



REVITALISING LOCAL GOVERNMENT

Final Report of the NSW Independent
Local Government Review Panel

October 2013

There are three volumes of supplementary information that provide essential background to this report:

Volume 1 - Consultation Report

Volume 2 - Research Report

Volume 3 - 'Strengthening Far West Communities'

All three volumes are available to read or download at
www.localgovernmentreview.nsw.gov.au

Acronyms

ACELG	Australian Centre for Excellence in Local Government	JO	Joint Organisation
ACT	Australian Capital Territory	LGA	Local Government Area
AGM	Annual General Meeting	LGMA	Local Government Managers Australia
BTS	Bring to Satisfactory	LGNSW	Local Government NSW
CGC	Commonwealth Grants Commission	LIRS	Local Infrastructure Renewal Scheme
CIV	Capital Improved Value	MAG	Ministerial Advisory Group
COAG	Commonwealth of Australian Governments	NIEIR	National Institute of Economic & Industry Research
DLG	NSW Division of Local Government	OCHRE	Opportunity, Choice, Healing, Responsibility, Empowerment
DPC	NSW Department of Premier & Cabinet	PMO	Project Management Office
DP&I	NSW Dept. of Planning & Infrastructure	RMS	NSW Roads & Maritime Services
FAGs	Financial Assistance Grants	ROC	Regional Organisation of Councils
FSR	Financial Sustainability Rating	RRTGs	Regional Roads & Transport Groups
IPR	Integrated Planning & Reporting	SRV	Special Rate Variation
IPART	Independent Pricing & Regulatory Tribunal	TCorp	NSW Treasury Corporation

Letter to Minister

25 October 2013

Hon Don Page MP
Minister for Local Government
Parliament House
Sydney NSW 2000

Dear Minister

I am pleased to provide you with the final report of the Independent Local Government Review Panel: *Revitalising Local Government*.

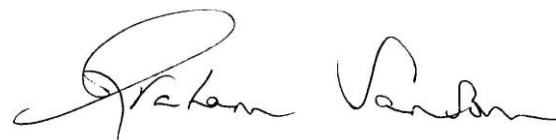
The Panel has made 65 recommendations and its findings are unanimous. We are of one mind in concluding that wide-ranging and concerted action is essential to make NSW local government sustainable and fit-for-purpose into the mid-21st Century. Our terms of reference required nothing less.

May I take this opportunity to thank you for the support and encouragement you have given the Panel throughout its task, and for your steadfast commitment to the Panel's independence. As you indicated at the very beginning, this has been a genuinely open review with no limits placed on the issues the Panel could explore.

I also wish to acknowledge the generous assistance provided to the Panel by several of your ministerial colleagues, their departments, and other State government agencies. Above all, the Division of Local Government under the leadership of Ross Woodward has made an indispensable contribution.

We trust that the report will provide a sound basis for further reforms to strengthen such an important part of the State's system of government.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Graham Sansom', written in a cursive style.

Graham Sansom – Panel Chair

Also on behalf of:

Jude Munro AO – Panel Member

Glenn Inglis – Panel Member

Panel Members

The Panel was chaired by:

Professor Graham Sansom, previously Director of the Australian Centre of Excellence for Local Government at the University of Technology, Sydney.

The other members were:

Ms Jude Munro AO, a former chief executive of metropolitan councils across three states, including the City of Brisbane

Mr Glenn Inglis, who has extensive experience as a senior local government manager across regional NSW, including as General Manager of the amalgamated Tamworth Regional Council.

Acknowledgements

The Panel gratefully acknowledges everyone who helped with the review. Details of the many organisations involved are provided at the end of this report.

First and foremost, the Panel thanks its Project Manager Vaughan Macdonald, and his team of Sue Anderson, Wayne Trudgen and Leonie Myers for their hard work, expertise, advice and friendship. They were fine colleagues. Their efforts were complemented by those of the Panel's consultants, several of whom provided ongoing advice and support.

The Panel also owes much to all those staff of the Division of Local Government, led by Chief Executive Ross Woodward, who assisted with research or logistics, and contributed to discussions. Special thanks go to Kathy Alorati and the Sydney office staff for helping with so many meetings.

Councils and local government organisations throughout the State participated in forums and roundtables; prepared detailed submissions; and assisted with the Panel's numerous regional visits. Many councillors and staff travelled long distances to take part. The Panel particularly acknowledges the cooperation of Local Government NSW, as well as that of the United Services Union and Local Government Managers Australia.

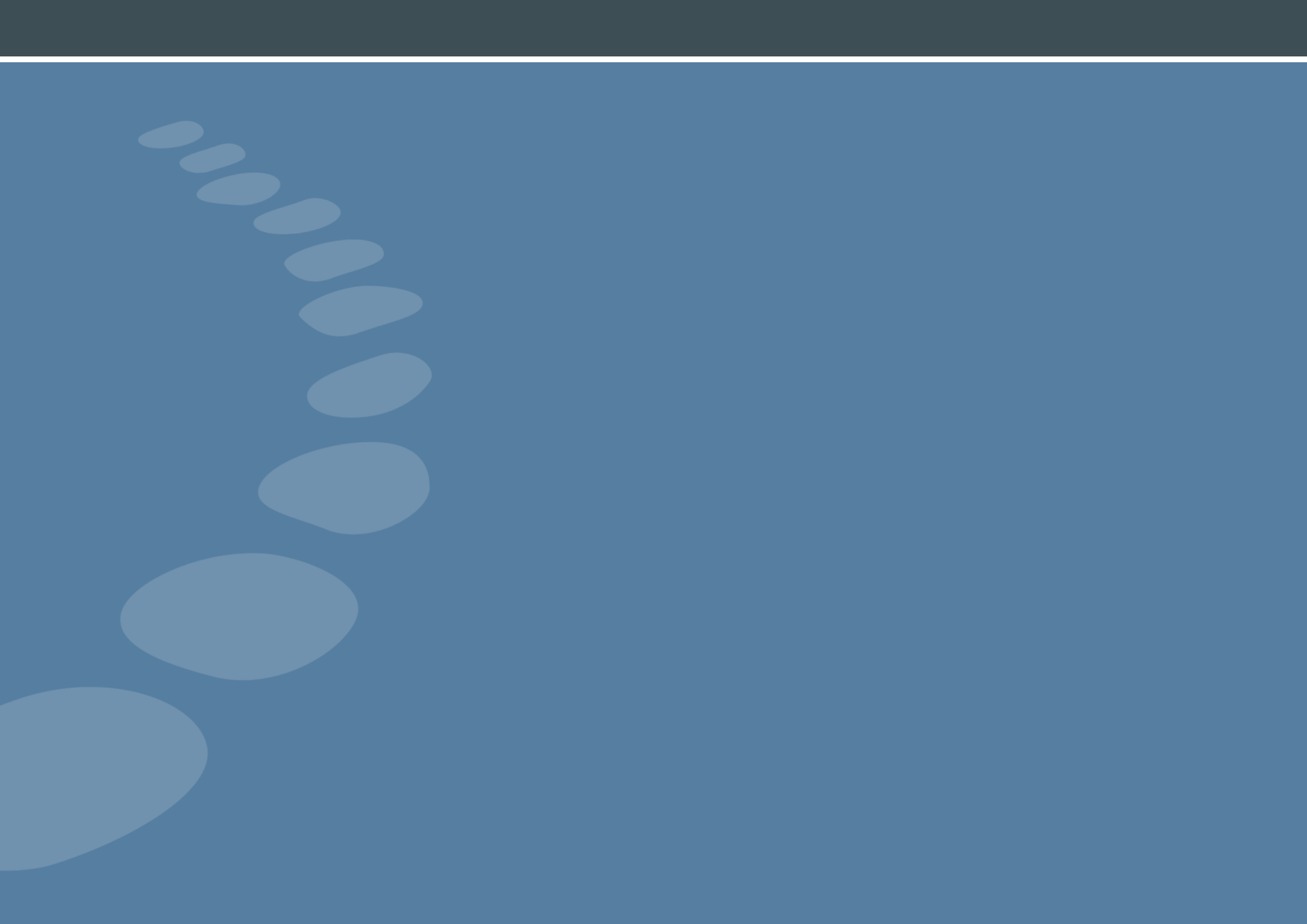
State agencies were equally supportive, readily agreeing to meetings, providing important background information, and making staff available for roundtables. Particular thanks go to the NSW Treasury Corporation, IPART and the Regional Coordination Unit of the Department of Premier and Cabinet.

Valuable assistance and inputs were also provided by business groups, academic bodies (especially the UTS Centre for Local Government), and colleagues in other states, New Zealand and England.

Last but certainly not least the Panel thanks the thousands of people and community groups who attended meetings, made submissions and responded to surveys. Reviews such as this must be grounded in reality, and the Panel's ideas have been well tested!

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Preamble: A Fresh Start

Local government in NSW needs a new agenda and a fresh start. The same applies to its relationship with the State government and how the two work together in practice.

For far too long local government has been bogged down in debates about amalgamations, rate-pegging, cost-shifting and demands for additional State and federal funding. Meanwhile the financial sustainability of many councils – and their capacity to deliver the services communities need – has declined, and a significant number are near crisis point. Local government is far from realising its potential to help achieve the State government's goal of 'Making NSW Number One'.

Nowhere is this more evident than in the Sydney region, where the structure of local government has been largely 'snap frozen' for more than half a century. Australia's global city is still divided amongst forty-one councils, many of which lack the scale and resources to play an important role in metropolitan affairs. There is also a deepening divide between a privileged east and a struggling west. Gaps in coordination amongst State agencies have made matters worse.

The Independent Local Government Review Panel was tasked with formulating options for a stronger and more effective system of local government. The two key words are *options* and *system*. The Panel has made a decisive move away from 'one size fits all', and has sought to give communities and regions more options for the way local government is arranged and how it operates.

At the same time, the Panel has highlighted the need for a systems approach. The challenges facing local government can only be addressed successfully through a package of measures: the jigsaw has to be assembled correctly to create a clear picture of the way forward.

Thus the Panel's objective is to create a revitalised system of local government that will remain sustainable and fit-for-purpose well into the middle of the 21st Century. For that to be achieved, the old debates and slogans must be put aside. The time has come to tackle the underlying issues.

Sooner or later amalgamations will have to be part of the package: the number of councils in NSW has halved during the past century and that trend will surely continue. Rate-pegging should be reviewed in the context of a wider effort to address infrastructure backlogs and ensure financial sustainability. Cost-shifting has been overstated relative to other factors, but local government does have legitimate concerns about rating exemptions and concessions, and the way some fees and charges are fixed below cost. And all concerned need to face the reality that there are no 'pots of gold' in Canberra or Macquarie Street: councils must make better use of their own revenue base, and limited grant funding must be distributed according to needs, not simply numbers of people.

The Panel's approach to these issues has been evidence-based and pragmatic, not ideological. Its recommendations blend economic rationalism with a firm belief that more must be done to enhance social equity. Similarly, a strong commitment to local identity and democracy does not rule out creating larger council areas to improve efficiency and effectiveness.

The Panel sees encouraging signs of an understanding that things must change. This can be found in the *Destination 2036* Action Plan, the joint local and State government initiative to 'create strong communities through partnerships'. The formation of a single local government association also offers an invaluable opportunity to set a new agenda, as do moves by several State agencies to establish more productive working relationships with councils.

Local government has lots of people with the talent, drive and commitment to make the changes required. The Panel has heard many times that this review offers a 'once in a generation' opportunity: an opportunity to advance both local government as an institution and the wellbeing of the communities it serves. Much of what the Panel has proposed echoes the findings of the 'Barnett' committee that examined NSW local government exactly forty years ago. Not enough was done to follow through on Barnett's work. This generation must do better.



1. Introduction and Overview

The Independent Local Government Review Panel was appointed by the NSW Government in April 2012, following an approach by the then Local Government and Shires Associations (now combined as 'Local Government NSW'). Its task has been to formulate options for governance models, structures and boundary changes:

- To improve the strength and effectiveness of local government
- To help drive the key strategic directions set out in the Destination 2036 Action Plan, and to further the objectives of NSW 2021: A Plan to Make NSW Number One (the State Plan).

The Panel's terms of reference are set out in Box 1.

Box 1: The Panel's Terms of Reference

Investigate and identify options for governance models, structural arrangements and boundary changes for local government in NSW, taking into consideration:

- ability to support the current and future needs of local communities
- ability to deliver services and infrastructure efficiently effectively and in a timely manner
- the financial sustainability of each local government area
- ability for local representation and decision making
- barriers and incentives to encourage voluntary boundary changes.

In conducting the review the Panel will:

- ensure recommendations meet the different nature and needs of regional, rural and metropolitan communities
- consult widely with the broader community and key stakeholders
- take into account the work completed, and future work to be completed, under the Destination 2036 initiative
- take into account the broader interests of the State including as outlined in the State Plan
- consider the experiences of other jurisdictions in both the nature and implementation of local government reform
- take into account the Liberal-National's 2011 election policy of 'no forced amalgamations'.

Additional Matters from the Destination 2036 Action Plan

- Develop options and models to enhance collaboration on a regional basis through regional organisations of councils
- Undertake research into innovation and better practice in local government in NSW, Australia and internationally
- Examine the current local government revenue system to ensure the system is contemporary, including rating provisions and other revenue options
- Identify those functions that are clearly State or local government responsibilities, those that cannot be readily defined and those that have been legislated/regulated as core functions.

Other Matters referred to the Panel

- The future of local governance and service delivery by all levels of government in the far west of NSW
- Proposals for consolidation of local government-owned water utilities

Box 2: Destination 2036

The Review was the first initiative under Destination 2036, a joint State-local government program based on a vision to create strong communities through partnerships.

The Destination 2036 Action Plan identifies 12 major initiatives to create strong local government (see www.dlg.nsw.gov.au):

- Establish local government as an employer of choice
- Encourage and facilitate innovation
- Ensure the Local Government Act supports stronger local government
- Ensure strong and effective local governance
- Review the revenue system to ensure greater flexibility and self-reliance
- Develop strategies that maximise opportunities to secure funding from other levels of government
- Establish a range of funding models to enable the long term maintenance, replacement and creation of different classes of assets
- Develop a number of different structural models for local government
- More clearly define the functions, roles and responsibilities of local and State government
- Align State and local government planning frameworks
- Negotiate a new inter-government agreement
- Recognise local government as a legitimate and important sphere of government.

In addition to its core task, some additional items from the Destination 2036 Action Plan were referred to the Panel for consideration. The Panel was also asked to consider the particular governance challenges and issues facing communities and all levels of government in the far west of NSW; as well as the proposals for restructuring of local government water utilities advanced in the 2009 Armstrong-Gellatly report and a more recent report by Infrastructure NSW. The Panel sought to address all those additional matters as far as time and resources allowed.

No limits were placed on how the Panel went about its work, and its resources were sufficient to commission some independent research and advice to inform its thinking.

The Panel has concluded that new directions must be pursued to revitalise the culture, structures and operations of NSW local government, as well as its relations with the State. This must be done first and foremost so that local government can provide better services, infrastructure and representation for the communities it is intended to serve. The Panel's goal is therefore:

A more sustainable system of democratic local government with added capacity to meet the needs of local and regional communities, and to be a valued partner of State and federal governments.

The Panel has tested all its ideas, options and proposals against that goal. Its proposals are far-reaching but far from radical. They rest on evidence drawn from the extensive literature on local government reform, commissioned research, previous inquiries, and established practice elsewhere in Australia or New Zealand, England and Canada.

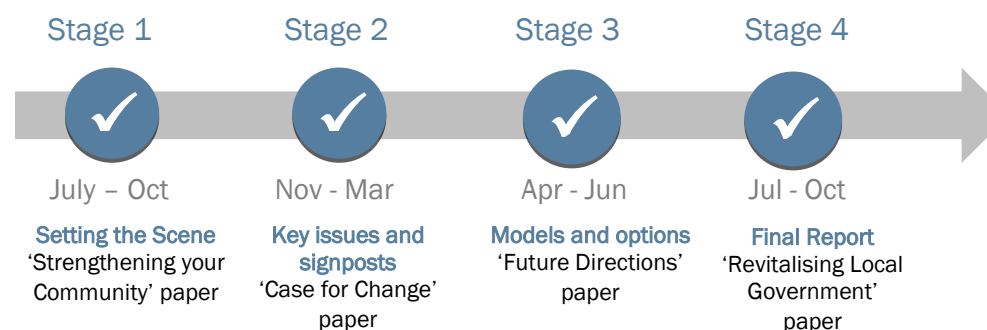
1.1 The review process

The Review was carried out in four stages to maximise opportunities for councils and local communities to have their say, and to canvass ideas and directions for change with the broadest possible range of stakeholders. The Panel looked at all aspects of the local government system – not just councils but also their regional organisations and associations, the statutory bodies that regulate them and the key state agencies with which they need to work to achieve desired outcomes for their local communities.

The Panel has aimed to conduct an open and transparent consultation process: all the information used to develop its reports has been made available on the website www.localgovernmentreview.nsw.gov.au, with regular updates provided via email and Facebook. The opportunity for everyone to Have Your Say has been available on the website throughout the review. Also the Panel issued a series of media releases; gave numerous press, radio and television interviews; and made presentations at conferences, seminars and other events.

The Panel prepared and released for discussion three separate papers and held extensive consultations in all four stages. Details of this approach are shown in Figure 1 and Box 3. In total, the Panel received more than 1,800 submissions.

Figure 1: Four Stages of the Review



Related reviews

The Review was conducted in parallel with several other important reviews looking at various aspects of local governance. Most important was the work of the Local Governments Acts Task Force, which has been paving the way for a major re-write of the Local Government Act and City of Sydney Act. The Panel and the Task Force maintained close liaison throughout, and the Panel provided the Task Force with regular updates and interim advice on legislative issues likely to feature in this final report.

The Panel also established regular dialogue with the review of the NSW Planning System carried out by the Department of Planning and Infrastructure, and the Independent Pricing and Regulatory Tribunal (IPART) which has been investigating local government compliance and enforcement practices as one of the State government's 'Red Tape' reviews. The Panel is confident that its proposals align closely with those of other reviews.

Figure 2: The Panel's Review in Context



Box 3: Summary of Consultations

Stage 1 – July to October 2012

- Released Strengthening Your Community – Consultation Paper
- Listening Tour – visits to 18 locations across NSW for council and community meetings
- Meetings with local government stakeholders, State government agencies
- 221 council and public submissions received

Stage 2 – November 2012 to March 2013

- Released Better Stronger Local Government – The Case for Sustainable Change
- Visits to all Regional Organisations of Councils
- 10 roundtable discussions with councils, local government stakeholders, business groups and NSW government agencies
- Meetings with Members of Parliament
- Online survey and 157 council and public submissions

Stage 3 – April to June 2013

- Released Future Directions for Local Government: Twenty Essential Steps and Strengthening NSW Remote Communities: The Options papers
- Visits to 29 locations to hold 63 meetings with councils and communities
- Meetings with a wide range of stakeholders
- Over 1400 council and public submissions

Stage 4 – July to October 2013

- Follow-up visits to councils and regions, and meetings with stakeholders
- New opinion polling released
- 2 roundtable discussions on specific issues with local government representatives
- Governance Working Party to explore options advanced in Future Directions
- A number of supplementary reports and submissions received

The evidence base

This was an evidence-based inquiry. The Panel referenced a large number of research papers and reports of previous inquiries. It commissioned supplementary research in several key areas, as well as new surveys and opinion polling. Submissions received from councils and others also provided a great deal of valuable and up-to-date information, including specially commissioned studies. As well, the Panel benefited from reviews and studies of various aspects of local government under way in other states, particularly Western Australia, South Australia and Victoria.

Of particular importance were the reports on the *Financial Sustainability of the New South Wales Local Government Sector* released by the NSW Treasury Corporation (TCorp) in April 2013; and the *Local Government Infrastructure Audit* completed by the Division of Local Government (DLG) in May. Reports of several other recent inquiries were also most valuable, notably the ‘Allan’ inquiry commissioned by the Local Government and Shires Associations (2006); and studies of the local government revenue base by the Productivity Commission (2008) and IPART (2009).

Again, all this material has been assembled on the Panel’s website. Of course, not everyone will agree on the conclusions to be drawn from the evidence, but the Panel is confident that its proposals are soundly-based and achievable.

1.2 Governance, structures and boundaries

The Panel was asked to develop options for governance models, structural arrangements and boundary changes. It has defined those terms in the following way.

- ‘Governance’ includes the way councils are organised politically and administratively and how they go about their business. Over the course of the review the Panel also focused on financial and asset management as key elements of governance: do councils have access to adequate resources? Are they managing their finances and assets appropriately?
- ‘Structures’ refers to the different types of local government bodies. There are already a variety of different structural arrangements in local government across NSW. The basic unit is normally an elected local council, but additional structures include regional organisations of councils, county councils, joint undertakings for water supply and sewerage, council-owned businesses and others. In the Unincorporated Far West region of NSW there are elected ‘Village Committees’ in Silverton and Tibooburra.
- ‘Boundary changes’ also take different forms. Historically, most have involved creating larger councils through amalgamations or mergers. In other cases relatively minor adjustments to boundaries have been made to improve administration. For example, a boundary may be altered around a town to incorporate new urban development that has flowed into an adjoining rural area. In the case of the City of Sydney, there has been a mix of repeated substantial changes to boundaries and amalgamations.

