down the middle of a major shopping centre.

**Mr GORDON:** From my own perspective—I think this probably reflects the views of many people in Pittwater—boundaries are probably best established through looking at some form of cultural feature. It may be a social feature. Whether that is a catchment or whatever, it really is the way in which the community relates to the boundaries that is important if we are talking about communities of interest. Where it goes through the middle of a shopping centre or even down the centre of a road, people do not see themselves as part of different communities if their neighbours on one side are not also part.

Catchments become important. Pittwater is almost surrounded by water. Narrabeen Lakes is on our south, Cowan Creek is to our west, the Hawkesbury is to the north and the ocean is to the east. There is only a relatively narrow land bridge, and it runs through the national park. So we have a fairly well defined boundary.

Could you shift the boundary? You possibly could because Narrabeen Lakes is there so you could take in the catchment of Narrabeen Lakes—just using that sort of logic. That is not arguing for that. I am just saying that that could be the logic that one could take in boundary changes.

One of the things we have learned—I think it is a very important thing for consideration—and we are the first council to secede for 100 years, I think, is that the first few years of the council's existence were very difficult. That was because prior to the secession there had not been a good understanding of the rights, assets and liabilities. I would say that in any movements towards change it is absolutely vital that there is a far better understanding than there was at the time that we seceded as to just exactly what are the obligations that exist within the different areas or within any areas. I have looked quite a bit at what has occurred in some of the amalgamations in Victoria. One of the biggest problems has been the issue of having a very good understanding of not just the basic finances but also the triple bottom-line situation with regard to assets, services, rights and liabilities.

**Ms SYLVIA HALE:** The reporting to Warringah Council canvassed the notion of a super council comprising Pittwater, Warringah and Manly. I understand Manly and Pittwater have recoiled in horror from the suggestion. What do you see as the benefits and the negatives of such a proposal?

**Mr GORDON:** In this world today the only advantages I can see in the sort of amalgamation—the sort of size we are talking about—coming together are the old arguments of economies of scale. But I would argue that economies of scale are meaningless if you look at regional

organisations of councils. When Pittwater, Manly, Warringah and Mosman have any larger projects—I am talking about road resurfacing, banking tenders—we combine for that purpose.

The disadvantage of being large is that you cannot take advantage of the other end of the market, or it is difficult to. When we are doing our kerb and guttering or our footpaths we can be far more flexible as a smaller council in dealing with those things. There is a very good argument for there to be a very strong relationship in terms of the councils to the regions in terms of purchasing and the use of things such as the State government contracts, for example, as purchasing. In other words, wise use of the tools that are available is essential. That needs to be better understood and better managed. I do not see the economies of scale there.

The economies of scale argument used to also apply to just general staffing, the running of accounts, purchasing and such things. But if you have used electronic technology well those economies of scale go away. The process actually reverses because a council of our size can run on best-of-breed software, server systems. It is not very vulnerable. It is a very robust system. If something breaks down you can pull it out. It does not cost you much to throw away. Every three or four years when the software changes you put new software in.

Larger councils have to run mainframes because of the physical size. You end up with a 10 or 20-year commitment. You become locked in. If you look back into councils even in the recent past that have had to go that way because of their size you see that some have been fortunate and others have not. They have had major costs as a result of the clumsiness of the systems.

In this modern age the economies of scale argument, with the flexibility of contracting and electronic delivery, works against you by making you large and clumsy. To a degree, being smaller and more flexible is of greater assistance.

**Ms SYLVIA HALE:** Could you quantify what is large and what is small?

**Mr GORDON:** It is an interesting question and it is one that I have looked at a lot. It seems to me that once you get much above 100,000 people you start to lose some connection with your community. The councils end up with additional layers in their structure. Certainly, once they get up to above 150,000 they tend not to run on servers; they tend to run on large machines. Because of the contract management issues and the Independent Commission Against Corruption type issues—I strongly believe that you have to manage those well—it becomes more and more difficult to manager as you get larger. So you then have to pull your contract management back and it becomes less flexible. So you have to become more bureaucratic. You have to put more controls in place.

A lot of people do not realise it but today we are project managers and risk managers. Risk management at a larger scale causes you to be conservative. At a small scale it probably would cause you to be a little bit exciting. But there is a scale on which you can risk manage fairly well and I happen to believe that within the city areas that is somewhere between 50,000 and 100,000. That can vary a bit.