The Panel’s view is that the number of available options should be increased so that local government arrangements can be tailored to the varying needs and circumstances of different parts of NSW. It proposes a further move away from the ‘one size fits all’ approach.

1.3 Defining the ‘problem’

Why conduct a major review of NSW local government at this time? A number of people have put the classic argument to the Panel that: ‘If it ain’t broke, don’t fix it’. They believe that on the whole local government is performing well enough, and that although some councils face significant problems, there is no case for sweeping change.

The Panel agrees that change for change’s sake is unwise. However, there are at least four key reasons for wide-ranging reforms.

- The world is changing rapidly and the system of local government must also change if it is to remain ‘fit for purpose’. Issues such as the relevance of existing boundaries, the need for new approaches to regional cooperation, shortcomings in the structure of metropolitan local government, and the internal workings of councils must all be explored.
- Large sections of local government are not faring well. There is mounting evidence to show that around a third of all NSW councils are ‘at risk’ from weak revenues, infrastructure backlogs and declining populations; some are in crisis or very close.
- Whilst a substantial number of councils could continue more or less on their current path for several decades to come, very few are actually realising their full potential as partners in the system of government. There is a great deal of under-achievement in local government and its resources and skills could be used to far greater effect to address the challenges facing NSW.
- Relations with the State government have not been as close and productive as they should be. Progress is now being made but far more needs to be done in areas such as joint strategic planning, information exchange, cooperative policy development, and resource sharing; State agencies and councils must see themselves as partners in one public sector, not competitors.

1.4 Community attitudes

The Panel took a number of steps to assess community attitudes to local government and potential reforms. These included:

- A review of the results of a broad cross-section of surveys and opinion polls conducted over recent years, both in NSW and elsewhere, and including in particular surveys of ratepayers concerning proposed Special Rate Variations
- A web-based questionnaire to gauge responses to the Panel's *Case for Sustainable Change* report released in November 2012
- New opinion polling conducted in the Sydney and Hunter regions in May-June 2013
- Discussions with Hornsby Shire Council on the results of independent polling it commissioned on some of the options put forward in the Panel's *Future Directions* paper (results available on the council's website).

The findings of the Panel's own research closely aligned with those of previous surveys and the Hornsby Shire polling. Broad conclusions may be drawn as follows:

- On the whole, people appear satisfied with the performance of local government – more so than with State and federal governments – and welcome the fact that councils are elected bodies.
- However, the overall level of awareness and understanding about the role and functions of councils is quite low, and there is very limited recognition of mayors and councillors.
- Also, there is an important distinction between high levels of satisfaction with service delivery, and notably lower ratings for local government's performance in understanding community needs and expectations, communicating

effectively, improving the local area or getting things done in the community's interests.

- There is broad acceptance that council rates may need to increase faster to avoid cuts to local services and make necessary improvements.
- A significant minority of people are strongly opposed to amalgamation of councils due to concerns about local government areas becoming too large and loss of local representation and identity.
- On the other hand, there is a widespread view that amalgamations could lead to cost-savings and better services.

Such findings again confirm the value communities place on local government services. The Panel notes, however, that many people have little knowledge of the activities of their council, and cannot recall the names of the mayor or any councillors. It is also concerned about the relatively low ratings given to councils' performance in various aspects of community leadership and improving local areas. Those results suggest councils are not performing as well as they should as part of the wider system of government.

Polling results in relation to rate increases and amalgamations suggest that the respective concerns of State and local governments in these areas are probably over-stated. Surveys have shown consistently that Special Rate Variations costing in the range \$1-2 per week are widely accepted: such increases represent up to 10% on average residential rates across NSW. In the case of amalgamations, it appears that opposition is less firm than it may first appear: there is scope to gain community support provided a sound business case is established and the public can be fully and accurately informed.

1.5 Key themes and principal recommendations

In total, the Panel has made 65 recommendations. These are presented in groups at the end of sections 5 to 18, with references back to the specific sub-section in which the issues involved were canvassed.

The Panel's principal recommendations are set out in Box 4. Some are in abbreviated form. The recommendations respond to twelve key themes that run throughout this report.

1. The overarching imperative is to ensure the long-term sustainability and effectiveness of NSW local government: in its present form and under current policy settings the system *as a whole* will not remain sustainable and fit-for-purpose for much longer.
2. The focus of policy should be on strengthening 'strategic capacity' – ensuring that local government has the right structures, governance models, skills and resources to discharge its responsibilities and realise its potential.
3. Major new initiatives are required to tackle the underlying problems of financial weakness and infrastructure backlogs.
4. In particular, a series of measures must be put in place to promote greater 'fiscal responsibility' within local government and to make associated improvements to local government's efficiency, accountability and political governance.
5. Changes to the rating system and rate-pegging are essential to generate the revenues needed to fund infrastructure and services, and – equally as important – to make the system more equitable.
6. Given limited funds, the distribution of grants must change to direct more assistance to areas of greatest need.
7. Stronger regional organisations are vital to ensure increased resource sharing and joint planning, and to support vulnerable rural-remote councils.
8. Structural reform – including council amalgamations – is another essential component of reform, notably in metropolitan Sydney.
9. The process for considering possible amalgamations and boundary changes needs to be overhauled, and a package of incentives introduced to encourage voluntary mergers.
10. The particular issues and problems facing the Far West of NSW require special arrangements.
11. Working relations between local government and State agencies need to be improved across the board, and regional coordination should be the centrepiece of this effort.
12. Reforms must be pursued as an integrated package, not one-off measures.

Box 4: Principal Recommendations

Fiscal responsibility

- Establish an integrated Fiscal Responsibility Program, coordinated by DLG and also involving TCorp, IPART and LGNSW... (5.1 and 5.3)
- Introduce more rigorous guidelines for Delivery Programs... (5.2)
- Place local government audits under the aegis of the Auditor General (5.4)

Strengthening the Revenue Base

- Commission IPART to undertake a further review of the rating system focused on: options to reduce or remove excessive exemptions and concessions... (6.2); more equitable rating of apartments and other multi-unit dwellings... (6.3)
- Either replace rate-pegging with a new system of 'rate benchmarking' or streamline current arrangements to remove unwarranted complexity, costs, and constraints to sound financial management (6.5)
- Subject to any legal constraints, seek to redistribute federal Financial Assistance Grants and some State grants in order to channel additional support to councils and communities with the greatest needs (6.6)
- Establish a State-wide borrowing facility to enable local government to make increased use of debt where appropriate... (6.7)

Meeting Infrastructure Needs

- Maintain the Local Infrastructure Renewal Scheme (LIRS) for at least 5 years, with a focus on councils facing the most severe infrastructure problems (7.2)
- Pool a proportion of funds from the roads component of federal Financial Assistance Grants and, if possible, the Roads to Recovery program in order to establish a Strategic Projects Fund for roads and bridges... (7.2)
- Adopt a similar model to Queensland's of Regional Roads and Transport Groups... (7.4)

Improvement, Productivity and Accountability

- Commission IPART to undertake a whole-of-government review of the regulatory, compliance and reporting burden on councils (8.2)
- Amend IPR Guidelines to require councils to incorporate regular service reviews in their Delivery Programs (8.4)
- Strengthen requirements for internal and performance auditing as proposed in Box 17 (8.5)

Political Leadership and Good Governance

- Require councils to undertake regular Representation Reviews ... (9.1)
- Amend the legislated role of councillors and mayors... and introduce mandatory professional development programs (9.2 and 9.3)
- Amend the legislated role and standard contract provisions of General Managers... (9.5)
- Develop a Good Governance Guide ... (9.7)

Advance Structural Reform

- Introduce additional options for local government structures, including regional Joint Organisations, 'Rural Councils' and Community Boards, to facilitate a better response to the needs and circumstances of different regions (10.1)
- Legislate a revised process for considering potential amalgamations and boundary changes through a re-constituted and more independent Boundaries Commission (10.3)
- Encourage voluntary mergers of councils through measures to lower barriers and provide professional and financial support (10.4)

Regional Joint Organisations

- Establish new Joint Organisations (JOs) for each of the regions shown on Map 2 ... under new provisions of the Local Government Act that replace those for County Councils (11.5)
- Establish Regional Water Alliances in each JO along the lines proposed in the 2009 Armstrong-Gellatly report (11.3)

'Rural Councils' and Community Boards

- Establish a working party... to further develop the concept of 'Rural Councils' (12.1)
- Include provisions for *optional* Community Boards ... (12.2)

Metropolitan Sydney, Hunter and Central Coast

- Seek evidence-based responses from councils to the Panel's proposals for mergers and major boundary changes... (13.3, 14.1, 14.2)
- Maximise utilisation of the local government revenue base in the eastern half of the Sydney region in order to free-up State resources... (13.6)

Non-Metropolitan Regions

- Progressively refer (non-metropolitan) councils ... to the reconstituted Boundaries Commission in accordance with Table 11 and the proposed timeline (15.1)

The Far West

- Agree in principle to the establishment of a Far West Regional Authority (16.3)
- Adopt the preferred new arrangements for local government set out in Box 40... (16.4)

State-Local Government Relations

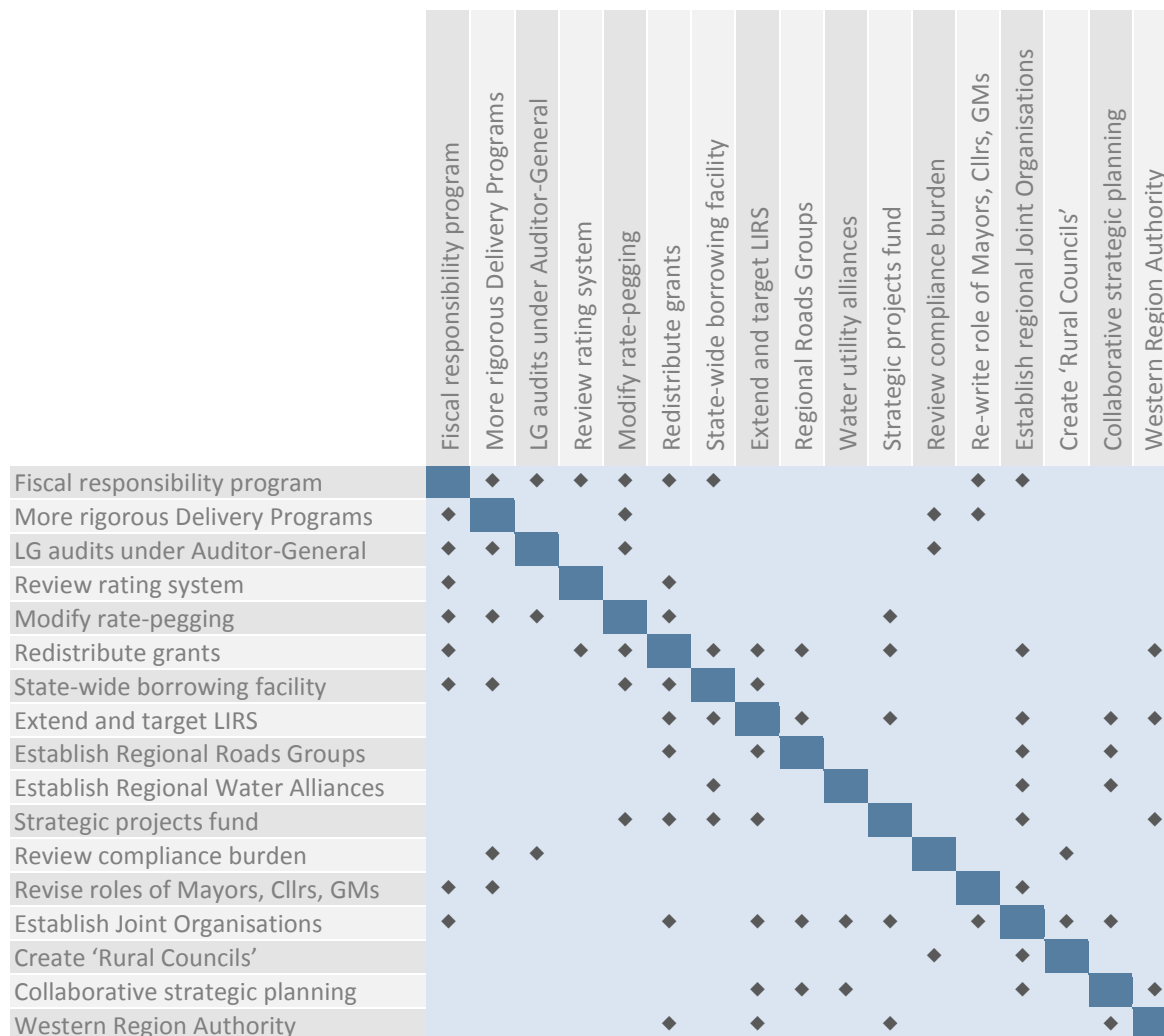
- Introduce new arrangements for collaborative, whole-of-government strategic planning at a regional level (17.3)
- Amend the State Constitution to strengthen recognition of elected local government (17.4)

An integrated package

The Panel has highlighted the need for a systems approach to improving and strengthening local government, aimed at ensuring long-term sustainability. This is discussed in detail in section 4. The challenges facing local government can only be addressed successfully through an integrated package of measures, and the Panel's key recommendations are inter-dependent. If individual recommendations are 'cherry-picked', then at best the benefits of reform will only be partially realised, and at worst there will be no significant improvement at all.

Figure 3 seeks to make this clear by showing the inter-relationships between some of the key reforms the Panel is proposing. For example, achieving 'fiscal responsibility' and financial sustainability will require, among other things, modifications to the current rate-pegging system and a new approach to auditing. Extending the Local Infrastructure Renewal Scheme (LIRS) will be far more cost-effective with a state-wide borrowing facility that cuts interest rates. Creating the new option of a lower-cost 'Rural Council' for some rural-remote areas depends on reducing the regulatory and compliance burden on those councils, and establishing regional Joint Organisations. And so on.

Figure 3: An Integrated Package of Reforms



1.6 Responding to submissions

As noted previously, the Panel received a total of over 1,800 submissions throughout the review. All have been carefully considered and extensive summaries and analyses have been compiled in an accompanying volume to this report.

Particular concerns were raised with a number of the options advanced in the Panel's *Future Directions* paper released in April 2013. These have since been the subject of extensive further consultations and follow-up research. As a result, the Panel has re-affirmed its views in several areas, but made significant changes in others. The latter applies especially to earlier proposals for 'new look' County Councils and 'local boards'. The Panel has also developed new ideas around the rating system and rate-pegging, and on cost-shifting.

Table 1 presents the Panel's responses to key issues and concerns raised in submissions.

Table 1: Key Areas of Concern in Consultation Feedback and Panel's Response

Area of Concern	Issues Raised in Submissions	Panel's Response
Amalgamations	- Panel failed to recognise 'No forced amalgamations' policy and should not have suggested amalgamations - Evidence shows amalgamations do not save money and are highly disruptive - There should be no 'mega' councils; Auckland's 'super council' is struggling with debt - Regional Organisations of Councils (ROCs) and shared services are an adequate alternative	- Panel was asked to develop <i>options</i> for restructuring and did so - Evidence quoted is not conclusive: recent studies indicate major efficiencies and savings are achievable with careful planning - Panel's focus is 'strategic capacity' not cost savings as such - Largest councils suggested by Panel are similar to Gold Coast City; NZ Auditor General says Auckland Council's debt is acceptable - Panel respects 'no forced amalgamations' but some restructuring is essential to produce a sustainable system of local government - However, <i>a new process is required</i> with a re-constituted Boundaries Commission - Research shows ROCs are not strong enough and shared services activity is too patchy
Local Boards	- Support for additional governance options but concern about creating a 'fourth tier' of government - Local Boards concept seen to 'downgrade' or spell the end of existing rural-remote councils	Panel has developed a revised approach involving <i>options</i> for largely autonomous 'Rural Councils' and Community Boards similar to those operating in New Zealand
'New Look' multi-purpose County Councils	- County Council model has proved unsatisfactory: member councils lose effective control - Minister has absolute power over County Councils - Provisions in Local Government Act need to be re-written, not just amended - Voluntary ROCs are a better model and should be retained and strengthened as the basis for regional planning and shared services	- A more effective, <i>statutory</i> regional model in local government is essential to underpin sustainability and provide a basis for improved working relations with State and federal agencies - Evidence shows performance of ROCs is patchy and varies over time - Concerns about experience with County Councils and legal provisions are understood and accepted - Panel has developed an alternative model of 'Joint Organisations' to address legal and operational concerns

Area of Concern	Issues Raised in Submissions	Panel's Response
Regional Water Alliances	Concern that assets and staff will be transferred to new regional bodies and that utilities will ultimately be taken over by the State government	- Panel has never proposed transfer of assets or operational staff - Water alliances are part of new Joint Organisations that are embedded in the system of local government
TCorp Financial Sustainability Ratings (FSRs)	Criticism in some quarters of TCorp's methodology and lack of consultation	- Panel reviewed criticisms in detail but found no significant flaws in TCorp's approach - TCorp reported on information available at the time – assessments need to be updated regularly and the accuracy and reliability of data improved
Rating system	- Strong support to overhaul rating system eg review exemptions and concessions - Widespread calls to abolish rate-pegging completely, but some recognition this is unlikely to occur	- Panel undertook further research and has also drawn on LGNSW (Deloitte Access Economics) report on rating exemption provisions - Final report includes additional material and proposals to improve the rating system - Panel has developed a new option for 'Rate Benchmarking' but still sees full abolition of rate-pegging as unachievable at present
Cost-Shifting	- Concern that the Panel failed to address this issue - Cost-shifting frequently cited as a key factor in the financial difficulties facing many councils	- Panel has addressed this issue in some detail, but believes that the significance of cost-shifting is overstated relative to other factors - New State-Local Government Agreement contains specific provisions to address cost-shifting
Grant Funding	- Widespread belief that additional State and federal support is the primary solution to local government's financial problems - Calls for increased share of federal taxes - Concerns that Panel's proposals for re-distribution of grants and creation of Strategic Projects Fund will mean some councils receive less funding	- Panel remains of the view that substantial increases in State or federal support are most unlikely given current fiscal constraints – local government must focus on other options to assist communities in greatest need - Re-distribution can be achieved by using annual growth in federal grants - Those councils that may receive less in real terms have unused rating capacity
Western Region Authority	- View that the Far West region is too big and diverse for a single authority - Concerns about the autonomy and future of existing councils	- Panel has undertaken extensive and detailed further discussions with councils and other stakeholders - Authority concept has been retained but with modifications, and alongside a robust system of autonomous local government
Governance options	- Limited support for stronger role for mayors and more directly-elected mayors – but also significant opposition - Widespread support for 2-year terms for indirectly elected mayors	Special working party convened to address these issues and revised package largely agreed

Part A

The Need for Sustainable Change

2. Role and Importance of Local Government

Local government is the government of communities and places. Elected councils are a fundamental element of our democracy, giving expression to people's aspirations for their neighbourhoods, towns and regions. Stronger, more effective local government can provide better services and infrastructure, and can do more to support economic development, safeguard environmental quality and enhance community wellbeing. It can also partner State and Commonwealth governments in achieving regional, state and national goals.

The Panel is committed to establishing a framework within which democratic local government can flourish. This section looks at some recent trends in the evolving role of local government and considers how it should develop over coming decades.

2.1 Diversity

Box 5 provides a snapshot of NSW local government in 2013. The over-riding characteristic is one of extreme diversity – in geographical characteristics, population size and density, cultural mix, economic prospects and rates of growth, budgets and functions performed. This makes it difficult to establish over-arching legal and policy frameworks. There cannot and should not be a 'one-size-fits-all' approach, and in later sections of this report the Panel suggests a wider range of governance options to reflect that reality.

Box 5: A Snapshot of NSW Local Government

- NSW councils spend about \$10bn each year and are responsible for more than \$130bn of infrastructure and other community assets; they employ around 50,000 people
- There are currently 152 councils with an average population of 48,000 – less than Queensland (63,000) and Victoria (71,000), but more than the Australian average of 41,000 people
- Population size ranges from 1,200 (Urana) to 312,000 (Blacktown), and 25 councils have populations of less than 5,000.
- The majority of local government areas in the west of the state will decline in population over the next 25 years. By contrast, metropolitan and coastal areas will continue to grow on average by more than 1% per annum.
- In some rural-remote areas Aboriginal people make up more than 60% of the population, whilst several metropolitan areas have populations with more than 50% from a non-English speaking background.

2.2 Evolving functions

The *Local Government Act 1993* provides NSW councils with their major powers, functions and responsibilities. Councils also have responsibilities under over 120 other Acts, such as the *Environmental Planning and Assessment Act 1979*, the *Roads Act 1993*, *Protection of the Environment Operations Act 1997*, *Water Management Act 2000*, *Swimming Pools Act 1992* and *Companion Animals Act 1998*.

The Local Government Act empowers councils to plan and manage local services and facilities in consultation with their communities. In some respects it is highly detailed and prescriptive, but its description of councils' functions is generic and flexible. Thus, for example, some councils support medical and dental services, many have funded community safety programs including installing CCTV, and it is commonplace for councils to engage in a range of commercial activities.

Over recent decades there has been a widespread tendency for councils' activities to expand in scope in order to meet changing and growing community needs and demands. Some federal and state grants programs have also encouraged councils to take on additional responsibilities. This trend is placing considerable pressure on council budgets, and leads to calls to define local government's 'core' responsibilities and to reduce apparent overlap with the activities of federal and state governments.

The Panel was asked to consider this issue. However, there are three main problems with the concept of 'core' responsibilities:

- The functions of all three spheres of government will inevitably evolve over time and with changing circumstances
- Precisely because local government is the government of places and communities, it needs to be as responsive as possible to their varying needs and wants, and within budget constraints councils should adjust their activities accordingly
- There is a danger that a list of 'core' functions – unless very wide-ranging and hence fairly meaningless – could be unnecessarily restrictive.

Moreover, local government has made it clear that it wants legislation governing its role to be less rather than more prescriptive: the current review by the Local Government Acts Task Force is proceeding on that basis. Thus the Panel does not consider it feasible or appropriate to define 'core' responsibilities at this time, nor to try to draw sharp

distinctions between the respective roles of local, State and federal governments.

2.3 Localism and community governance

Maximising councils' freedom to act for the benefit of their communities is central to emerging concepts of 'localism' and 'community governance'. In the UK, the term 'localism' has been applied to a package of initiatives aimed ostensibly at reducing central government controls, granting local government a power of general competence and much more discretion in the way they deliver services, and increasing the accountability of councils to their local communities. But perhaps the most significant element of UK localism is that of 'double devolution': not only giving more autonomy to councils, but also directly engaging communities in delivering services. Community organisations can now 'challenge' councils to hand over facilities and services to them if they believe they can do a better job.

This approach can be seen as part of a trend to community governance. There are several strands to this concept: intensifying community engagement in decision-making about local planning, the type and level of services required, and budgeting; empowering and assisting community organisations to prepare their own neighbourhood plans and undertake local projects and service delivery; forging partnerships between councils, business and community organisations, such as the community banking network of the Bendigo Bank; and establishing new forms of 'sub-council' governance

such as New Zealand's Community Boards and UK Parish Councils.

The ideas embodied in both 'double devolution' and community governance challenge councils to re-think and re-balance their role; to become enablers of community-based action and to cede some of their functions and authority to community organisations and other partners. A growing number of councils across Australia are already moving in that direction, in part because resources are becoming increasingly scarce relative to needs and forging partnerships can unlock additional energy, skills and funds.

The practical application of community governance is discussed further in section 12.

2.4 Community perspectives

The Panel commissioned two pieces of research to explore community views about the performance of local government. The first was an overview of recent community surveys and polling conducted in NSW and across Australia. It explored some of the key questions raised by the Panel's terms of reference:

- Are councils adequately supporting the current and future needs of their local community?
- Do local councils deliver services and infrastructure efficiently and effectively and in a timely manner?
- To secure councils' financial sustainability, in what circumstances would the community be prepared to pay more to maintain or improve services?

- How important is local representation and community input into decision making by local councils?
- What are people's attitudes towards council boundary changes?

This overview was then used to design a poll of 1500 people conducted in the Sydney and Hunter regions in May 2013. Given limited funding, polling was restricted to just two regions to ensure statistically valid results.

The findings of the Panel's new polling closely aligned with those of previous surveys. Some key points are as follows:

- On the whole, people appear more satisfied with the performance of local government than with State and federal governments. Local councils are seen to play a very important role in providing community infrastructure and services.
- Around two-thirds of respondents believe it is very important that councils are run by elected councillors, and a similar number take an interest in local government elections.
- However, more than half said they knew little or nothing about their local council, and could not recall the name of a single councillor or mayor.
- Similarly, more than half of respondents had not had any contact with their local council over the previous 12 months, and only 1 in 10 had contacted a mayor or councillor – but most were satisfied with the response when they did. Most

contacts with councils are for general inquiries, to report maintenance issues or to make a complaint.

- Whilst councils' performance in delivering adequate basic services is rated quite highly, satisfaction with other aspects of their role, such as understanding community needs and expectations, communicating effectively, improving the local area or getting things done in the community's interests, is noticeably lower.
- Council rates are seen as 'fairly good value' and most respondents would rather see rates rise than have cuts to local services. Similarly, most would be willing to pay more in rates if it meant the quality of local services improved.
- A majority of respondents did not support amalgamation of councils due to concerns about local government areas becoming too large and loss of local representation and identity. On the other hand, nearly half of respondents thought that amalgamations could lead to cost-savings, and a substantial minority also saw scope for better services.

Such findings again confirm the value people place on local government services, but also point to the need for improvements in the way NSW local government plays its role. The Panel sees particular cause for concern at people's limited knowledge of the activities of local government, the lack of recognition of mayors and councillors, and the relatively low ratings given to councils' performance in various aspects of community leadership and improving local

areas. Those results suggest councils are not performing as well as they should as part of the wider system of government, and that a lot more needs to be done to increase community awareness of how better and stronger local government can contribute to the future of NSW.

The issue of attitudes towards amalgamations and boundary changes is addressed in more detail in section 10.

2.5 A more effective role

At its best, local government demonstrates leadership on some of society's most intractable problems by harnessing resources and acting in a timely way. Mayors, councillors and staff together take ownership of issues, and take the initiative. They enable communities to deal with their own issues, in the context of the bigger picture, as part of regional, metropolitan, state and national strategies. Despite tight budgets, purposeful and effective councils find the resources for crucial initiatives, like medical services in rural areas. They act as government, getting on with what needs to be done.

NSW has long been Australia's 'premier State' but in recent years that mantle has slipped. The need for change and improvement has been recognised in NSW 2021, the State plan, and local government can and should make a major contribution across all the Plan's five major strategies (see Figure 4).

Figure 4: NSW 2021: The State Plan

NSW 2021 is a plan to make NSW number one. It is a 10 year plan to rebuild the economy, provide quality services, renovate infrastructure, restore government accountability, and strengthen our local environment and communities. It replaces the State Plan as the NSW Government's strategic business plan, setting priorities for action and guiding resource allocation.

NSW 2021 is a plan for change with ambitious goals and challenging targets. These targets will be hard to meet and there will be many factors outside the control of the NSW Government. However, we will work to bring together government, community and business to respond to the challenges and opportunities we face and achieve the goals we have set.

FIVE STRATEGIES
NSW 2021 is based around five strategies:

- REBUILD THE ECONOMY**
—restore economic growth and establish NSW as the 'first place in Australia to do business'
- RETURN QUALITY SERVICES**
—provide the best transport, health, education, policing, justice and family services, with a focus on the customer
- RENOVATE INFRASTRUCTURE**
—build the infrastructure that makes a difference to both our economy and people's lives
- STRENGTHEN OUR LOCAL ENVIRONMENT AND COMMUNITIES**
—improve people's lives by protecting natural environments and building a strong sense of community
- RESTORE ACCOUNTABILITY TO GOVERNMENT**
—talk honestly with the community, return planning powers to the community and give people a say on decisions that affect them.

This will, however, require a re-appraisal and re-definition of its place in the State's system of government. The days of councils being focused on 'roads, rates and rubbish' are well gone, but some of the attitudes associated with that era linger in both State and local government circles. There is still a heavy emphasis on regulation and service delivery, and the potential for local government to provide what has been termed 'place-based leadership' remains largely unexplored. As the Panel's polling and other surveys suggest, the rhetoric of local government being 'closest to the people' has yet to be given full meaning in practice by a substantial number of

councils. At the same time, relationships between councils and State agencies often fail to maximise the use of available resources and to add value to the system of government. When State politicians and bureaucrats talk about the 'public sector', they rarely think to include local government – and local government rarely thinks of itself in those terms.

Despite recent improvements, the State-local relationship is typically regarded in local government circles as one of 'master to servant'. Compared to other States, NSW has been slow to establish processes for regular policy dialogue between State and local government. Some State policies affecting local government cut across each other with adverse, unintended consequences. For its part, local government has failed to raise its sights and make it itself a more attractive partner. These issues must be addressed and there is now ample scope to do so through the recently signed State-Local Government Agreement. This is discussed further in section 17.

3. Challenges of Change

This review looks ahead to the middle years of the 21st Century. Local government must be ready to cope with the new and tougher challenges that lie ahead, and to grasp the opportunities of change to realise its potential. Box 6 summarises some of the key challenges.

Box 6: Challenges and Opportunities of Change

- Continuing strong population growth in metropolitan areas, along the coast, and in some regional centres
- The importance of maintaining Sydney as Australasia's premier 'global city'
- Intensifying pressures of urban management, including housing supply and affordability, transport and environmental quality
- Infrastructure gaps and backlogs that constrain economic development, limit service delivery, and reduce community safety
- Declining populations (but not necessarily economies) across most of inland NSW and especially in the far west
- An ageing population, with population growth in some areas consisting largely of retirees
- Social change, with an evolving mix of people and cultures
- The economic imperative of increased efficiency and productivity
- Opportunities for further mining projects, and also for Australia to become a major 'food bowl', with possible conflicts between the two
- Continuing and probably worsening environmental concerns, including the likelihood of adverse climate change
- Increasing spread of new information and communications technologies, with the potential to transform concepts of space and methods of service delivery
- A much tighter fiscal environment that will require all governments to review revenue and expenditure policies, and limit grants to local government.

3.1 Demographic trends

The Panel has taken into account revised population projections to 2031 recently issued by the Department of Planning and Infrastructure. Some key points are as follows:

- The Sydney region (excluding Illawarra and Central Coast but including Wollondilly Shire and Blue Mountains City) will grow to almost 6 million people by 2031
- Almost all coastal local government areas will also have strong growth, in some cases up to 40%
- A number of inland regional centres will also grow significantly, up to 30%
- Agricultural shires in more densely settled regions will mostly have static populations or experience modest declines
- Most of far western NSW will experience considerable loss of population (falls of up to 30%) but the proportion of Aboriginal people will grow substantially
- The number of people over the age of 65 is expected to increase from just over 1 million now (14% of the population) to 2.5 million in 2050 (24%); more than half of people aged over 65 live in the Sydney metropolitan region.

Population shifts will thus sharpen regional disparities – between Sydney and the rest of NSW; between the coast and inland; between major regional centres and smaller towns; between areas that benefit from mining-related growth or agricultural expansion and those that do not. The way local government is structured and operates will need to change in response.

3.2 The fiscal outlook

The available evidence points to a difficult fiscal outlook for NSW and Australia as a whole: weaker revenues during a time of relatively slow economic growth, coupled with the need to fund infrastructure gaps and increasing demands for services. The federal budget is much more constrained than it has been for decades due to the government's aim to bring it back into surplus and reduce the debts incurred during the Global Financial Crisis.

This suggests that local government cannot expect increases in total state and federal funding and may well see a declining trend in specific purpose grants as some regional development and climate change programs are wound back. Making the best use of the existing pool of grants and of local government's own tax base – rates – will assume even greater importance.

The 'Henry' tax review of 2009 covered a number of issues of significance for local government:

- the need for councils to have sufficient autonomy in setting rates
- potential integration of rates and land tax
- the need to review the current distribution of federal financial assistance grants (FAGs)
- the potential for expanded road user charges
- the problem facing Australians in relation to housing affordability
- the cost of providing aged care in a country with an ageing population
- the limited longer term financial capacity of the states.

The review's report made it clear that taxes on land and property are an efficient and effective means of raising revenue and could make a substantially greater contribution to Australia's overall taxation effort. Contrary to much of the rhetoric, rates actually offer local government a very robust tax base. Recent figures highlight that fact: since the Global Financial Crisis, while federal and state revenues have stagnated, local government's share of taxation has risen from a long-term low of 2.9% to around 3.5%.

3.3 Financial sustainability

To cope with the challenges of change, councils need above all to be in the strongest possible financial position. The recent report of the NSW Treasury Corporation (TCorp) on the *Financial Sustainability of the NSW Local Government Sector* defined sustainability in the following terms:

A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community.

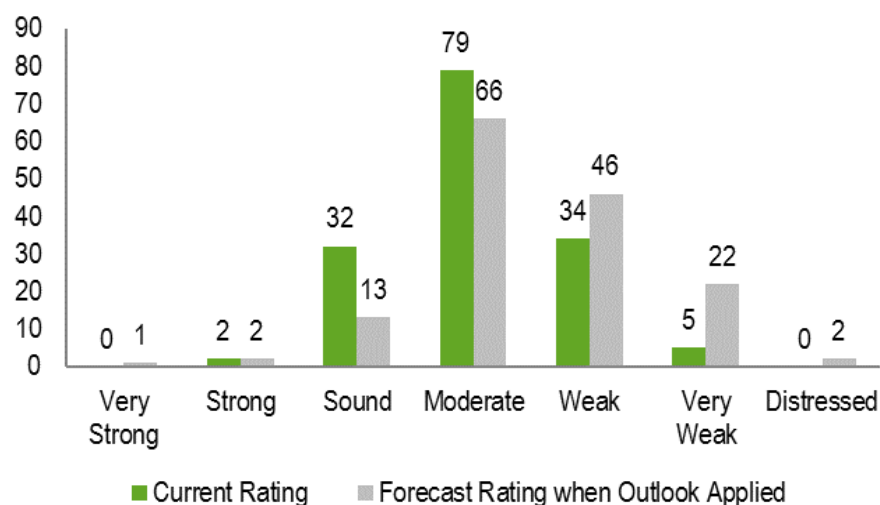
This definition takes into account the potential impact that changing circumstances and emerging challenges could have on a Council's operating position and service levels over the long term.

TCorp allocated all councils a Financial Sustainability Rating (FSR) on a scale from Very Strong to Distressed. A council needs to be assessed at a Moderate or higher level to be acceptable in terms of its sustainability. A Moderate level FSR is on average equivalent to marginally exceeding the benchmarks utilised in TCorp's assessment process.

Councils were also assigned a short-term Outlook rating of Positive, Neutral or Negative. A Negative Outlook is a sign of a general weakening in performance and sustainability. Hence a council with a FSR of Moderate and an Outlook of Negative, is at risk of being downgraded from Moderate to Weak. Councils rated Moderate-Negative or worse need to address areas of poor performance in order to avoid becoming steadily more unsustainable.

As shown in Figure 5, in 2012 around 75% of NSW councils achieved a rating of Moderate or better. However, only five councils had a Positive Outlook, while 73 – nearly half of all councils – rated Negative. This means that without corrective action the overall position of the sector is likely to deteriorate, and that in a few years well over 40% of councils could be rated Weak, Very Weak or Distressed.

Figure 5: Financial Sustainability Ratings with Outlooks



TCorp's other key findings may be summarised as follows:

- **Operating deficits are unsustainable.** Most councils are reporting operating deficits and a continuation of this trend is unsustainable. In 2012 only one third of councils (50) reported an operating surplus. Moreover, the figures for 2012 significantly understate the problem, because the federal government prepaid half of its 2013 Financial Assistance Grants to councils.
- **There is a large annual asset maintenance gap.** Councils' reported expenditure shows an annual shortfall in spending on asset maintenance. In 2012 alone, the reported maintenance gap was \$389m across the local government sector, and the total for the last four years is \$1.6b.

- **The infrastructure backlog has yet to be addressed.** Achieving an annual breakeven operating position would provide councils with adequate funds to meet future requirements for maintenance of assets and services, but this would not be sufficient to address the cumulative infrastructure backlog of \$7.2b reported in 2012, nor any additional maintenance funding gaps that may be identified as data improves.
- **Regional performance varies.** There is a higher proportion of councils rated as Weak and Very Weak along the north coast and in the far western regions compared to others.

A number of councils have argued that TCorp's methodology was flawed and that the rating allocated to them was incorrect. The Panel has discussed these issues in detail with TCorp and DLG, and has concluded that the ratings are correct based on the data available to TCorp at the time (mid 2012-early 2013). The Panel understands that several councils have since provided additional or revised data, and have approached TCorp for an updated assessment.

Action needed to address the financial concerns raised by TCorp's findings is discussed in sections 5 and 6.

3.4 Infrastructure management and backlogs

The TCorp report makes it clear that tackling local government's annual asset maintenance gap and the cumulative infrastructure backlog warrants the highest priority. Economic development, service delivery and community wellbeing all depend on adequate infrastructure, especially roads, bridges and buildings.

Both TCorp and DLG now estimate the backlog at over \$7 billion. This figure is based on unaudited council data and might be reduced substantially if councils revise acceptable service levels in consultation with their communities – for example, replacing some dual-lane bridges with cheaper single lane structures or culverts. On the other hand, important environmental works (eg pollution traps to improve water quality, or revegetation of eroding stream banks) may have been excluded from the calculations.

This uncertainty, and the need to formulate sensible strategies to address the backlog, highlights the importance of further improving asset and financial planning. TCorp and DLG have identified continuing weaknesses in these areas and called for ongoing efforts to enhance performance, including upgrading the skills of both managers and councillors to develop and implement appropriate plans and programs.

There is no doubt that the sheer scale of infrastructure problems threatens to overwhelm a significant number of councils. This applies particularly to rural-remote councils that have to maintain extensive networks of roads and bridges that serve very few ratepayers; and to north coast councils having to cope with varying combinations of retiree-driven growth, dispersed populations, difficult terrain, frequent flooding, numerous old timber bridges, coastal erosion and the demands of tourism.

These issues are addressed in section 7.

3.5 'Councils at risk'

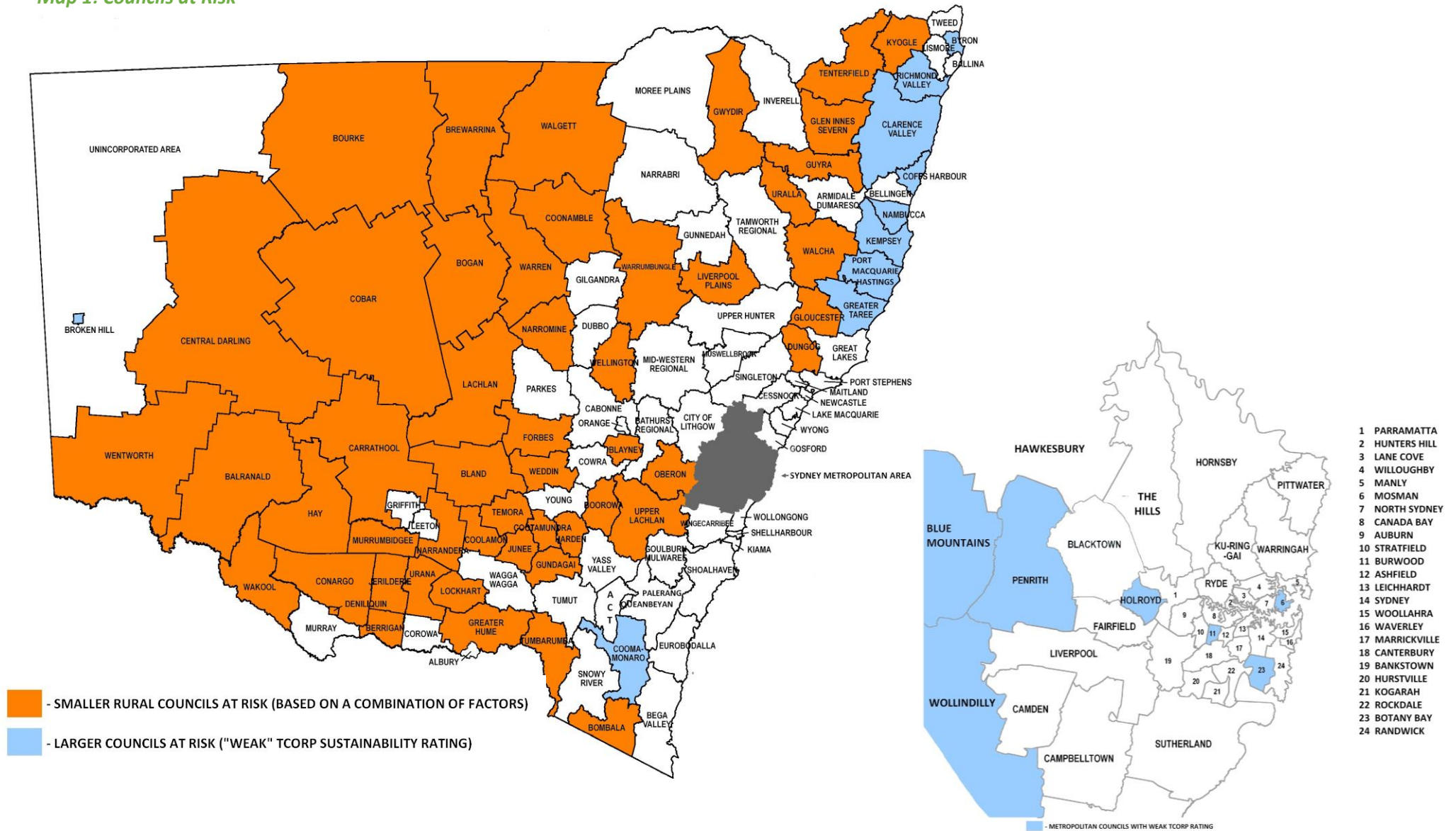
Based on the TCorp analysis, a council-by-council infrastructure audit undertaken by DLG, the latest DP&I population projections, and a state-wide 'cluster-factor' analysis of local government areas, the Panel has made an assessment of those councils that could be deemed to be 'at risk'. This means that, under current policy settings, the councils concerned may become unsustainable or cease to be 'fit for purpose' within the foreseeable future. The councils are shown on Map 1. Risk was assessed based on combinations of several factors:

- FSR of Moderate with Negative Outlook or worse
- Weak, Very Weak or Distressed rating in DLG infrastructure audit
- Projected population less than 10,000 in 2031
- Projected decline in population or only marginal growth
- Low rating base
- High dependence on grants for operating income.