**Ms SYLVIA HALE:** That is interesting because the thrust of most of the submissions and the perception of where the Government is going is that it wants to take smaller councils and make them bigger, but no attention seems to have been paid to making the huge councils smaller. Has there been any discussion or has there ever been any comparison of the efficiencies of very large councils with populations of, say, a quarter of a million people compared with a council as you mentioned of about 100,000?

**Mr GORDON:** A couple of studies have been done. I am sorry, I do not have them. The study was done by a gentleman at the Southern Cross University or Armidale, I cannot remember. The previous head of Treasury, Percy Allan, did some work when he was looking at Balmain. He has some comments in there. They are the formal ones I am aware of. Talking amongst the general managers and the discussions we have had on these matters, I think the problem in easily pulling out that information is the very issue I was raising earlier. You quite often find that larger councils have large greenfields areas, and the way you need to behave as a council with a greenfields area or with a relatively young population is quite different to how you have to behave if you don't. So, it is very

hard to easily benchmark. You really need to go into a level of sophistication to try to benchmark councils against one another.

For example, if you have a greenfields area, you find you really do need less people per head to run that. I can say that because in our area about a third of all our residential development applications come from the greenfields. I think we estimated 30 per cent and it takes about 10 per cent of our time and energy to deal with the greenfields developments, whereas about 90 per cent goes into the brown fields.

**Ms SYLVIA HALE:** Earlier today we had a submission and one of the points made was that there is no statutory enshrining of "ROCs". The implication here is that your "roc" is working very well. As there been any discussion across the councils and shires as to what would be desirable features of a "roc", and is there any move to get some uniformity of expectation and delivery from those?

**Mr GORDON:** I am not aware of any general conversation that has taken place. I am aware that the models used by the "ROCs", particularly in the metropolitan area, are quite different. That in part reflects again the very issue we are talking about—the "ROCs" that are within the developing areas, particularly WESROC and MACROC, perform and behave quite differently from what SHOROC does or NSROC. They are structured more about how the communities operate than how the councils operate. I do not think one is good or bad. I think they reflect the differing needs of the areas.

**The Hon. RICK COLLESS:** I got the impression while you were describing the use of the Internet, and so on, that you were using that as an argument for the amalgamation of larger councils, but is it not true that when you put those sorts of procedures in place it is easy to have a centralised management system with decentralised shopfronts operated over the Internet?

**Mr GORDON:** That is quite correct. It means you are unable to deliver a more personalised service to people with less resources and less cost.

**The Hon. RICK COLLESS:** Where is the balance then between the sorts of things you were just describing a moment ago? How do we fit in with those sorts of needs?

**Mr GORDON:** The issue that you raise is a particularly good one, because it is one I have given a lot of thought to. Some of the services that can be delivered can be delivered in a more central matter. For example, property databases and even accounting systems can be running much more centrally. But why are we there? Are we there to run those things or are we there to run services for customers?

**The Hon. RICK COLLESS:** Is it true that those things can be run on a more centralised basis instead of three or four councils?

**Mr GORDON:** Yes.

**The Hon. RICK COLLESS:** When do they cease to become three or four councils and become one council?

**Mr GORDON:** That is the point. It is understanding the difference between the process and the outcome. To me, what we are speaking about here is simply the process, the mechanism, the machinery you use. The critical issue is the knowledge of the staff and the councillors of the area and their contact with the community.

The key issue in our area is not the size of our accounting systems—in fact, we could contract out our accounting system if we wanted to. The key issue is that people are readily unable to contact senior council officers, and senior council officers know what is going on in the area and are able to deal with things. We are moving into a world where you cannot just pick up the phone and say press one or press two or press three. People pick up the phone and they want to talk to somebody and they want a person to know what is happening in their area.

We are talking about a misunderstanding of what the change needs to be. The change needs to be to recognise the technology that is available to recognise how that can now be pushed to one side and far more focus can be placed on that service delivery to the community at the level the community is looking for. We are talking about a change in focus and not being driven by the machinery of bureaucracy but being much more customer focused. That is why when I listen to the current debate I am somewhat bemused because it seems to me it is a debate of a previous era.