The analysis identified 52 smaller 'councils at risk' in rural-remote NSW. In addition, there were 18 larger councils (projected populations in excess of 10,000) that received a 'Weak' or 'Very Weak' FSR. Eight of these were concentrated along the north coast between the Hunter and the Queensland border, but they also included three other regional councils (Broken Hill, Queanbeyan and Cooma-Monaro) and seven councils in or around the Sydney metropolitan area. Given their size and growth prospects, it seems likely that most if not all of these larger councils can progressively improve their sustainability rating through sound policy and management. Some have already begun to deal with the issues identified by TCorp.

Full details of the factors involved in determining 'councils at risk', together with future options for all rural and regional councils are contained in Table 11 (section 12).

Map 1: Councils at Risk



4. Building a Sustainable System

The rest of this report focuses on ways in which local government can best address the challenges it faces, realise its potential, and thus become a true partner in the governance of NSW.

Communities deserve high capacity local councils that can:

- deliver quality services and infrastructure
- prepare soundly-based plans for the future
- help support local jobs and economic growth
- represent the diverse needs of different groups
- influence State and federal government decisions to achieve local and regional objectives, for example in transport and housing
- keep rates and charges at affordable levels and maximise the benefits from spending those revenues.

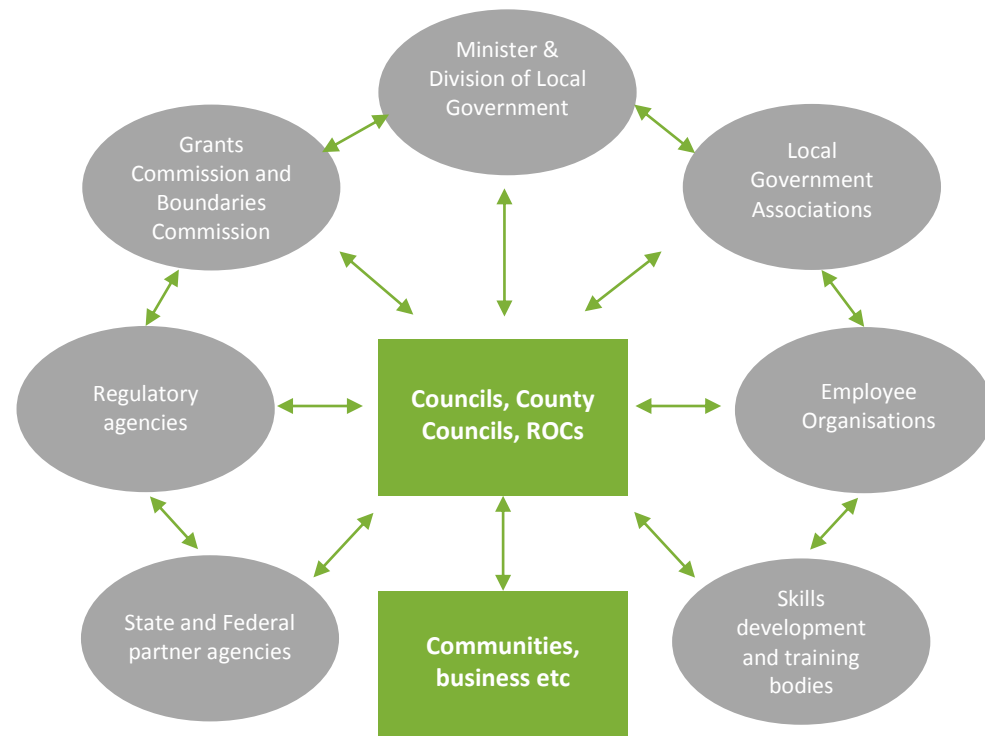
The Panel's goal is to ensure that every community in NSW has local government that reaches the highest possible standard, and that will be sustainable for several decades to come. This can only be achieved if we look at the *system* of local government as a whole. Very few challenges can be addressed or problems 'fixed' in isolation: understanding how the system of local government works is essential to achieve lasting improvements and to avoid the unintended and often adverse consequences of poorly conceived policies and interventions.

4.1 A systems approach

The system of local government in NSW is much more than the 152 general purpose councils. There are complex interactions between councils and many other players (see Figure 6).

Significant changes to any part of the system will have ripple effects throughout and these must be taken into account. For example, creating stronger, more capable councils will engender changes in their roles and relationships vis-à-vis State and federal agencies, in the way they are overseen and regulated by the State government, and in their needs for professional development and training. Reform proposals must take those systemic adjustments into account.

Figure 6: The Local Government System



Box 7 summarises the Panel's views on the essential elements of a more effective system of local government. The Panel is concerned that underlying weaknesses in the current system in NSW are not being adequately addressed, and that – as explained in section 3 – many councils are in poor shape to address foreseeable future challenges.

On the whole, councils continue to deliver a reasonable range of services and do so quite efficiently. But financial problems and infrastructure backlogs are mounting; grants are not being allocated sufficiently to areas of greatest need; many more councils should have been applying for Special Rate Variations to restore and strengthen their revenue base; efficiency, effectiveness and regional collaboration must be improved considerably to make the best use of scarce resources; there appears to be excessive regulation; councils tend to focus on compliance rather than improving their performance; the local government association needs to play a stronger role; and so on.

The Integrated Planning and Reporting (IPR) framework introduced in 2009 was, as its name implies, a deliberate attempt to encourage councils to adopt a more holistic approach in their strategic and corporate planning. It is still early days in implementing that framework across the State, but IPR has been well received and has already brought about improvements. However, experience to date also highlights the need for a range of complementary measures and adjustments to policy in order to achieve the full benefits of an integrated approach. For example, IPR has made it clear that councils need to enhance regional cooperation around key strategic issues; that the rate-pegging arrangements need to be adjusted; that political leadership needs to be strengthened; and that State-local cooperation must be improved. Thus the imperative of a systems view of the world is becoming more and more evident.

Box 7: Essential Elements of an Effective System of Local Government

- Councils with the scale, resources and 'strategic capacity' to govern effectively and to provide a strong voice for their communities
- Maintenance of a strong sense of local identity and place
- Councils with an adequate revenue base (own source or grants) relative to their functions, healthy balance sheets, and sound financial management
- Councils renowned for their efficiency and focus on outcomes, based on the Integrated Planning and Reporting framework
- Regional groupings of councils that share resources on a large scale and jointly plan and advocate for their regions
- Councils that have highly skilled mayors, councillors and executive teams; and are respected by the State government and community alike
- Mayors who are recognised leaders both within the council and throughout the local community, and enjoy a positive reputation for that leadership.
- An electoral system designed to ensure that as far as possible councils are representative of the make-up and varied interests of their communities
- A Local Government Act that minimises prescription and provides a range of options for the way councils and regional bodies are structured
- Effective mechanisms for State-local consultation, joint planning, policy development and operational partnerships
- A local government association that is focused on strategy; a well-informed, dynamic advocate; a leader in reform; and a troubleshooter
- A constructive relationship between employers, employees and employee organisations, focused on improving productivity, performance and rewards.

4.2 Strategic Capacity

Recent research by the Australian Centre of Excellence for Local Government (ACELG) has explored the need to create more 'strategic capacity' in local government – both within individual councils and collectively. Building a sustainable system requires councils that are 'fit for purpose' to play their part in the broader system of government. In Queensland, this issue was addressed by the 2007 report of the Local Government Reform Commission. It argued that:

The challenges confronting Queensland in the coming decades require governments of all levels to be high capacity organisations with the requisite knowledge, creativity and innovation to enable them to manage complex change....This requires a local government structure which responds to the particular characteristics of the regional economies emerging over the coming decades, recognising communities of interest are developing rapidly and differently across the regions due to improved transportation, telecommunications and economic interdependencies. This structure needs to give rise to local governments capable of responding to the sometimes quite diverse demands by these communities and of a sufficient size and scale to generate cost efficient and effective services. (p.5)

The concept of strategic capacity highlights this aspect of reform: the need for councils to shift their focus towards a more strategic view of their operations; to have the ability to respond to the diverse and changing needs of different communities; and to take on new functions or deliver improved services in order to meet those needs. This implies a move to larger, more robust organisations that can generate increased resources through economies of scale and scope, and then 'plough back' efficiency gains into infrastructure, services and other benefits for their communities (see Box 8).

Box 8: Key Elements of Strategic Capacity

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

ACELG's report *Consolidation in Local Government: A Fresh Look* made it clear that strategic capacity can be increased both by creating larger units of local government – the approach favoured in Queensland – and through regional collaboration and resource sharing. In the Panel's view, a mix of these two approaches will be necessary to ensure a sustainable and effective system of local government in NSW. Section 11 outlines the way forward.

Part B

Finance and Governance

5. Fiscal Responsibility

Securing local government's financial capacity and sustainability is the fundamental pre-requisite for all other moves to enhance its strength and effectiveness. The Panel has received a great deal of evidence and advice that points to the need for new initiatives to address current weaknesses in the financial position of a number of individual councils and the sector as a whole. The scope of changes required is canvassed in this and the next two sections. As TCorp makes clear, a concerted, medium-long term strategy is required. This will need to combine fiscal discipline with improved financial and asset planning, accelerated increases in rates and charges where required, redistribution of grant funding, and improved efficiency and productivity.

A useful start has been made with the introduction of IPR, changes to the rate-pegging guidelines for 2013-14, and the State government's Local Infrastructure Renewal Scheme (which has highlighted the need to make more use of borrowings where appropriate). There are signs of a growing understanding of what needs to be done, but there is also evident reluctance to take the hard decisions involved. Notably, only 23 councils applied for a Special Rate Variation in 2013: the TCorp findings suggest that number seriously understates the need for faster revenue growth.

5.1 Essential elements

The Panel believes that the starting point has to be a new focus on what it terms 'fiscal responsibility' – by which asset and financial management, the level of rates and charges, distribution of grants, setting of service standards, increased efficiency, performance improvement and audit practices are all aligned to achieve the long term goal of financial sustainability. TCorp recommended a focus on the following aspects:

- At least breakeven annual operating positions are essential
- Rate increases must meet *underlying* costs as well as annual growth in expenditure
- Medium-term pricing paths are needed for ongoing adjustments to rates and charges
- Asset management planning must be prioritised
- Councillor and management capacity must be developed
- The system and guidelines for accessing restricted funds should be reviewed
- Increased use of borrowings for infrastructure.

Sustainability benchmarks

TCorp used a wide range of financial ratios to assess and benchmark councils' performance. Its report makes the point that further development of benchmarking data and methodologies is required to strengthen the assessment framework: no doubt there is room for improvement on the approach used in the first round of assessments. An agreed set of sustainability benchmarks and rigorous collection of accurate data to calculate relevant ratios and indicators would be a central element of such a framework.

The need for improved comparative data on councils' financial performance was highlighted in 2012 in a report by the NSW Auditor General. The Division of Local Government is currently working on performance measurement in the context of the *Destination 2036* Action Plan item: *Develop a consistent performance measurement approach for councils and a comprehensive program to support improvement*. This work needs to be extended to cover sustainability. Development of sustainability indicators and benchmarks is currently being pursued in Victoria and Queensland, and NSW can learn from their experience.

5.2 Guidelines for Delivery Programs

Soundly-based, long term asset and financial plans are the essential foundations of sustainability. Under IPR, each newly-elected council must prepare a 4-year Delivery Program that gives expression to those plans, and to the Community Strategic Plan. The Panel's investigations suggest that this aspect of IPR needs further attention, so that a council's Delivery Program accurately and fully reflects the provisions of its asset and financial plans, and embeds fiscal responsibility. Proposals for expanded mandatory Guidelines for Delivery Programs to achieve those objectives are set out in Box 9. More rigorous Delivery Programs are also central to the Panel's proposals to replace or streamline rate-pegging (section 6.5).

Box 9: Proposed Requirements for Delivery Programs

A Delivery Program should:

- Give effect to long-term financial and asset management plans prepared fully in accordance with IPR guidelines
- Contribute effectively to progressive elimination of an operating deficit
- Establish a 4-8 year 'revenue path' for all categories of rates linked to specific expenditure proposals for infrastructure and services
- Clearly justify any proposed increases in services or creation of new assets, based on regular service reviews and community consultation to determine appropriate levels of service
- Incorporate substantially increased funding for infrastructure maintenance and renewal (where backlogs have been identified)
- Apply increased borrowing to meet infrastructure needs wherever appropriate and financially responsible
- Ensure a fair and reasonable distribution of the rate burden across categories of ratepayers
- Include measures to bring about ongoing improvements to efficiency, productivity, financial management and governance
- Be certified by the Mayor and General Manager, in their respective capacities, as meeting these requirements.

5.3 Capacity for asset and financial management

TCorp makes the point that many councils across NSW still appear to be having difficulty both in meeting the asset and financial planning requirements of IPR, and in ongoing financial management. TCorp goes on to make a series of recommendations including the need to:

- Undertake regular independent reviews of councils' financial position.
- Assist councils with financial planning
- Improve management of liquidity
- Offer support to councils in respect of complex procurement tasks
- Provide additional training programs for councillors and staff
- Review some elements of the IPR guidelines

The Panel endorses these proposals.

Two underlying issues here are the continued existence across NSW of many small (in population) councils with limited staff resources; and a shortage of personnel with necessary financial and asset management skills. The Panel notes that there is at present no statutory requirement for a council to employ an appropriately qualified chief financial officer: this should change and the role must be seen as one of strategic management, not simply 'keeping the books'. 'Fiscal responsibility' will remain an elusive goal unless these underlying issues are addressed. Regional collaboration to share expertise has an important role to play (see section 11).

As part of capacity building, the initial 2012-13 TCorp sustainability assessments should be followed up on a regular basis to ensure that the impetus for improvement is maintained, that progress is monitored systematically, and that requirements for further external advice and support can be identified. In Queensland, the Treasury Corporation undertakes reviews of a sample of councils each year, in addition to its assessments of those councils seeking to borrow. It also provides advice on financial management, including to councillors. Similar arrangements should be made in NSW. As well, calculation and monitoring of sustainability benchmarks could be built into annual financial audits (see below).

5.4 A new approach to auditing

Another issue raised by TCorp is the desirability of a more consistent approach to auditing of annual financial statements and collection of data on asset maintenance and infrastructure backlogs. The Panel does not doubt that auditors undertake their tasks in a professional manner. Nevertheless, it is concerned that the current system whereby councils individually tender for audit services creates a tendency to minimise the amount of work involved, and hence the cost. This limits the potential for the audit process to contribute to improving financial management and fiscal responsibility.

The Panel has held numerous discussions on this issue with key stakeholders. It has also noted the findings of the recent inquiry by the NSW Public Accounts Committee that the Auditor-General should have some oversight of local government affairs; that s/he should be able to directly audit functions performed by local government entities on behalf of the State in the delivery of government programs; and that further consideration be given to expanding the Auditor General's role to include the oversight of local government financial audits generally.

The Panel is convinced that NSW should follow the example of Queensland and Victoria in placing local government audits firmly under the aegis of the Auditor General. This is the best way to ensure consistency of approach and provision of reliable data that can be used for sustainability assessments and benchmarking. Most audits would continue to be carried out by private firms, but under the supervision

of the Auditor General, who would also prepare an annual overview report to Parliament, providing an independent assessment of the financial health of the local government system. The Panel sees this as a major step forward for the sector.

There are various ways to establish a legal basis for this new approach. Provisions could be added to either the Local Government Act or the Public Finance and Audit Act; local government could be treated along very similar lines to State agencies, or special provisions could be drafted to reflect its different character. These options need to be resolved over coming months, and an implementation program agreed. In evidence to the Public Accounts Committee the Auditor General indicated that changes to audit arrangements could be phased-in over several years, and existing contracts with independent auditors honoured.

A widespread concern in local government is that a move to oversight by the Auditor General would increase the cost of audits. The Panel believes some increases could indeed occur, given the resources required to administer the system and compile an overview report. As well, there may be cases where competitive pressures under current arrangements have driven down the cost (and perhaps scope) of audits to unrealistically low levels. In general, however, the Panel considers that additional costs would be relatively minor, and far outweighed by the benefits of a more robust system. Moreover, there is evidence to suggest that changes to other regulatory and compliance regimes may well produce offsetting

savings (see section 8.2). Nevertheless, the Auditor General should be required to detail and justify the cost structure involved in the new approach.

5.5 Cost-shifting

An often expressed concern of local government is 'cost-shifting'. This is described in various ways, but the defining theme is that State and to a much lesser extent federal governments have transferred functions to local government or imposed additional costs on councils without either providing corresponding funding or enabling councils to raise the extra revenue required.

Local Government NSW and its predecessors have conducted an annual survey of cost-shifting for several years. According to the results for 2010-11 the financial impact on councils amounted to \$499 million or 5.72% of local government's total income before capital. Most of this sum was attributable to five causes:

- Waste disposal levies
- The declining level of grants for public libraries (which originally covered 50% of councils' operating costs)
- Contributions to the NSW Fire Brigade, Rural Fire Service and State Emergency Services
- Pensioner rebates
- Costs of processing development applications and other approvals or inspections which cannot be recovered due to State controls on the fees councils may charge.

The Panel understands local government's concerns over this issue. It is particularly difficult to justify the State's actions in setting-up regulatory regimes without allowing councils to recover the full cost of operating them. This does not apply to waste levies, however, as the power to restrict annual charges for waste management has never been used. Also, consideration is being given to establishing a separate funding source for fire and emergency services – although as in the case of the waste levy, this would be collected by local government and may be seen by the community as part of council rates.

Applying a broader perspective, the central issue here is threefold:

- Is local government precisely that – government – in which case it cannot expect to be isolated from inevitable shifts in the division of responsibilities between the three levels?
- Is local government empowered to raise the funds necessary to meet whatever obligations are imposed on it?
- Are adequate arrangements in place to ensure that shifts in responsibilities are properly planned and negotiated?

In the Panel's view, current concerns in NSW flow from past failures to address the second and third points. The changes to rate-pegging proposed in

section 6.5 are part of the way forward. The other essential element is effective implementation of the recently signed *Intergovernmental Agreement to Guide NSW State-Local Government Relations on Strategic Partnerships*. This is discussed in section 17. One of its principal provisions specifically addresses cost-shifting:

Where local government is asked or required by the State Government to provide a service or function to the people of NSW, any consequential financial impact is to be considered within the context of the capacity of local government.

The critical issue now is to ensure that this provision is implemented effectively. This will require further discussions on three fronts:

- First, to establish an agreed approach to assessment of 'consequential financial impacts', and to ensure that all State agencies understand what is involved and their obligations to consult
- Second, to review pensioner rebates (see section 6.2)
- Third, to ensure that any future arrangements for rate-pegging and/or setting fees and charges enable councils to recover cost increases associated with additional services or functions covered by the Agreement.

Recommendations for fiscal responsibility

1	Establish an integrated Fiscal Responsibility Program, coordinated by DLG and also involving TCorp, IPART and LGNSW to address the key findings and recommendations of TCorp's financial sustainability review and DLG's infrastructure audit (5.1 and 5.3)
2	As part of the program: • Adopt an agreed set of sustainability benchmarks (5.1) • Introduce more rigorous guidelines for Delivery Programs as proposed in Box 9 (5.2) • Commission TCorp to undertake regular follow-up sustainability assessments (5.3) • Provide additional training programs for councillors and staff (5.3) • Require all councils to employ an appropriately qualified Chief Financial Officer (5.3)
3	Place local government audits under the aegis of the Auditor General (5.4)
4	Ensure that the provisions of the State-Local Government Agreement are used effectively to address cost-shifting (5.5)

6. Strengthening the Revenue Base

The Panel was specifically asked to examine the current local government revenue system, including rating provisions. It commissioned independent research for this purpose, including comparisons with rating systems in other states. The Panel has also referenced recent reports on local government revenues issued by the Australian Centre of Excellence for Local Government, and the *Review of local government rating exemption provisions* prepared for Local Government NSW by Deloitte Access Economics.

6.1 The rating system

Key findings and options for improvements to the rating system, drawn from the Panel's research, are summarised in Box 10. A number of significant changes are warranted in order to strengthen councils' revenue base within the overall framework of fiscal responsibility.

Box 10: The NSW Rating System and Potential Improvements

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| <ul style="list-style-type: none">• Total council revenues in 2011-12 were \$9.245bn; 52% came from rates and annual charges (including water)• There may be scope to raise a greater share of revenue from fees and charges levied on services akin to 'private goods' eg leisure centres• Rates are a tax, not a fee-for-service; they need to be set in accordance with principles of taxation – equity, efficiency, simplicity, sustainability and policy consistency• The level of rates paid relative to property values varies greatly from one local government area to another: this raises a number of equity issues (notably the relatively low rates paid by property owners in many affluent suburbs of Sydney)• In particular, there is a need for more equitable arrangements for rating apartments; these might include a partial shift from Land Value to Capital Improved Value as the basis for rates | <ul style="list-style-type: none">• Other options to generate increased rate revenues from apartments also need to be explored• Existing options for minimum rates, base charges and differential rates should remain, but overly complex use of those mechanisms should be discouraged• There is considerable potential for greater use of special rates• Some concessions for disadvantaged ratepayers are justified, but social welfare should not be a local government responsibility; arrangements for pensioner concessions should be reviewed• Further consideration should be given to enabling income-poor but asset-rich ratepayers to defer payment of rates as a charge against their property, rather than receive a concession• The extent of non-rateable land and exemptions for government business enterprises, benevolent institutions and others should be reviewed |
|--|---|

Revenue Policies

NSW councils are already required to prepare a Revenue Policy as part of their operational plans. In nearly all cases, however, this amounts to little more than a list of the different categories of rating and the rates in the dollar to be applied. Such policies do not explain why the council has adopted those different rates and the basis on which they have been set. The Local Government Act and Regulations offer little guidance on this matter, but do provide scope for more detailed policies, which would be consistent with IPR Guidelines.

The 'Henry' review again confirmed that rates are a tax, not a fee-for-service. That being the case, councils should be applying well established principles of taxation – such as equity, efficiency, simplicity, sustainability and policy consistency – as part of their Revenue Policies. The Panel can find little evidence that this is occurring. In most cases, rating systems appear to be the result of an accumulation of pragmatic decisions taken over many years, focused simply on raising as much revenue as possible within legal limits and in a manner acceptable to the majority of ratepayers. This approach is unlikely to reflect sound fiscal policies or to lay a solid foundation for long-term sustainability.

The Panel thus sees a need for preparation and adoption by councils of more rigorous Revenue Policies that set out a clear rationale for the way their rating systems are structured, precisely what they are designed to achieve, and how taxation principles have

been applied. This would enhance transparency and accountability to the community, and encourage councils to avoid both arbitrary imposition of rates and unnecessary complexity. Revenue Policies should be updated as part of each new 4-year Delivery Program, and reviewed thoroughly every second or third term of a council to ensure they are fit-for-purpose.

Additional guidance to councils would need to be provided through amendments to the Act and Regulations, and/or advisory materials.

6.2 Exemptions and concessions

NSW legislation has progressively established a very long list of properties exempt from local government rates. The recent Deloitte Access Economics report provides a useful typology, and examines the case for exemptions in terms of taxation principles, practice in other jurisdictions, and their impacts on efficiency, equity, competitiveness, administrative complexity and long term sustainability. Table 2 provides a simplified summary of the report's conclusions. The Panel considers that the way forward proposed in the report is reasonable and warrants further consideration by Government in the broader context of the Panel's recommendations relating to sustainability and financial management. The goal should be to strengthen the position of those councils – especially rural-remote councils with a limited revenue base – that are most affected by the current pattern of exemptions, and to ensure a more equitable imposition of rates.

Table 2: Potential Changes to Rate Exemptions

Type of Land	Possible Way Forward
Commercial activities of various statutory authorities	Remove or modify current exemption (eg commercial forestry in State forests and commercial activities in National Parks)
Land used for certain religious, charitable and educational purposes	Modify current exemptions and/or switch to a minimum rebate with the option of additional concessions at councils' discretion
Oyster cultivation and cattle dipping; land leased for granted mineral claims	Remove exemption (little justification on efficiency or equity grounds)
Various listed groups	Remove exemption (largely commercial purposes eg Royal Agricultural Society, Sydney Cricket Ground, Museum of Sydney)
Land used for health and safety; Aboriginal land; cemeteries, public places, libraries	Retain exemption

Pensioner concessions

Pensioner concessions are another thorny issue. There are three elements to this. First, the current annual cost to councils is some \$62m per annum (45% of the total), and NSW is the only jurisdiction in which councils are required to make such a contribution. Second, the level of the concession has not changed since 1989, raising questions about its longer term worth unless both the State and councils can find the funds to increase its value in real terms. Third, pensioner rating concessions are clearly a welfare measure and a form of tax relief, and it is doubtful whether funding such a concession ought to be a local government (or even State government) function within Australia's federal system. The Panel also notes that financial advice offered to many relatively affluent retirees often includes how to arrange their affairs so as to obtain pensioner concessions.

The Panel thus believes that pensioner rate concessions should also be reviewed against the objectives of sustainability and equity.

6.3 Equitable rating of apartments

Rating in NSW is based solely on land values. Research indicates that this is generally an acceptable approach that achieves a reasonably equitable distribution of the rate burden. It offers the distinct benefit of a relatively simple and low cost system of valuation.

However, a significant issue has now arisen in terms of the rating of apartments and other multi-unit dwellings. Particularly in the inner suburbs of Sydney, such dwellings now constitute a large proportion of the housing stock, and this proportion is planned to increase considerably. For example, in the City of Sydney and in the Waverley Council area multi-unit dwellings already constitute 75% and 63% of the total respectively, and virtually all new housing will take that form.

Currently, the unimproved value of the land occupied by a block of apartments is split between the owners of individual dwellings (strata titles), such that each is rated on only a small fraction of the total value. As a result, owners of apartments worth millions of dollars pay less in rates than owners of nearby houses worth much less, and all or most owners of apartments may pay the same minimum council rate irrespective of the differing market values of their properties. Not only are such outcomes inequitable, but they also mean that the rating system is raising far less revenue than it reasonably could.

For example, in 2011-12 75% of the 87,000 residential assessments in the City of Sydney were flats, units or apartments, and 74% of all assessments (mostly multi-unit dwellings) paid the then minimum rate of \$430. On the very conservative assumption that the rates of 60% of dwellings could have been increased to the then *average* residential rate of \$565, additional revenue of more than \$7m would have

been generated. This was well in excess of the City's federal Financial Assistance Grant of \$5.5m. The Panel believes that the City could in fact increase its residential rates revenue by much more without imposing an undue burden on residents. A substantial number of other councils could similarly generate very substantial additional revenues within reasonable levels of affordability.

Equity issues can be addressed to some extent by increasing minimum rates and by changing the way the value of the land is distributed amongst the owners of strata-titled properties. However, these are only partial solutions and do not enable a council to capture significantly increased revenues from apartments overall. The only way both objectives can be achieved is by changing the valuation base to Capital Improved Value (CIV).

Advice received by the Panel suggests that a move to CIV could be limited to selected local government areas and need not involve all properties in those areas. It could be restricted to either all residential properties or perhaps – by creating a new rating category – just multi-unit dwellings. Either way, the cost of making the change would be significant but not excessive, and discussions with the Valuer General do not suggest any major methodological or logistical concerns. The cost could be recouped quickly provided rate-pegging rules are adjusted to allow the councils concerned to retain the additional revenue that would be forthcoming (see below).

Such a change would mean that some ratepayers would pay considerably more. However, these would be owners of high-value properties and any increases could be phased-in over several years. The Panel is satisfied that the overwhelming majority of those likely to be affected would have ample capacity to pay, and that the fundamental objective of a more efficient and effective rating system must be given priority.

6.4 Broader equity issues

As indicated in Table 3, a broader equity issue concerns the wide variation between local government areas in the level of rates paid as a proportion of property values. Some variation is inevitable given that rates are levied on a council-by-council basis and the range of services provided, as well as the cost of service delivery, differs from one area to another. The Panel believes, however, that more weight should be given to relative levels of rates – and hence the potential financial capacity of different councils – when decisions are made about allocating grants; and when consideration is being given to the responsibilities different councils can reasonably be expected to undertake.

Equity concerns are of particular significance in metropolitan Sydney, where councils in a number of affluent areas with high-value properties are charging low levels of rates compared to their counterparts in western and south-western Sydney. This issue is discussed further in section 13.6.

Table 3: Relative Levels of Rates

Local Government Area	Average Residential Land Value 2011/12 (\$)	Average Residential Rates 2011/12 (\$)	Rates as % of Land Value 2011/12
Woollahra	1,036,898	1,006	0.10
Ku-ring-gai	529,412	591	0.11
North Sydney	366,043	484	0.13
Waverley	563,832	796	0.14
Kogarah	446,270	887	0.20
Palerang	237,770	770	0.32
Penrith	229,634	957	0.42
Blacktown	183,763	808	0.44
Clarence Valley	152,449	784	0.51
Campbelltown	154,348	817	0.53
Bathurst	100,403	810	0.81
Albury	115,128	1,045	0.91
Warrumbungle	30,648	452	1.47
Broken Hill	28,802	674	2.40

6.5 Rate-pegging

The 2007 Productivity Commission study of local government's revenue raising capacity found that many councils could make better use of their rating base to achieve substantial increases in own-source revenue, and that this can be done without undue impacts on household budgets. In terms of long term financial sustainability, increasing own-source revenues is a better option than greater reliance on grants, where it can be achieved. Affordability must remain a key objective, but it must be remembered that rates typically constitute a very small percentage of both household and business expenditure. Experience in other states and the results of community surveys suggest that increases of \$1-2 per week would be acceptable for most NSW ratepayers, provided the additional revenue is earmarked for specific improvements to infrastructure and services. Increases of that order would be sufficient to address many of the problems identified by TCorp.

Since 1979 NSW has had a system of rate-pegging designed to prevent excessive increases in rates, and to encourage councils to become more efficient. The system was reviewed in 2008 and some adjustments have been made since then. Councils can apply to the Independent Pricing and Regulatory Tribunal (IPART) to increase rates above the annual limit, provided they have a strong case that the funds are needed and can demonstrate community awareness of what is involved.

According to advice received from IPART, over the period 2001/2 to 2010/11, growth in the total revenues of NSW councils was 5.7% per annum, compared to an average of 8.0% for the other mainland states. Taxation revenue (rates) increased by 4.4% per annum in NSW compared to an average of 8.0%. This points to 'revenue foregone' in rates of well over \$1bn. The fact that rates in those other states have increased without a strong community 'backlash' suggests that political sensitivities in NSW have been overstated.

The Panel's investigations also indicate that rate-pegging has had significant unintended consequences, in particular:

- Unrealistic expectations in the community (and on the part of some councillors) that somehow rates should be contained indefinitely, even though other household expenditures are rising
- Excessive cuts in expenditure on infrastructure maintenance and renewal, leading to a mounting infrastructure backlog
- Under-utilisation of borrowing due (in part) to uncertainty that increases in rates needed to repay loans will be granted
- Reluctance to apply for Special Rate Variations (SRVs) even when clearly necessary, because exceeding the rate peg is considered politically risky, or because the process is seen as too complex and requiring a disproportionate effort for an uncertain gain.

The Panel notes also that the system has become highly complex. There are two different types of SRV. The increased level of rate revenues may or may not be embedded permanently into the councils rating base. Applications to IPART may be required not only for increases in the current level of rates that exceed the annual peg, but also for some adjustments to minimum rates and special rates, and to capture revenue from newly valued or developed land. Special approvals are also required where the increase in revenues is under-estimated and ultimately exceeds the peg, even by a very small amount.

In 2013 only 23 of 152 councils applied for SRVs. Yet figures for the 2011/12 financial year show that 83 councils would have needed to increase rates and annual charges by more than 5% to achieve a break-even operating result.

The Panel's conclusion is that, whilst there is certainly a case for improving efficiency and keeping rate increases to affordable levels, the rate-pegging system in its present form impacts adversely on sound financial management. It creates unwarranted political difficulties for councils that really can and should raise rates above the peg to meet genuine expenditure needs and ensure their long-term sustainability. The Panel can find no evidence from experience in other states, or from the pattern and content of submissions for Special Rate Variations, to suggest that councils would subject their ratepayers to grossly excessive or unreasonable imposts if rate-pegging were relaxed.

The rate-pegging system is also very costly relative to the benefits it delivers. Millions of dollars are spent each year by councils and State agencies on preparing, reviewing and determining applications when the actual cost impact of the proposed rate increases on households is often no more than \$1 per week.

Options for more effective arrangements

The Panel has developed three options to respond to the issues raised above.

Rate Benchmarking. The first option is for the current system of rate-pegging to be replaced by what might be termed ‘Rate Benchmarking’ (see Box 11). This would form part of the new fiscal responsibility framework, with specific links to proposals for improved Delivery Programs and revenue policies, as well as oversight of council audits by the Auditor General. IPART would calculate and publish an annual Local Government Cost Index (as occurs currently in Victoria and Queensland), as well as comparative data on rate increases and associated expenditures (drawn from annual audits and the new performance measures being developed by DLG). The aim would be greater public scrutiny of councils’ revenue and expenditure decisions, and a heightened awareness of the need for, and key elements of, sound financial management. The Minister would retain a reserve power to intervene in cases where the evidence suggests a council is imposing excessive increases and failing to control expenditure.

Box 11: Rate Benchmarking

- More rigorous Delivery Programs (see Box 9) and Revenue Policies, certified by the Mayor and General Manager as meeting all applicable requirements
- Proposed rate increases and associate expenditures must be subject to community consultation when preparing Delivery Programs
- IPART publishes and justifies an annual Local Government Cost Index
- Annual audits (under the aegis of the Auditor General) check whether revenues in excess of the cost index have been expended in accordance with the Delivery Program
- IPART publishes benchmarking data on increases in revenues and expenditure efficiency
- Minister can intervene if the evidence warrants corrective action.

Rate Benchmarking is the Panel’s preferred option. However, the Panel accepts that rate-pegging has long been part of the political landscape in NSW, and that a proposal for what could be seen as ‘abolition’ may prove unacceptable at this time. Accordingly, its second option is to streamline current arrangements (see Box 12).

Streamlined Rate Pegging. IPART’s advice to the Panel makes the important point that current rate-pegging arrangements are not cast in stone: a ‘more light handed regulatory approach’ is entirely possible. The Panel notes that the relevant provisions of the Local Government Act could be applied in a number of ways, and that the current complexities flow in large part from administrative decisions.

Some ‘streamlining’ has already occurred under revised rate-pegging guidelines for 2013 and 2014, which link the system more closely to IPR requirements. The Panel believes this approach can be taken much further, with reduced demands on councils for special documentation, and with guarantees that some increases in rate revenues above the annual peg will be approved ‘automatically’ provided certain requirements are met.

The TCorp report makes it clear that rate revenues need to grow to cover not only annual cost increases faced by councils, but also *underlying* costs of service delivery, including progressive elimination of operating deficits and funding infrastructure needs. This means that in most cases rates do need to rise by substantially more than the current annual peg if councils are to achieve long-term sustainability.

IPART suggested increased flexibility for councils to set rates within a margin of 3% above the rate-pegging limit. That would add around 60 cents per week to the average residential rate (over and above the typical rate-pegging increase of around 3.5% or 70 cents per week). However, based on TCorp's assessments, the Panel considers that a margin of up to 5% would be more realistic where councils need to make significant short-medium term inroads into infrastructure backlogs and correct operating deficits. This would result in a *total* increase for the average residential ratepayer of around \$1.70 per week, which is well within the range of affordable and acceptable increases indicated by survey data.

Other elements of Streamlined Rate Pegging would include amendments to the Act and guidelines to:

- strip away what the Panel considers to be excessively detailed controls and 'Red Tape'
- remove some Special Rates from the system
- remove the possibility of any limits on domestic waste management charges, which should be set on a full cost-recovery basis.

IPART would continue to review and determine applications for SRVs of more than 5% pa above the peg. It would also advise the Minister on which councils might be exempted from rate-pegging (see below).

Box 12: Streamlined Rate-Pegging

Councils would be able to increase rates by up to 5% pa above the rate-pegging limit over the life of a Delivery Program, provided that:

- They prepare more rigorous Delivery Programs (see Box 9) and Revenue Policies, certified by the Mayor and General Manager as meeting all applicable requirements
- The community has been made aware of proposed rate increases and associated expenditures contained in the Delivery Program
- The case for a Special Rate Variation has been endorsed by the council's auditor as being soundly based and warranted to ensure long term sustainability
- Council has lodged its documentation with IPART.

In addition, the Local Government Act and/or Regulation would be amended:

- to require IPART to publish and justify an annual Local Government Cost Index
- to provide that increased revenues flowing from all legitimate SRVs are embedded permanently in a council's rating base
- to exempt from rate-pegging Special Rates levied on a defined group of ratepayers in order to undertake specific projects that are of particular benefit to those ratepayers, and have been shown to enjoy majority support amongst those affected
- to give councils the right to collect revenue in excess of the rate-pegging limit that results from new 'greenfields' development, converted Crown Land, additional multi-unit residential development, and any increased residential values flowing from the introduction of CIV for multi-unit dwellings
- to remove the need to seek approval for small amounts of revenue above the rate-pegging limit collected as a result of inaccurate estimates or calculation errors (amounts less than, say, the equivalent of 0.1% of total rate revenues)
- to ensure that domestic waste management charges are set on a proper cost-recovery basis
- to empower the Minister – through IPART – to conduct random audits to ensure that councils' documentation and implementation of these arrangements meets all relevant requirements.

Where an audit shows that a council has failed to meet the new criteria for Delivery Programs and/or Special Variations, the current rate-pegging arrangements would be re-applied.

Earned Exemption. The Panel's third option is for individual councils to be able to earn complete exemption from rate-pegging by demonstrating consistent high performance in asset and financial management. This would be an adjunct to Streamlined Rate Pegging. As the practice of IPR progressively improves, the Panel expects that a large proportion of councils would become exempt from rate-pegging in this way. Details are in Box 13.

Box 13: Earned Exemption from Rate Pegging

- Amend the Local Government Act to enable the Minister to exempt from rate-pegging individual councils that have demonstrated a consistently high level of fiscal responsibility and sound financial management in accordance with IPR Guidelines
- Councils apply to IPART for the exemption and IPART advises the Minister on whether or not it should be granted
- Where a random audit by IPART shows that a council has failed to meet the new criteria for Delivery Programs and/or Special Variations, or concerns about a council's financial management are raised in an annual financial audit completed under the aegis of the Auditor General, the Minister may re-apply the current rate-pegging arrangements.

6.6 Distribution of grants

Additional grant support is often advocated as a solution to the financial difficulties faced by councils. However, the Panel's view is that the need for expenditure restraint at State and federal levels will preclude any significant increase in total grants to NSW councils for the foreseeable future. At the same time, the geography of NSW means that there will continue to be a substantial number of smaller (in population) councils and rural or remote communities that are heavily dependent on grant support. If the system of local government is to be sustainable, every effort must be made to ensure that the available pool of grant funds is used in the most effective and equitable way possible.

Currently, the principal source of funds is the federal government through both Financial Assistance Grants (FAGs) and the Roads to Recovery program. FAGs are split into 'general-purpose' and 'roads' components, although both are untied and can be used as councils see fit. All councils receive a minimum grant: under the current law 30% of the total general-purpose component must be set aside for that purpose and distributed on a per capita basis.

The effect of the current arrangements is that large amounts of assistance are paid to some councils that could make do with less. This has been highlighted in several reviews, notably the 2007 study by the Productivity Commission. The Panel believes that in a climate of fiscal restraint, consideration needs to be given to the option of redistributing more funds to the most needy councils and communities. It notes that at present around \$40 million of general purpose grants are allocated each year to 23 minimum grant councils, all of which are located in relatively affluent areas of the Sydney region north and east of Parramatta. Those councils also receive a share of the roads component of FAGs and Roads to Recovery grants.

There is little justification for this approach on equity grounds. As noted earlier, ratepayers in the areas concerned often pay substantially less in rates as a proportion of the value of their properties than their less affluent counterparts in western and south-western Sydney, or in rural and regional NSW. Moreover, many of the councils involved would be prime beneficiaries of a change to CIV for multi-unit dwellings.