**The Hon. CHARLIE LYNN:** You spoke before about a nexus between rates and asset management and also the limitation of rate pegging. We heard from an earlier submission that there is an avenue for councils to apply for variations to rate pegging to suit their needs. Has your council ever put in a submission for a variation to rate pegging, has been successful? It also seems to me that when you are talking about a longer term commitment to a contract, would that fall within the bounds all the criteria of an application for a variation of rate pegging?

**Mr GORDON:** With regards to your last point, it may or may not. With regard to the first point, I will expand on that. Yes, we applied on three occasions and have been successful twice. The first occasion was shortly after I arrived at council. Pittwater Council after its formation decided to have a \$1 million rate giveaway. This had been a decision taken by councillors. I heard part of Mr Payne's evidence and he clearly described the problem. It was that they could not afford to give away \$1 million. When the \$1 million was given away—that is, the rates were reduced by \$1 million across the board—that had escalated quite dramatically. By the time I arrived at the council in 1996—I was the third general manager in four years, so that gives you some idea of the turmoil—the council had run up a debt of about \$9 million. They had a negative cash flow and an operational deficit. So, it was in fairly dire straits. There were a number of issues, one of which was the rates giveaway and the way it had escalated over the years. So, one of the first things we did was to apply for a special rate increase to address what occurred, and we were granted that and we overcame that problem.

The second special rate we applied for was an environmental levy. We looked at an environmental levy of 5 per cent for defined projects. That was turned down. We did not receive any great reasons as to why but that was turned down. We had already been to the community and defined projects and we actually put in place a potential process by which the community would be involved in defining and monitoring the projects to make sure the levy was well spent in that way. Subsequent to that, as a result of some of the development taking place, it became apparent that it would be very wise of us to purchase what was called Warriewood Escarpment, some environmentally sensitive land that was in private ownership and clearly would go much better in public ownership as a long-term national park. We applied for a special rate increase for a five-year period in order to be able to fund that purchase, and that was acceded to.

We have been able to negotiate a number of things that mean we have not yet used that money fully and we may well not use that money fully, which means we may terminate that levy early.

My general comment, however, and my comment on the assets is that I personally have a problem with the rate structure the way it is at the present time and even with this process. The problem I have with it is that—and this is why I said the services and the asset management—it seems to me that it would not be unreasonable to establish standards for asset management. That can be both the built and the natural assets. In doing so, I cannot see why that should not be in the form of a levy rather than as part of the rates, the same way as the waste levy is. It is quite clear what you must use that levy for. It is quite clear how you should use that levy. I do not have a problem, for example, if you have a roads levy and that levy is clearly defined as to what it is for, how it is to be used and monitored independently and separately. I have no problems with that. The same with an environmental levy. Then the community and others can determine those things. They can be removed from the rating and the rates themselves can be reduced as such and the rates tied more back to be services and the operation of the councils. I believe that would be a far better way of managing the assets over time and ensuring that the assets were managed well over time.

**The Hon. CHARLIE LYNN:** I was very interested in hearing your comment on the reception people would get when they call council and the system of press one, press two and press three. What sort of a revolution do you think it will take to realise that people do not like to hear a recorded voice on the end of the telephone?

**CHAIR:** I am not sure how that relates to amalgamation, but would you like to answer that briefly?

**Mr GORDON:** I am not sure how to.

**Ms SYLVIA HALE:** Has the reduction in staff of the Department of Local Government had any adverse impact upon the council's operations or its ability to obtain advice from the department?

**Mr GORDON:** I believe it has. We have not suffered greatly ourselves but we are in the fortunate position of being able to get into a fairly good operating position. There have been times in the past where it has been helpful to be able to get advice at that level. In the past that has been available. At present it is not so available. As a personal opinion, I think the department is somewhat hamstrung in being able to carry out a role that I think is interesting if you look at the New Zealand model. It is simpler in the sense that you have gone from local straight to national. At national level they have their audit office, and their audit office is more than just a financial audit. It looks at the systems improvement. The thing I find interesting is that what we do not have built within our system is a real systems improvement process in which we are driving improvement in local government and reforming local government through a positive and supportive process, generated through leadership by the State. I think the smaller councils, and particularly the country councils, find themselves in a difficult position because of that.