To bring about substantial changes in grant distribution, there is a need for adjustments to both the current formula used by the NSW Local Government Grants Commission and to the federal legislation that stipulates the amount of money to be set aside for minimum per capita grants. The Commonwealth Grants Commission (CGC) is currently undertaking a wide-ranging review of FAGs. Its terms of reference mention in particular the impact of the minimum grant requirement, and the needs of local governments serving regional and remote communities. This suggests that significant changes could be considered. Options are set out in Box 14: the Panel believes that the NSW Government should seek discussions on these options with the federal government following release of the CGC report (expected in December 2013).

Box 14: Options for Future Distribution of Financial Assistance Grants

- Eligibility for grants to be contingent upon councils making adequate efforts to maximise their efficiency and own-source revenue
- Abolition of the minimum per capita grant
- Change the distribution formula for general purpose grants to reduce or eliminate grants to councils that have considerable unused revenue capacity
- Provision for up to 15% of the roads component to be set aside for strategic regional projects and special assistance to councils facing severe infrastructure backlogs (see section 7)
- Declare new Joint Organisations and the proposed Far West Regional Authority to be 'local governing bodies' for the purpose of FAGs (see sections 11 and 16)

In the meantime, the Panel considers that the NSW Grants Commission could do more to redistribute funds within current legislation, building on modest changes already made. The Panel notes that the quantum of FAGs grows by 3-4% per annum (an increase of \$25 million in 2013/14), so there is scope to effect redistribution progressively without severe disruption to council budgets (assuming rates can be increased to fill the gap).

The Panel also sees specific opportunities to change the way the FAGs roads component and Roads to Recovery grants are allocated. These are discussed in section 7.

Some State grant funding could also be redistributed. For example, more than half of the limited pool of funding support for public libraries is allocated on a per capita basis to every council. Given the relatively small sums involved and the known capacity of many larger urban councils to increase own-source revenues, those funds could be used to greater effect in supporting outer-metropolitan and rural and regional communities. These

communities are facing challenges of population growth and change that have a significant impact on library services.

If there is to be any significant redistribution of grant funding to less populated rural and remote councils, then it is only proper that those councils be required to take steps to maximise their efficiency and help themselves. On no account should other ratepayers and taxpayers be expected to 'prop up' councils that are simply unsustainable without ever increasing support, or that fail to maximise their own-source revenues.

6.7 Use of debt

Research commissioned by the Panel has found that NSW councils have comparatively very low levels of debt. On average, gross debt represents only 2.4% of net assets and 32% of annual income. Collectively, councils have over twice as many financial assets as they do outstanding borrowings.

A significant number of councils see being debt-free as a 'badge of honour'. Yet sound financial management and inter-generational equity both point to debt as an appropriate way to fund long-lived infrastructure and 'lumpy' expenditures, whilst continuing to maintain adequate service levels. Indeed, it can be argued that aversion to debt has been a significant contributing factor in the growth of infrastructure backlogs. TCorp pointed to the scope for increased use of debt, and the State government has flagged its stance by introducing the Local Infrastructure Renewal Scheme (LIRS), which subsidises borrowings.

There is, however, an evident problem in NSW with excessive rates of interest being paid by many councils. Local government is generally a low-risk borrower and should be paying commensurate interest rates. A related problem is that councils' 'treasury management' practices are often less than optimal. They tend to under-utilise financial assets (in part due to legislative restrictions) and to structure their borrowings poorly, often paying for very long-lived assets with unnecessarily short-term loans. In so doing they place themselves and their ratepayers under excessive financial pressure.

In Queensland, South Australia and New Zealand local government borrowings (and some investments) are handled collectively by a state-wide agency. The models differ, but in each case the effect is to reduce borrowing costs considerably. The Panel understands that investigations are under way to establish a similar arrangement in NSW. It strongly endorses that move, and sees particular merit in the Queensland approach of extending the remit of the Treasury Corporation to cover local government. This has the advantage of simplicity and low administrative

costs, and means that councils can borrow at the same rate as the State government. On average, the interest rate saving to councils would be about 2%. Moreover, a very small surcharge on the interest rate payable (say 0.1%) would be sufficient to fund a free or low-cost advisory service to help improve councils' treasury management practices and financial governance generally.

Potential savings could be up to \$600 million over 10 years if all council borrowings are progressively transitioned to a revised funding model. This estimate is based on a 2% saving on a \$3 billion loan balance. Actual savings would be dependent on trends in councils' use of debt and how many councils participate in a state-wide facility.

6.8 Fees and charges

The 'Henry' tax review made the point that a number of services provided by councils are in the nature of 'private' rather than 'public' goods: that is, their use is typically discretionary and the benefits accrue primarily to individuals. Swimming pools and leisure centres are often quoted examples. Such services should be viewed as business enterprises and are appropriately funded in whole or large part by fees and charges, rather than taxes (rates). Councils can offer concessions for users with special needs or limited capacity to pay.

A second type of service that should be funded by fees and charges are regulatory approvals and inspections. As noted in section 5.5, the annual LGNSW cost-shifting survey reports that restrictions on various statutory fees – particularly those for development applications – prevent councils from recovering the full cost of those services and require very considerable subsidies from ratepayers. The Panel believes that these restrictions should be removed. Instead, IPART should monitor and benchmark council fees and charges, and seek explanations from the councils concerned where they appear to be unduly high.

6.9 Other revenue options

Over the years numerous inquiries have explored the potential for local government to make greater use of additional revenue sources. Options such as tourism or local sales taxes have been raised on several occasions, but have always proved problematic. Other possibilities include:

- Sale of surplus assets (eg buildings, road reserves) to fund new or replacement infrastructure
- Commercial ventures in new fields such as stormwater harvesting and carbon trading – several councils have already achieved successful outcomes (eg City of Salisbury in South Australia)
- Road user charging (eg increasing revenues from on-street car parking, gaining a larger share of heavy vehicle charges)
- Tax increment financing – using special rates to tax the increased value of land where development takes place on the back of public infrastructure provision (eg high density residential development around railway stations).

A recent report for the Local Government Association of South Australia suggested a joint State-local government effort to investigate supplementary revenue options in detail. Given the scope to improve the rating system, the Panel does not see the search for major new revenue sources as a top priority – and certainly not the key to solving councils' financial problems – but it is important that NSW local government does not get left behind in exploring new forms of revenue.

Recommendations for Strengthening Revenues

5	Require councils to prepare and publish more rigorous Revenue Policies (6.1)
6	Commission IPART to undertake a further review of the rating system focused on: • Options to reduce or remove excessive exemptions and concessions that are contrary to sound fiscal policy and jeopardise councils' long term sustainability (6.2) • More equitable rating of apartments and other multi-unit dwellings, including giving councils the option of rating residential properties on Capital Improved Values, with a view to raising additional revenues where affordable (6.3)
7	Either replace rate-pegging with a new system of 'rate benchmarking' or streamline current arrangements to remove unwarranted complexity, costs, and constraints to sound financial management (6.5)
8	Subject to any legal constraints, seek to redistribute federal Financial Assistance Grants and some State grants in order to channel additional support to councils and communities with the greatest needs (6.6)
9	Establish a State- borrowing facility to encourage local government to make increased use of debt where appropriate by: • Reducing the level of interest rates paid by councils • Providing low-cost financial and treasury management advisory services (6.7)
10	Encourage councils to make increased use of fees and charges and remove restrictions on fees for statutory approvals and inspections, subject to monitoring and benchmarking by IPART (6.8)

7. Meeting Infrastructure Needs

The issues of infrastructure funding and the current backlog of maintenance and renewal have already been touched on in sections 4 and 5. This section explores those issues in more detail and presents some further options for addressing them.

7.1 Measuring the infrastructure backlog

Recent reviews by TCorp and DLG estimate an accumulated maintenance and renewal backlog in local government-owned infrastructure of around \$7.2-7.4bn. This figure amounts to around \$1,000 per head of the NSW population. It has increased in dollar terms over recent years, but as a proportion of the written down value of councils' total assets it has declined significantly. That reduction is due mainly to revaluation of assets, better infrastructure management and more accurate measurement of the need for improvements (see below).

The *Local Government Infrastructure Audit* published by DLG in May 2013 indicates that the backlog comprises:

- \$4.6bn for roads
- \$1.0bn for buildings
- \$0.7bn for stormwater drainage
- \$1.1bn for water supply and sewerage networks.

Current estimates of the backlog rely on unaudited data from 'Special Schedule 7' in councils' annual accounts. This data is widely considered to be unreliable and is likely to over-state the real cost of bringing assets to a satisfactory standard. Where councils rigorously review cost estimates and consult their communities to determine realistic, affordable levels of service, the consequence is often very considerable reductions in the estimated backlog. However, this will not lessen the need for additional annual expenditure on maintenance and renewal to ensure that the current condition of assets does not deteriorate and is improved where necessary. Both TCorp and DLG found that existing levels of expenditure on maintenance and renewal are inadequate in most cases.

The measured level of backlogs varies significantly from one part of NSW to another, reflecting differences in environmental conditions, demand pressures and the capacity of councils to undertake necessary works. DLG reports that problems are most acute in the Far West, Mid North Coast, South East, Central West, Murray and Northern Rivers regions. Its audit also found that as a general rule those councils facing the highest per capita cost of bringing assets back to a satisfactory standard (BTS) are amongst those with the weakest TCorp ratings of financial sustainability.

7.2 Funding and financing strategies

Tackling the infrastructure backlog requires first and foremost implementation of the revenue and financial management measures put forward in sections 5 and 6. This means in particular:

- Rigorous ongoing implementation of Integrated Planning and Reporting requirements for long term financial and asset management plans, and upgraded 4-year Delivery Programs
- Revised rate-pegging arrangements linked to IPR requirements so as to ensure 'automatic' approval of rate increases necessary to meet demonstrated infrastructure needs
- Considerably increased use of borrowings wherever appropriate and affordable, coupled with greatly improved treasury management practices
- Redistribution of grant allocations to the maximum possible extent to those councils facing the most severe asset and financial management problems (provided the councils concerned are making every effort to help themselves).

Provision of special assistance

Irrespective of measures such as those outlined above, the analysis provided by TCorp and DLG strongly suggests that some councils will not be able to overcome their infrastructure backlogs without special financial assistance. The Panel commissioned case studies of two councils with severe infrastructure funding problems to inform this assessment. In both cases FAGs would need to increase by 15% or more as part of a package to eliminate operating deficits and adequately fund asset maintenance and renewal. Rates increases of 10-20% would also be required, plus efficiency gains and adjustments to service levels.

Clearly, councils such as those face daunting challenges. Two options for special assistance appear worthy of further consideration:

- Refocus an extended LIRS program on the most needy councils to provide interest-free loans
- Set aside a proportion of the roads component of FAGs for 'strategic projects', aimed in the first instance at addressing the most severe backlogs in roads and bridges.

The recent introduction of LIRS to cut the cost of borrowings is an important step in the right direction. On the evidence now becoming available, it will be required for several more years at least, and should be targeted at councils with the most severe infrastructure backlogs and with demonstrated limited capacity to meet needs from their own

resources. The Panel was concerned that in early rounds of LIRS subsidies were provided for a number of councils that should not need support given their strong rating base.

The second option is based on an existing South Australian model, whereby 15% of the roads component of FAGs is allocated to 'strategic projects' rather than in grants to every council. In NSW, 15% would amount to around \$30 million per annum, which (by way of illustration) could be used to borrow around \$300m over 20 years and thus create a special assistance fund. This might be augmented by a State contribution, and (if possible) a similar percentage of federal 'Roads to Recovery' funds, thus creating a substantial program to assist councils with needs that cannot reasonably be met from their own resources. In the longer term, the fund could begin to support strategic developmental projects across all councils.

Councils receiving special assistance should be subject to mandatory financial reviews and external guidance in the preparation of new financial and asset management plans. As noted previously, ratepayers elsewhere in the State cannot be expected to underwrite redistribution of grant funding without assurances that the beneficiaries are doing everything reasonably possible to improve their situation. TCorp could work with managers and councillors to devise appropriate medium-long term strategies. These would necessarily encompass reviews of infrastructure service levels, possible cuts to other

services to channel additional funds into asset management, plus rates increases and borrowings.

7.3 Infrastructure contributions

Another important funding issue is the payment of developer contributions towards the cost of new or upgraded local infrastructure required to service 'greenfields' development or urban renewal. Over recent years the NSW Government has substantially reduced the scope for councils to levy infrastructure contributions in order to encourage development and help contain the cost of housing.

Current proposals to reform the land use planning system include further significant changes to the framework for levying infrastructure contributions. At this stage it is difficult to predict precisely how the proposed changes will work in practice, and what impact they might have on local government finances. The Panel appreciates the Government's objectives of promoting economic development and facilitating housing supply and affordability. It is concerned, however, that the ability of councils to address their wider infrastructure and asset maintenance needs (including backlogs identified by TCorp and DLG) may be compromised if infrastructure contributions fall short of what is required to service development, and that an undue burden could be placed on ratepayers.

Consideration also needs to be given to the interplay between proposed changes to the framework for infrastructure contributions and the current rate-pegging arrangements. It appears that councils could find themselves having to prepare plans and lodge applications twice – first to collect whatever contributions are permitted and then to increase rates to fund any shortfall in required revenue. On the information available to the Panel, these issues require more detailed investigation before any changes are introduced, and the impact of new arrangements will need to be kept under review on a whole-of-government basis.

7.4 Regional collaboration and capacity building

In Queensland, local governments collaborate with each other and with the Department of Transport and Main Roads through Regional Roads and Transport Groups. These groups operate under a Memorandum of Understanding between the responsible Minister and the Local Government Association that establishes a state-wide Roads and Transport Alliance. Objectives and principles of the Alliance include:

- Joint decision-making, planning and investment which reflects regional priorities across the road and transport network
- Optimisation of State funding support
- Improved performance of road and transport infrastructure through better asset lifecycle management
- Efficiency gains in program delivery through less duplication of resources and effort, and creating a competitive environment in infrastructure provision
- Flexible, outcomes-oriented approaches that allow for innovation
- Promotion of resource sharing (including joint purchasing) and technical knowledge transfer
- Upgrading workforce capability.

Regional Roads and Transport Groups (RRTGs) have primary responsibility for implementing these principles. Each is supported by a Technical Committee of senior local and State government officers. RRTGs meet as required individually and hold a state-wide gathering at least once every year to exchange views and experiences.

The Panel believes that a similar model should be adopted in NSW, linked to the new regional 'Joint Organisations' proposed in section 11. As in Queensland, there needs to be a blend of technical and financial cooperation. For example, in the field of timber bridge replacement (one of the biggest backlog problems) there appears to be scope both to disseminate innovative techniques to prolong their life and cut replacement costs, as well joint strategic procurement of multiple bridge upgrade and/or replacement projects. Experience elsewhere suggests cost savings of 10-20% should be achievable.

Discussions with NSW Roads and Maritime Services indicate that a pilot Regional Roads Group could be established almost immediately in order to test the concept in the NSW context. Box 15 sets out the basis on which this could be done.

Box 15: Using Joint Organisations to Boost Road Maintenance

Local councils currently work with Roads and Maritime Services (RMS) in two key areas:

1. Maintenance contracts on State Roads
2. Grant funding programs for Regional Roads

RMS is looking to improve the efficiency and effectiveness of maintenance delivery on State roads in regional NSW. Currently 78 councils are involved in contract arrangements to undertake maintenance for RMS. Key areas for improvement include reduced RMS and council administration, improved systems and WHS capability from councils, increased procurement efficiency and improved utilisation of council resources.

Under current arrangements councils are encouraged to form Peer Exchange Groups (PEGs) aimed at developing innovation, resource sharing and process improvement. The current PEG regional boundaries differ from those proposed in section 11, but could be progressively re-aligned.

RMS will consider a 'pilot' scheme (or schemes) that would align one of the existing PEG groups into a proposed Joint Organisation, and also explore the potential to trial aggregated arrangements for maintenance contracts.

RMS currently supports the maintenance of Regional Roads through formula- based block grants to councils and through targeted funding under the REPAIR program.

The proposed Joint Organisation model provides an opportunity for:

- improved consistency in council supplied data that feeds the funding distribution formula
- a broader strategic approach to effective use of available funds to Regional Roads through improved business planning at the JO level
- streamlining of administration of grant programs for RMS and councils
- a more strategic engagement on a broader network basis to prioritise freight productivity needs and initiatives
- improving the model for the strategic distribution of REPAIR funds.

Collaborative approaches are also needed to ensure that all councils have access to high quality technical assistance in fields such as setting realistic condition standards for infrastructure, including undertaking community engagement to determine what levels of service are acceptable. It needs to be more widely understood that at any given time a significant percentage of a council's infrastructure assets will be at a less than desirable standard: it is simply financially impossible (and irresponsible) to aim for every road, bridge, drain, building etc to be 'satisfactory' or better.

Some councils have already done excellent work in this regard. Also, the Institute of Public Works Engineering and the Australian Centre of Excellence for Local Government are preparing a 'practice note' on levels of service which should provide a sound basis for training programs.

7.5 Water utilities

The Panel has some reservations about including water supply and sewerage networks as part of the total infrastructure backlog. Council-owned water utilities are intended to be business enterprises and ought to recover their costs from water rates and user charges in the same way as electricity distributors. The Panel appreciates, however, that considerable increases in rates and charges would be required to satisfy community expectations for extension of water supply and sewerage schemes, and to meet desirable standards for water quality and environmental protection. Also, there is a substantial list of previously identified backlog projects that may be eligible for some State government assistance. In those circumstances councils are naturally reluctant to undertake works on a fully commercial basis.

The Panel has been advised that just under \$1 billion is needed to bring all water supply and sewerage systems to acceptable minimum standards. This could involve \$300 million of new State government funding. A priority works program is to be formulated, based on cost-benefit analysis of required upgrades. Again, regional collaboration has an important role to play in enabling council-owned water utilities to meet the challenges they face. The Panel has been tasked

specifically with reviewing the 2009 Armstrong-Gellatly recommendations to consolidate the existing 105 utilities into around 30 regional groupings – either merged businesses or alliances. More recently, a similar recommendation was made in *First Things First: The State Infrastructure Strategy 2012-2032*, and was adopted in principle by the State government. As in the case of Regional Roads and Transport Groups the Panel proposes that regional alliances of water utilities become subsidiaries of new multi-purpose ‘Joint Organisations’ of councils (see section 11). This would consolidate local government expertise and provide a basis for closer State-local government cooperation in improving water supply and sewerage systems.

In Queensland, a Water Regional Alliance Program (Q-WRAP) has been launched through a partnership between the Department of Energy and Water Supply, the Local Government Association, Queensland Water and participating councils. Q-WRAP seeks to:

- Position Queensland as a lead agent in responding to the significant social, environmental and economic policy drivers impacting urban water provision (both drinking water and sewerage services) in remote and regional communities
- Identify what institutional arrangements, taking into account the diversity of Queensland communities, will best secure urban water services to ensure among other things political accountability; safety and reliability and sustainability of services; management and technical capacity to appropriately respond to changing economic and technical regulatory frameworks (including reporting obligations); and capacity to provide for ongoing training, skills enhancement and development needs of staff.

The program has commenced in three pilot regions, and may well offer valuable lessons for NSW, or at least a useful opportunity for exchanges of views and experiences.

Recommendations for Meeting Infrastructure Needs

- | | |
|----|---|
| 11 | Factor the need to address infrastructure backlogs into any future rate-pegging or local government cost index (7.1) |
| 12 | Maintain the Local Infrastructure Renewal Scheme (LIRS) for at least 5 years, with a focus on councils facing the most severe infrastructure problems (7.2) |
| 13 | Pool a proportion of funds from the roads component of federal Financial Assistance Grants and, if possible, the Roads to Recovery program in order to establish a Strategic Projects Fund for roads and bridges that would: <ul style="list-style-type: none"> • Provide supplementary support for councils facing severe infrastructure backlogs that cannot reasonably be funded from other available sources • Fund regional projects of particular economic, social or environmental value (7.2) |
| 14 | Require councils applying for supplementary support from the Strategic Projects Fund to undergo independent assessments of their asset and financial management performance (7.2) |
| 15 | Carefully examine any changes to development (infrastructure) contributions to ensure there are no unwarranted impacts on council finances and ratepayers (7.3) |
| 16 | Adopt a similar model to Queensland’s Regional Roads and Transport Groups in order to improve strategic network planning and foster ongoing improvement of asset management expertise in councils (7.4) |
| 17 | Establish Regional Water Alliances as part of new regional Joint Organisations proposed in section 11 (7.5). |

8. Improvement, Productivity and Accountability

The Panel believes that there is still considerable room to improve local government's efficiency and effectiveness, and to ensure that councils are properly accountable to their local community for their performance. Several useful steps have been taken in recent years, including the incorporation of performance indicators and an 'end-of-term' report in the IPR framework, the DLG's Promoting Better Practice program, and implementation of continuous improvement systems by a substantial number of individual councils. However, a continued lack of consistent data collection and benchmarking across local government makes it very difficult for councillors, managers, communities and other stakeholders to gain a clear understanding of how a council is performing relative to its peers.

This section focuses on some key opportunities for further improvements.

8.1 Data and benchmarking

In 2012 the NSW Auditor General reported on some major deficiencies in the availability and use of data in respect of local government. He observed among other things that:

- The Local Government Act requires councils to provide information but does not require DLG to review or act on most of the information it collects

- The Act does not require councils to provide adequate information on their performance, including whether services are delivered efficiently and effectively
- DLG does not provide the public with analysis about the performance of individual councils or the sector as a whole, and in this respect, NSW councils are subject to less public scrutiny than those in some other jurisdictions.
- Current arrangements may not provide timely warning of performance issues.

Similar findings by the Victorian Auditor General have led to a major initiative to develop consistent state-wide data collection and performance indicators. This program includes:

- A focus on accountability to residents and ratepayers
- Use of the data and indicators to prepare an annual sector report
- Streamlining other forms of reporting by councils across all government agencies in order to offset the workload involved in the new system
- Best practice guidance on linking strategic planning and performance reporting.

The Panel considers the Victorian approach well worth following. In NSW terms, it would represent a logical further development of the IPR framework.

The Panel notes that the *Destination 2036* Action Plan includes an initiative for DLG to: *Develop a consistent performance measurement approach for councils and a comprehensive program to support improvement.* Further, action has already been taken to replace the previous annual publication of 'comparative information', which had significant limitations as regards the value and quality of the data provided.

The Panel understands that DLG is moving ahead with the work on performance measurement and is exchanging information with its Victorian counterpart. This project needs to be given a high priority and additional resources should be allocated if necessary as part of the implementation program proposed in section 18. A worthwhile objective might be to establish a 'My Council' website giving the public easy access to a range of comparative data.

8.2 Reducing 'Red Tape'

IPART is in the process of completing a major 'red tape' review to examine local government compliance and enforcement activity (including regulatory powers conferred or delegated under NSW legislation), and to recommend changes in law and practice that will reduce regulatory burdens for business and the community. Research commissioned by IPART indicates that NSW councils have around 120 regulatory functions involving over 300 separate regulatory roles. Those roles emanate from 67 State

Acts administered by 31 State agencies. These figures suggest a heavy burden on business and the community, and on local government itself. Substantial savings can be expected if this burden is reduced.

In addition, councils are themselves subject to numerous regulatory requirements to account for their own actions to a wide range of State agencies. Looking at this volume of 'red tape' and the costs imposed, the Panel sees great merit in a current Victorian government project to reduce the overall compliance and reporting burden on councils. This is being undertaken on a whole-of-government basis and aims to offset new requirements to measure performance and sustainability. The principle of avoiding any net increase in 'red tape' is a sound one. The Panel also notes recent steps taken by the Queensland government to cut back the regulatory burden on councils.

The Panel therefore proposes that IPART be tasked with a second stage of its current review to examine how State agencies regulate local government, and to identify opportunities to streamline processes and dispense with unnecessary or excessive compliance and reporting. This would build on research already completed.

8.3 Innovation and best practice

One of the advantages of the decentralised nature of local government is the large number of different organisations and places at which innovation can occur. Many councils have a good record in this regard. Efforts have been made to capture and disseminate innovation and best practice through various awards programs, the activities of some professional institutes, and more recently the ACELG Innovation and Knowledge Exchange Network (IKEN).

The *Destination 2036* Action Plan includes a section on the need to encourage and facilitate innovation, but does not make clear how that will be carried forward in an integrated way. Whilst DLG now has a group of staff focused on sector development, there needs to be a more concerted approach driven jointly by the Division, Local Government NSW, professional bodies and unions. The Panel therefore sees a need for a new sector-wide program to promote, capture and disseminate innovation and best practice. This would need to comprise both information exchange and associated professional development activities. It should also form part of the broader implementation program proposed in section 18.

8.4 High quality and efficient service delivery

The lack of systematic data collection and performance monitoring across the sector makes it very difficult to determine whether councils generally are delivering services to a satisfactory standard and in a cost-effective way. Some councils regularly survey their communities and local businesses to establish the level of satisfaction with services, but many do not. Systematic service reviews are implicit in the IPR framework, but there is no specific requirement.

Assessing service quality and efficiency needs to be given more prominence in the IPR framework, and the expectation that councils will strive for continuous improvement should be made clear. The IPR guidelines should be amended accordingly, and Delivery Programs should contain proposals to undertake reviews of a substantial number of services over each term of a council. A useful starting point is the 'Best Value' methodology previously applied in Victoria under the 1999 *Local Government (Best Value Principles) Act*. Based on the Victorian experience, the Panel has formulated a set of principles to be applied in new requirements for service reviews in NSW (see Box 16).

Box 16: Proposed Principles for Service Reviews

- A council must achieve continuous improvement in the provision of services and seek to ensure that its services are equivalent to 'best on offer' in its region
- All services provided by a council must meet defined performance outcomes and quality and cost standards developed by the council in consultation with local communities and key stakeholders
- As part of service reviews, a council must explore the potential for partnerships with adjoining or nearby councils, as well as other public or private service providers
- Service reviews must take into account the importance of maintaining and where possible increasing local employment opportunities
- Each service provided by a council must be accessible to those members of the community for whom the service is intended
- A council must report regularly to its community on its achievements to these principles.

8.5 Internal and performance auditing

At present there is no mandatory requirement for councils to put in place effective internal audit processes, although the DLG has strongly encouraged such action. There is evident reluctance to do this in some parts of the sector, especially smaller councils, given the costs and time involved. However, without rigorous internal and performance auditing – linked to the improved arrangements for financial audit proposed in section 5.4 – a new agenda of improvement and accountability would be compromised.

At present, only about half of NSW councils have an audit committee and/or some form of internal audit process, and the latter tend to focus primarily on compliance, risk and fraud control. Some audit committees include external, independent members and have an independent chair, but many are strongly embedded within the council and answerable primarily to the General Manager. This can generate conflicts of interest.

The Panel believes various steps need to be taken, focused on re-orienting the concept of internal audit towards adding value and continuous improvement, and requiring all councils to have effective internal audit processes, including an audit committee with a majority of independent members. Councils with limited budgets and resources should be able to share arrangements under the auspice of the Joint Organisations proposed in section 11.

The Panel further proposes that the future role of the Auditor General in relation to local government should include issue-based performance audits, which would inform and support councils' internal audit processes. Such audits have been conducted by the Victorian Auditor General for many years. Topics are selected in consultation with the sector, and recent audits have covered important issues such as rating practices, sustainability of small councils, business planning, fees and charges, and use of development contributions. They usually involve a small sample of representative councils. The audits do not question the merits of councils' policy objectives. Rather, their role is to assess whether councils are achieving their objectives and operating economically, efficiently and effectively.

Having the Auditor General conduct such audits offers an independent perspective on the sector's performance, as well as an opportunity to compare the performance of councils with that of State agencies engaged in similar area of activity.

The Panel's proposals are summarised in Box 17.

Box 17: Strengthening Internal and Performance Auditing

- Revise the current guidelines under the Act and make them mandatory
- Extend the concept of internal audit towards adding value and continuous improvement
- Require all councils with expenditures of more than a set amount (perhaps \$20m per annum) to have an 'audit, risk and improvement' committee and associated internal audit function with broad terms of reference covering financial management, good governance, performance in implementing the Community Strategic Plan and Delivery Program, service reviews, collection of required indicator data, continuous improvement and long term sustainability
- Enable councils with smaller budgets to have joint arrangements for internal audit and to share audit committees, under the aegis of regional Joint Organisations (see section 11)
- Require audit committees to have a majority of independent members and an independent chair, and preclude General Managers from membership of audit committees (but not attendance at meetings)
- Ensure that the chair of the audit committee reports at least biannually to a council meeting on the organisation's performance in financial management, good governance and continuous improvement
- Empower the Auditor General to conduct issue-based performance audits in key areas of local government activity.

Improving auditing along the lines proposed offers an alternative to prescription and compliance as a means of demonstrating that councils are 'doing the right thing'. As such, it should be seen as an opportunity to enhance local government's reputation and strengthen its position as a respected partner of the State.

8.6 An Annual General Meeting

Whilst the Local Government Act contains requirements for audits and annual reports, there is no single *occasion* during the year on which councils have to present their activities and account publicly for their performance to their local communities. This can be seen both as a gap in the accountability framework and a

lost opportunity to enhance community awareness of what councils do and the value they add to the system of government.

The Tasmanian Local Government Act contains a provision under which councils, like corporations, must hold an Annual General Meeting. The requirement is not spelled out in detail, but the concept is an interesting one. A council AGM held in October-November each year could include:

- Tabling of the audited accounts and questioning of the auditor by councillors, and perhaps the public (the former is already a requirement)
- A public presentation by the chair of the audit committee
- A 'state of the area' address by the mayor, outlining the council's achievements relative to the Community Strategic Plan and Delivery Program, and key issues that need to be addressed.

Such an annual event would hopefully focus public and media attention on the council's *overall* performance, as well as providing an opportunity for the council to report its achievements.

8.7 Workforce and leadership skills

An important and innovative element of IPR is the requirement for councils to prepare 4-year workforce strategies. Skills shortages are of growing concern and in a highly competitive labour market local government needs to give a high priority to developing the talents of its workforce and finding new ways to attract and retain skilled personnel. This issue is addressed in the *National Local Government Workforce Strategy* recently released by ACELG and LGMA. A number of relevant actions are also being explored through the *Destination 2036* process.

A critical factor in this regard is the quality of management: do managers have not only the technical and professional skills they require, but also the ability to be effective leaders of the workforce? Inspirational leadership can make a major contribution to attracting and retaining other staff, but current initiatives in leadership development in NSW are limited and patchy. The Panel sees a need for an increased take-up of leadership training amongst senior managers, including General Managers.

A useful next step would be for the parties concerned to jointly prepare a specific NSW Local Government Workforce Strategy to apply the principles and ideas set out in the national strategy, together with those that emerge from the *Destination 2036* actions.

8.8 Industrial relations

A number of submissions to the Panel have suggested that the current Local Government Award lacks flexibility, focuses on skills at the expense of other attributes of staff, and builds in excessive labour costs for some activities, especially where 'out-of-hours' work is involved. Unions contest these views.

The Panel can understand why in a very tight fiscal environment some local government leaders – senior managers and elected members – are looking for every available option to cut costs. In that context, changing some features of the award, terminating existing over-award conditions and outsourcing or creating new entities outside the award's coverage may seem to be attractive courses of action. However, the Panel is not convinced that the award is as costly and inflexible as some believe, and believes that further efficiency and productivity gains can and should be made through negotiation. There ought to be scope, for example, to balance a commitment to retain jobs in award-based entities (such as the new regional Joint Organisations proposed in section 11) with some relaxation of specific award provisions, such as spread of hours, that increase the cost of operating 'out-of-hours' services. There should also be opportunities for some increased flexibility to address specific skills shortages.

Thus the award should continue to evolve through negotiation to address the changing circumstances of councils and their employees, and the needs of communities. Local government needs a system of industrial relations that will support an efficient and productive sector that can adapt to meet future challenges. In turn, this requires a climate of trust and cooperation amongst employer and employee organisations.

Recommendations for Improvement, Productivity and Accountability

18	Adopt a uniform core set of performance indicators for councils, linked to IPR requirements, and ensure ongoing performance monitoring is adequately resourced (8.1)
19	Commission IPART to undertake a whole-of-government review of the regulatory, compliance and reporting burden on councils (8.2)
20	Establish a new sector-wide program to promote, capture and disseminate innovation and best practice (8.3)
21	Amend IPR Guidelines to require councils to incorporate regular service reviews in their Delivery Programs (8.4)
22	Strengthen requirements for internal and performance auditing as proposed in Box 17 (8.5)
23	Introduce legislative provisions for councils to hold Annual General Meetings (8.6)
24	Develop a NSW Local Government Workforce Strategy (8.7)
25	Explore opportunities for the Local Government Award to continue to evolve to address future challenges facing the sector and changing operational needs.

9. Political Leadership and Good Governance

Precisely because local government is *local*, the quality of its political leadership and governance practices comes under close scrutiny from its constituents. At the same time, the primary role of local government in caring for communities and places, coupled with the way decisions have to be taken in open meetings, makes it particularly unsuited to a ‘winner takes all’ approach to politics. Consultation and consensus-building are essential if people are to have confidence in the way their councils are operating. All this can create a very complex and demanding environment in which councillors who are often newcomers to political life have to discharge their responsibilities.

The role and quality of political leadership is receiving increased attention worldwide, linked to a perception that governments at all levels are performing poorly and failing to address people’s needs. In NSW, local government is frequently the subject of adverse publicity – justified or not – about poor conduct in meetings, questionable decision-making processes, lack of community consultation and so on.

This section looks at how some critical aspects of governance frameworks and practices could be improved. It is based on the deliberations of the Governance Working Party established to consider the options raised in the Panel’s *Future Directions* report. The Panel canvassed a wide range of governance concerns in that report: only some are followed up here, and in several instances the improvements sought cannot be pursued through legislative or regulatory intervention. They require better practice achieved through ongoing exchanges of experience and support for personal and institutional learning. This need is highlighted in section 9.7.

Box 18: Councillors and Mayors in NSW

- There are 1,475 councillors across NSW (including 152 Mayors)
- The number of residents per councillor ranges from less than 150 to more than 20,000
- Currently 34 mayors are popularly elected; the great majority are chosen by the councillors
- 27% of councillors are female, compared to 51% of the NSW population
- 1.9% of councillors identify as Aboriginal or Torres Strait Islander, compared to 2.5% of the population.
- 9% of councillors speak a language other than English at home, compared to 26% of the population.
- Councillors are paid an annual allowance which varies according to the characteristics of the council and is set by an independent tribunal
- Councillor allowances range between \$7,930 and \$34,950; mayors receive an additional allowance of between \$8,430 and \$76,390 (with the exception of the City of Sydney whose Lord Mayor is paid up to \$191,860).

9.1 Electing Councillors

A number of concerns have been raised with the Panel regarding the adequacy of local government as representative democracy. These include:

- Increasingly high ratios of population to councillors in some very large and rapidly growing councils eg over 20,000:1 in Blacktown
- Similarly, lack of a ward system in some large and/or diverse council areas
- The low numbers of women and younger people elected as councillors
- The limited cultural diversity of many councils, notably in representation of Aboriginal peoples
- Election of councillors who are fundamentally unsuited to the role and/or ill-prepared to undertake the responsibilities involved.

Over recent years the ‘board of directors’ concept has led to reduced numbers of councillors in many local government areas. Amalgamations have also tended to reduce local representation. At the same time, there has been a tendency to switch from wards to ‘at large’ elections. The Panel has been unable to identify any definitive evidence regarding the pros and cons of these trends: they require ongoing investigation.

Another key area of concern is the widely perceived need to attract a wider range of suitable candidates for election as councillors. There are two aspects to this. Firstly, attracting more nominations from women, young people and people from diverse

cultural backgrounds has been an elusive goal. Factors involved include the sheer amount of time involved, costs of child care or home help, the number and timing of meetings, and the culture of councils (are they welcoming to new and ‘different’ councillors?). There are also broader issues around levels of civic awareness. Again, ongoing investigation is required.

Secondly, concerns have been expressed that a significant number of candidates are unaware of, and ill-prepared to take on, what are nowadays onerous responsibilities of being a councillor. Some candidates lack a real understanding of what councils do and how they work. Some are focused on just a small number of issues and express little interest in the broader roles of a councillor. Others put their names forward to make up a ‘ticket’ and are elected unexpectedly through the above-the-line voting system.

Options to address these issues include:

- Civic awareness programs to publicise the role of local government, its importance and value to the community, and how it works
- Compulsory awareness sessions for intending candidates at which the full range of responsibilities and level of commitment expected of councillors can be explained in some detail before they nominate
- Providing more financial support to councillors to offset specific expenses such as child care

- Cutting back on the number of meetings and/or using new technologies to reduce the need for face-to-face meetings.

Representation reviews

In South Australia, each council is required to undertake a ‘representation review’ at least every eight years. Matters to be considered include the number of councillors and whether they are elected by wards or at large, ward boundaries, and whether or not the mayor is popularly elected. However, any aspect of representation can be explored. Reviews must include community consultation, and councils have to report on the outcomes of consultation, which proposals they intend to implement, and their reasons for not proceeding with other proposals. Reports have to be referred to the electoral commissioner.

The Panel sees considerable merit in the South Australian approach and proposes that a similar model be adopted in NSW. This could have a somewhat wider brief including, for example, whether or not the council is attracting and retaining a suitably diverse range of talented and committed councillors, and what steps it is taking to do so. It could also include considering the desirability of establishing Community Boards (see section 12.2).

9.2 Councillor roles and skills

Under section 232 of the Local Government Act the role of a councillor is divided into two parts: as a 'member of the governing body' and as an 'elected person'. The former is seen as deliberative – planning, resource allocation, policy development and performance monitoring. These functions give rise to the concept of councillors forming and behaving as a 'board of directors'. The role of the councillor as an elected person is described in terms of community representation, leadership and communication. This is more clearly 'political' and includes those functions that most councillors would regard as fundamental to being re-elected.

The wording of the Act reveals evident tensions in the councillor's role. These are exacerbated by the fact that councils must meet and make decisions in public, and do not have a select group of councillors who act as a 'cabinet'. In Australia, only Brisbane City Council uses that model (the 'civic cabinet' comprises the Lord Mayor and chairs of major committees).

The Panel's investigations and discussions with the Governance Working Party suggest that amendment of the Local Government Act is necessary to explain more fully the role of councillors; make it clear that the role is a demanding one that requires high level skills and in many cases warrants increased remuneration (see section 9.4); and sharpen the distinction between the functions of the governing body – in which councillors must act collectively – and the role and responsibilities of an individual councillor. Box 19 sets out the Panel's thinking on possible new wording for the Act.

Box 19: Proposed Roles and Responsibilities of Councillors

- The councillors and mayor collectively constitute the governing body of the council.
- The roles and responsibilities of the governing body are to:
 - to provide effective civic leadership and guidance to the community
 - to consult regularly with community organisations and other key stakeholders and keep them informed of council's activities and decisions
 - to direct and control the affairs of the council in consultation with the general manager and in accordance with this Act
 - to ensure as far as possible the financial sustainability of the council
 - to determine and adopt the Community Strategic Plan, Delivery Program and other strategic plans and policies
 - to determine and adopt a rating and revenue policy and operational plans that ensure the optimum allocation of the council's resources to implement the community strategic plan and for the benefit of the area
 - to make decisions in accordance with those plans and policies
 - to make decisions necessary for the proper exercise of the council's regulatory functions
 - to keep under review the performance of the council and its delivery of services
 - to determine the process for appointment of the General Manager and monitor his/her performance
 - to ensure that the council acts honestly, efficiently and appropriately in carrying out its statutory responsibilities
- The role and responsibilities of an individual councillor, including the mayor, are:
 - to be an active and contributing member of the governing body
 - to make considered and well informed decisions
 - to represent the collective interests of residents, ratepayers and the wider community of the local government area
 - to facilitate communication between the community and the governing body
 - to be accountable to the community for the local government's performance
 - to uphold and represent accurately the policies and decisions of the governing body.

Developing skills

It will be clear from the description of roles and responsibilities proposed in Box 19 that today's councillors require enhanced skills to deal with the complex challenges they face. The Panel has concluded that both an initial induction program and ongoing professional development should become mandatory. Many people in local government support this view. Those who argue against this change claim that councillors learn best 'on the job' and that there are no such demands on state and federal politicians. Counter arguments are that knowledge and skills can be acquired with greater certainty if 'work experience' is complemented by formal training; and that unlike nearly all MPs, councillors become frontline decision-makers as soon as they are elected. The Panel notes that Local Government NSW is currently introducing accredited programs, so that councillors have the option of counting professional development towards higher qualifications.

The Panel's preferred approach is set out in Box 20. It again draws on South Australian practice, where councils have had to prepare development programs for councillors for several years, and where the Local Government Association is preparing self-assessment tools for councillors and the governing body. NSW could draw on that experience and material.

Box 20: Councillor Development

- Require the governing body of a council to undertake a periodic audit and self-assessment of its skills base against its role and strategic objectives
- Require individual councillors to undertake similar self-assessments (this could be a simple on-line process)
- Require all councils to prepare, resource and implement a Councillor Development Plan linked to each 4-year Delivery Program and in accordance with a set of principles and professional development targets established jointly by LGNSW and DLG
- Introduce a mandatory component including an extended induction program for new councillors and 'update' modules for re-elected councillors, in both cases to be completed within 3 months after each election
- Also require councillors to complete a prescribed number of optional professional development activities during each term – such activities to be selected from a list of approved courses and other options.

Councillors who satisfactorily complete professional development programs should receive additional remuneration (see section 9.4). The names of councillors who fail to undertake adequate professional development should be published in the council's annual report and forwarded to DLG. If there are cases of repeated failure to complete even the basic induction and/or update programs, it may be necessary to consider a provision in the Act preventing a councillor from contesting the next election.