**Ms SYLVIA HALE:** Are you aware of the system where councils are encouraged—I think they are voted three, two and one—and they have to improve?

**Mr GORDON:** Yes.

**Ms SYLVIA HALE:** I believe it is causing some angst in Britain?

**Mr GORDON:** I think it is causing some angst. When you start to rank people in that way, one of the things you have to be careful of is how universal are the ways in which you measure. The difficulty is the very differences we are talking about between councils. For example, according to the statistics produced, the comparative data, we are the second-highest rating council in New South Wales but, of course, we are not. If you take a house in our area and compare it to equivalent houses in Warringah, Manly and Mosman, you find the rates are lower in our area than they are in Warringah or Mosman and Manly is just slightly lower than ours. If you look at the comparative data the way it is presented it does not show that. There are very good reasons for that and it has to do with the way the rates are averaged across the system. What is the commercial rate versus the domestic rate, the amount of density in the area, and a whole pile of issues come into it.

So, if you only use comparative information and do not interpret it for the area, that is very misleading. I think the problem in Britain—from what I have read and seen—is that it has the same issue to deal with in a different way. So, in trying to rank councils, it is really difficult to properly compare one council with another using some simple formula. You really need a method of comparison that is more complex. The classic issue is: What do you get in the way of grants? For example a country council's rates may be \$200,000 a year from a population of 4,000 people, and it may be receiving \$7 million or \$8 million in Federal assistance grants. My council has a population of 60,000 and receives \$1 million in Federal assistance grants. That is the problem that Britain has in comparing rates. Everything has to be normalised. You need a good formula to normalise things, so that you know you are comparing apples with apples. I see, unfortunately, no level of sophistication in the way a lot of these things are looked at. That can easily lead to erroneous decisions.

**The Hon. RICK COLLESS:** Mr Gordon, I have enjoyed this afternoon's discussion immensely. It has been very thought provoking. Is it possible to have the non community service functions of council—such as its corporate service functions—amalgamated while maintaining the council's service deliver functions in the current format? What I am getting at is: Is there room for a complete revision of the structure of local government so that we can amalgamate the non service delivery areas but still maintain service delivery at the local level?

**Mr GORDON:** I believe you can. But I believe also that if you do that you may end up with a moribund system. The reason I say that is, curiously enough, the way we improve is by competing against one other. It is the healthy competition in how well we might do our accounts, or how well we might do our HR, that in fact improves us. I had twenty years in Public Works, and it is my experience is that when you amalgamate a number of functions into one area, that leads to things being done more efficiently but not necessarily more effectively. Over a period of time it becomes moribund because it stays at that level; it does not easily change, because you are servicing a wide range of clients, some of whom want change and some of whom do not. So you are driven by the lowest common denominator.

At the present time—and this comes back to the earlier question about the Department of Local Government and its need, as I suggested, for audit or reform staff—you need to engender a sense of competition. My finance area is obsessed with beating Blayney in getting our accounts in every year. That is fantastic.

**Ms SYLVIA HALE:** Won't they be happy when Blayney disappears!

**Mr GORDON:** No, they will not, because they will have lost their major competitor! The reason I think that competition is fantastic is because, in order to achieve, they have to get the accounts done very rapidly each month. When accounts are done very rapidly each month, all of my mangers and I get very rapid feedback on data, as a profit and loss account each month. That means we are able to adjust systems, control our work, and manage the whole process far better. The result of that competition—which may be somewhat amusing, but is good and healthy because that is human nature—is incredible in terms of providing that feedback for us.

**The Hon. RICK COLLESS:** We would not necessarily remove that competition. Instead of you competing with people in Warringah, you would be competing with some larger council elsewhere in the city or in a regional area.

**Mr GORDON:** I think when organisations get larger they lose a sense of competition. That is my view. Bureaucracies have a tyranny of distance internally. That is my experience.

**DEPUTY-CHAIR (The Hon. IAN WEST):** Mr Gordon, thank you very much for giving the Committee the benefit of your expertise. It is very much appreciated.

**Mr GORDON:** I greatly appreciate the opportunity to address the Committee.

**(The witness withdrew)**

**(The hearing concluded at 4.05 p.m.)**

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