A related issue is the provision of administrative and technical support to councillors. In most councils this is minimal. Councillors cannot be expected to play a strong role in policy development and to effectively monitor the organisation's performance unless they are given adequate support. It should be a responsibility of the General Manager to ensure such assistance is provided as a matter of course.

9.3 Role and election of Mayors

Both internationally and in some other states increasing emphasis is being placed on the mayor as a means of strengthening civic leadership including representing the local community in regional, state and national forums. The trend has been highlighted by recent changes to local government Acts in Queensland and New Zealand. Emerging features of the role of mayors include:

- Formulating a vision for the area, and playing a leading role in community engagement, strategic planning and policy development
- Close involvement in preparation of the budget, so that the mayor can become a champion for its adoption and consistent implementation
- Leading the councillors to ensure good governance
- Forging partnerships with government agencies, other service providers, business and community groups
- Providing advice and strategic direction to the CEO (General Manager).

Concern has been expressed that this is a trend towards ‘executive’ mayors and that the current ‘separation of powers’ between the body politic and management will be compromised. However, there is a very significant difference between giving a mayor increased authority with well-defined responsibilities, and making the mayor the chief executive. This can be made clear in the Act, which at present offers very little guidance on the role mayors should play. Also, it is generally agreed that good governance depends heavily on a close and effective Mayor-General Manager relationship.

The Panel has concluded that enhancing the role of mayors could make a major contribution to focusing councils on strategic issues, improving governance and strengthening inter-government relations and partnerships with key stakeholders. The Panel’s focus is on better defined *responsibilities* which will add *stature and authority* to the role of mayors, but not increased *powers*. The responsibilities suggested in Box 21 are all based on established practice elsewhere and should be detailed in the Act.

Box 21: Proposed Roles and Responsibilities of Mayors

The Mayor has the responsibilities of a councillor plus the following additional responsibilities:

- to be the leader of the council and the community of the local government area, and advance community cohesion
- to promote civic awareness and, in conjunction with the General Manager, ensure adequate opportunities and mechanisms for engagement between the council and the local community
- to be the principal member and spokesperson of the governing body and to preside at its meetings
- to nominate a deputy mayor, subject to ratification by the governing body
- to ensure that the business of meetings of the governing body is conducted efficiently, effectively and properly in accordance with provisions of this Act
- to propose a committee structure and to nominate chairs of committees, subject to ratification by the governing body
- to lead the councillors in the exercise of their responsibilities and in ensuring good governance
- to ensure the timely development of the governing body’s strategic plans and policies, and to promote their effective and consistent implementation, including by promoting partnerships between the council and key stakeholders
- to present and propose adoption of the annual operational plan and budget
- to deliver an annual public statement outlining progress made during the previous twelve months in implementing the Community Strategic Plan and Delivery Program, and identifying key issues for the future
- to exercise, in cases of necessity, the policy-making functions of the governing body between meetings of the council
- to represent the governing body on regional organisations and in inter-government forums at regional, State and federal levels
- to advise, manage and provide strategic direction to the general manager in accordance with the council’s strategic plans and policies
- to lead performance appraisals of the General Manager
- to carry out the civic and ceremonial functions of the mayoral office
- to exercise such other functions as the governing body determines.

With additional authority must go improved skills and greater accountability. The mayor should be expected to have a thorough grasp of strategic and financial issues, and to take responsibility along with the General Manager for certifying that key documents such as the Community Strategic Plan, Delivery Program and annual statements of accounts have been properly prepared. S/he should be able to present the budget to the council and community and defend the assumptions on which it is based.

To fulfil these responsibilities mayors will need additional knowledge and professional development. A specialised professional development program over and above that required for councillors should be mandatory, and should be undertaken within 3 months of election as mayor. Aspiring mayors may wish to undertake the program before standing for office.

In larger councils and in major regional centres as defined in section 11.7, the expanded mayoral role will in most cases amount to a full-time, senior position. The mayors of those councils should be remunerated accordingly (see below) and have dedicated administrative *and* policy support staff.

Expanding the role and responsibilities of mayors will also impact on deputy mayors. In some cases (eg in larger councils, or where the mayor assumes a major regional role, or where the mayor is unable to be full-time), mayors may need to delegate a considerable

number of functions to their deputies. This raises two questions: should a mayor be able to select his/her deputy, so as to be confident of their support; and should some deputies also be full-time? The Panel proposes that the mayor should *nominate* his or her deputy, with the governing body's role limited to either ratifying or rejecting that nomination. This would help to avoid situations where a governing body deliberately installs a deputy who is hostile to the mayor. The Panel also proposes that councils be able to make a case to the Remuneration Tribunal for the deputy mayor to be full-time.

Election of mayors

The Panel considers that as in Queensland, Tasmania and New Zealand mayors should generally be popularly elected. Under the current optional arrangements, less than a quarter of NSW mayors are directly elected, compared to about 70% in South Australia. Elsewhere the mayor has to face re-election by the councillors every year – even in many large urban councils facing complex and demanding strategic issues. Annual elections create unnecessary instability and the risk that councillors will simply ‘take turns’ rather than taking the role seriously.

There have been cases of popularly elected mayors at loggerheads with a council of a different political persuasion. This is a risk and popular election needs to be matched by the clearer statement of the mayoral role, as proposed above. Also, popularly elected

mayors should enjoy a mandate to discharge their responsibilities without unwarranted interference. The governing body should not be able to transfer mayoral responsibilities to his/her deputy or anyone else without the mayor's consent.

However, poor relations between mayors and other councillors are not confined to popularly elected mayors. Election of the mayor by the councillors can also lead to stalemate or ongoing instability when the mayor has a very narrow majority. Even worse is the situation where the position of mayor has to be filled by a ‘draw from the hat’. Steps need to be taken to prevent such occurrences.

Also, changes are needed to give the community more opportunities to have a say in whether the mayor is popularly elected or elected by the councillors – the latter being the current default arrangement. The Panel is strongly of the view that councillors should not have a power of veto over a change to popular election. It therefore proposes that consultation about the way the mayor is elected should be undertaken as part of each representation review (as suggested in section 9.1), and that a petition signed by a set minimum number of voters (say, 250 or 10% of the total, whichever is the lesser) should require a council to hold a referendum on changing the method of election.

After extensive consultations on these issues, the Panel's preferred approach is set out in Box 22.

Box 22: Election of Mayors

- Mandatory direct election of mayors in all metropolitan councils, in other councils with populations of 40,000 or more, and in designated regional centres
- Elsewhere, election of the mayor to be either directly by the voters or by the councillors, with the default position remaining election by the councillors
- Minimum two-year terms for mayors elected by the councillors
- Ensure that all councils have an odd number of councillors (including the mayor), and require all councillors to vote in a mayoral election (thus avoiding 'draws from the hat')
- Councils to hold community consultations on whether to change the way the mayor is elected as part of each representation review
- Councils to hold a referendum if the representation review finds substantial community support for a change, or a set number of eligible voters petition the council
- Referenda to be conducted by postal voting to minimise costs
- Mayors to undertake mandatory ongoing professional development in accordance with the council's adopted Councillor Development Plan, including an initial specialised course to be successfully completed within three months of election as mayor.

9.4 Remuneration of Councillors and Mayors

The need for improved councillor remuneration is raised regularly by local government representatives. The Panel's view is that decisions of the Remuneration Tribunal do appear to under-value the decision-making responsibilities of councillors. This may reflect an inadequate description of that role in the Act, and a tendency in some sections of local government to promote an image of 'volunteer' councillors rather than professionalism. The proposals already put forward in this section should address those issues.

In the case of mayors and deputy mayors, the Panel understands that it would be desirable to create a new category of council in which a full-time mayor would be the norm, and his or her deputy could also be expected to carry a heavy workload – perhaps to the extent of becoming full-time as well.

9.5 Role and appointment of General Managers

The nature of local government requires councillors and senior staff to work closely as a team. The close relationship with the community and the way the decision-making process works means that the line between 'policy' and 'management' is often blurred, and unlike State and federal governments there are no executive ministers to provide a link between the body politic and the administration. That function rests largely on the relationship between the mayor and the General Manager.

The 1993 Local Government Act made General Managers responsible for 'day-to-day' management, and gives them authority to appoint, control and dismiss staff. The Act also makes them 'generally responsible' for the efficient and effective operation of the council's organisation. Under the IPR arrangements, the Act requires General Managers to *assist* (emphasis added) the council in connection with the development and implementation of the community strategic plan and the council's resourcing strategy, delivery program and operational plan.

Thus the Act is unclear about just how much authority and autonomy General Managers should exercise. Tensions with the mayor or councillors can arise, sometimes leading to the General Manager resigning or being dismissed. Regrettably, there has been a trend towards councillors or mayors being elected on platforms of dismissing the current General Manager. Conversely, there have been cases of General Managers' contracts being renewed without advertising shortly before elections.

These are very complex issues and there are no simple solutions. In line with the Panel's consultations, Box 23 sets out proposals for a revised statement of the role of General Managers that could be included in the Act, while Box 24 suggests an amended framework for their appointment and tenure. Two key elements are firstly, to promote well-managed performance reviews under the leadership of the mayor; and secondly, as far as possible to distance decisions about the tenure of General Managers from the electoral process.

The Panel also believes it will be helpful if the Act makes it clearer that the core role of the General Manager is the day-to-day management of the council's administration in accordance with the strategic policies and lawful decisions of the governing body; to advise and assist the governing body in its deliberations; and to work closely with and support the mayor.

The performance of a council depends to a large extent on the ability and performance of its General Manager. The Panel has doubts as to whether all General Managers across NSW have the necessary training and skills to make a success of this complex and demanding role. For example, some appear uncomfortable with the new demands of Integrated Planning and Reporting in terms of strategic planning and high-level asset and financial management. Box 24 therefore includes proposals for new professional development requirements. However, the Panel does not wish to return to the days of a specialist and restrictive qualification for General Managers.

Box 23: Role and Responsibilities of General Managers

- To conduct the day-to-day management of the council in accordance with the governing body's strategic plans and policies
- To advise the mayor and the governing body on the development and implementation of policies and programs, including the appropriate form and scope of community consultation
- To prepare, in consultation with the mayor and governing body, the Community Strategic Plan and the council's Resourcing Strategy, Delivery Program and Operational Plan, Annual Report and State of the Environment Report
- To certify, together with the Mayor, that IPR requirements have been met in full, and that council's annual financial statements have been prepared correctly
- To ensure that the mayor and councillors receive timely information, advice and administrative and professional support necessary for the effective discharge of their responsibilities
- To implement lawful decisions of the governing body in a timely manner
- To exercise such of the functions of the governing body as are delegated by the governing body to the General Manager
- To appoint staff in accordance with an organisation structure and resources approved by the governing body
- To direct and dismiss staff
- To implement the council's equal employment opportunity management plan.
- To undertake such other functions as may be conferred or imposed on the General Manager by or under this or any other Act.

Box 24: Appointment and Tenure of General Managers

- The mayor should lead the appointment and performance reviews of the General Manager, and take responsibility for ensuring due process
- There should be a 'cooling off' period of 6 months after the election of a new council or mayor during which the summary dismissal provisions of the standard General Manager contract should not apply (this would provide an opportunity to build a positive working relationship whilst not preventing dismissals based on documented poor performance)
- Use of the summary dismissal provisions at any time should require a two-thirds majority of councillors
- Contracts of General Managers should not be renewed within 6 months prior to an election except by means of a full merit selection process; otherwise they should not be extended for more than 12 months and only on existing terms and conditions
- As a condition of appointment, General Managers should be required to complete a tailored induction program before or within 3 months of their first appointment to such a position, and approved professional development programs thereafter.

9.6 Organisation structure

Well-designed organisation structures can facilitate but not guarantee good governance and productive relations between management and elected members; on the other hand, inappropriate structures can certainly impede success. In this regard, there have been tensions around the current provisions of the Local Government Act concerning the regular review and adoption by the governing body of an organisation structure. In some instances councillors have over-ridden the advice of the General Manager on what constitutes an appropriate structure, and have sought to determine staffing arrangements at an operational level.

In the Panel's view, the governing body should be able to determine, on the advice of the General Manager, the upper levels of the organisation structure, and to ensure that staffing resources are being allocated in such a way that the council's priorities can be pursued. These decisions also need to be linked to those about the committee arrangements which, as indicated earlier, should be a matter in which the Mayor plays a leadership role.

The Panel therefore proposes that the Act be amended to provide, as at present, that a council must review the organisation structure after each election, and may do so at other times, but also that:

- the governing body must act on the advice of the Mayor and General Manager
- the adopted structure must accord with the priorities set out in the council's Community Strategic Plan and Delivery Program
- the adopted structure may only specify the roles and relationships of the General Manager, designated Senior Staff and other staff reporting directly to the General Manager.

9.7 A Good Governance Guide

It is very difficult, if not impossible, to legislate for sound working relationships and transparent, well-informed decision-making. For example, submissions to the Panel have argued that the Code of Conduct has already become too convoluted.

Recent amendments to the Local Government Act have introduced a power for the Minister to issue ‘performance improvement orders’ in accordance with pre-determined performance improvement criteria; to appoint temporary advisers to help councils make the required changes; and, if necessary, to suspend an elected council for up to 6 months rather than use the current dismissal power. The Panel supports these changes provided that they are genuinely focused on clearly defined needs for improvement, and that adequate support is provided to facilitate change. ‘Good governance orders’ might be a more appropriate title.

DLG, LGNSW and others have already developed considerable amounts of advisory and educational material that could be assembled into a ‘Good Governance Guide’. This could underpin the proposed performance improvement criteria and the work of temporary advisers, as well as consolidating advice on good governance practices generally.

A key objective of such a Guide should be to help build effective working relationships around the respective roles and responsibilities of the governing body, mayors, councillors and General Manager. Deficiencies in those relationships, and in the checks and balances necessary to foster mutual respect and collaboration, are usually at the heart of dysfunctional councils. Detailed guidance and mentoring or peer support is needed to raise the general standard across NSW local government.

The proposed Guide should also include advice on how to undertake the self-assessment processes proposed in Box 20. Such processes are commonplace in private sector boards and various assessment models could be adapted to local government. The South Australian local government association is currently developing similar materials for its member councils. Good governance is an area in which LGNSW should be playing a strong role, building on its programs for councillor development and mentoring of mayors.

Recommendations for Political Leadership and Good Governance

26	Amend the Local Government Act to strengthen political leadership: • Require councils to undertake regular ‘representation reviews’ covering matters such as the number of councillors, method of election and use of wards (9.1) • Before their nomination is accepted, require all potential candidates for election to local government to attend an information session covering the roles and responsibilities of councillors and mayors (9.1) • Amend the legislated role of councillors and mayors as proposed in Boxes 19 and 21, and introduce mandatory professional development programs (9.2 and 9.3) • Provide for full-time mayors, and in some cases deputy mayors, in larger councils and major regional centres (9.3) • Amend the provisions for election of mayors as proposed in Box 22 (9.3)
27	Increase remuneration for councillors and mayors who successfully complete recognised professional development programs (9.2-9.4)
28	Amend the legislated role and standard contract provisions of General Managers as proposed in Boxes 23 and 24 (9.5)
29	Amend the provisions for organisation reviews as proposed in section 9.6
30	Develop a Good Governance Guide as a basis for ‘performance improvement orders’ and to provide additional guidance on building effective working relationships between the governing body, councillors, mayors and General Managers (9.7)

Part C

Structures and Boundaries

10. Advancing Structural Reform

Discussion of structural reform in local government is invariably dominated by strongly opposing views about the merits of amalgamations. Most councils are strongly – often vehemently – opposed and campaigns are launched to stave off any perceived threat. More regional cooperation and shared services are usually advanced as the alternative. The result tends to be a stand-off without any in-depth consideration of all the issues and options involved. This would be a fair description of the current ‘state-of-play’ in NSW.

Thus the history of council amalgamations has generally been one of long periods of resistance and inactivity, interspersed by episodic State interventions to enforce changes. In NSW those interventions have typically focused on a relatively small number of councils at any one time, but their cumulative impact has been dramatic: the number of councils in NSW has more than halved over the past century (see Box 25). It follows that many councils which now assert the importance of their identity are in fact the result of past amalgamations. Equally, it is impossible to believe that today’s map of local government will remain unchanged for much longer.

The most recent burst of activity was in 2003-4, when 40 non-metropolitan councils were amalgamated into 21 new areas. To date, there

have been no interventions in the Sydney metropolitan region, except for repeated changes to the boundaries of the City of Sydney and, oddly, a decision in 1991 to allow the Pittwater area to separate from Warringah Shire.

In 1997 the then NSW Local Government and Shires Associations issued a discussion paper on voluntary structural reform (including mergers, boundary changes and shared services). It suggested that ongoing change was inevitable and councils needed to be proactive in implementing the right sort of changes for their areas. It also pointed to research showing that previous rounds of amalgamations had generally produced good results. However, very few voluntary mergers of councils have occurred over the years, and the Panel sees little prospect of many more.

Box 25: Council Amalgamations in NSW

- Since 1906 the number of councils in NSW has fallen progressively from 327 to 152 as a result of mergers.
- This reduction is similar to Australia as a whole which has seen the total fall from 1,067 in 1910 to 565 councils.
- The last group of mergers in NSW occurred in 2003-04, cutting the number of councils from 172 to 152.
- Nearly all mergers and boundary changes in NSW have been outside the Sydney metropolitan area. The only changes to local government in Sydney have been the voluntary merger of Drummoyne and Concord to form Canada Bay; the separation of Pittwater from Warringah; and various adjustments to the City of Sydney (most recently its amalgamation with South Sydney in 2004).

The Panel is required by its terms of reference to consider options for structures and boundaries, taking into account the Government’s current policy of ‘no forced amalgamations’. It believes that the time has come for a fresh approach to break the current deadlock and enable proper consideration of necessary structural reform. This would involve:

- Focusing on the need for increased ‘strategic capacity’ as discussed in section 4.2
- Firmly rejecting ‘one-size-fits-all’ policies
- Introducing new types of local government bodies to facilitate a ‘mix-and-match’ approach to the particular needs and circumstances of different parts of NSW
- Changing the process for initiating and considering amalgamations and boundary changes.

10.1 A flexible set of structures

The central challenge in structural reform is to balance two seemingly opposed agendas:

- The need for increased scale and capacity that will enable councils to remain sustainable, provide adequate services, and be valued partners in the system of government
- ‘Keeping the local’ in local government so that community identity and local democracy are maintained.

At present, there are only two statutory types of local government in NSW: local councils and county councils. Moreover, all local councils – large or small, urban or rural or remote – are subject to a single set of provisions and requirements under the Local Government Act. And county councils are seen as special-purpose entities rather than a basis for wide-ranging collaboration amongst their constituent councils. Hence voluntary Regional Organisations of Councils have become the principal vehicle for sharing resources and delivering shared services – but their lack of a statutory basis and the voluntary nature of their activities tend to limit the role they can play within government (see section 11.1).

In other jurisdictions a wider range of statutory options is used. In England, for example, some regions have a mix of (multi-purpose) county and district councils with split functions, while others have unitary councils covering the full scope of local government activities in the one organisation.

Greater London has its own regional authority. And in many places parish or town councils have been established to undertake planning and some aspects of service delivery at a community or neighbourhood level.

In New Zealand, the work of local (‘territorial’) councils is complemented by directly-elected regional councils responsible for regional planning, environmental management, transport and other ‘higher order’ functions. As well, councils may establish community boards to play both an advisory role and to oversee or carry out local service delivery and projects. In Auckland, an amalgamated ‘super city’ has been created to manage the entire metropolitan area of 1.5 million people, whilst 21 local boards provide for community-level governance.

The Panel therefore sees a need in NSW to create an expanded set of local government structures that can be used in different ways in response to the varying needs of communities and regions. Proposed structures comprise:

- Regional ‘Joint Organisations’ – statutory groupings of local councils established under the Local Government Act that undertake a range of ‘high-level’ functions on behalf of their members (the precise mix of functions can vary from region to region)
- Local councils operating along very similar lines to the current provisions of the Act, except for

the referral of some regional functions to the new Joint Organisations

- ‘Rural Councils’ – a somewhat different type of local council, working as part of a Joint Organisation, and with reduced legislative and compliance responsibilities and a lower cost base more appropriate to rural-remote areas with small populations
- ‘Community Boards’ – elected or appointed sub-council organisations that can carry out a range of representational, planning and service delivery functions delegated by the council.

Further details of the Panel’s thinking about Joint Organisations, Rural Councils and Community Boards are presented in sections 11 and 12. The key points to be made here are that:

- The *option* of ‘Rural Councils’ working within regional Joint Organisations could offer an alternative to amalgamations as a way of addressing the needs of rural-remote communities
- The *option* of establishing Community Boards would provide a means of maintaining community democracy and identity in areas where amalgamations are considered necessary.

10.2 The case for amalgamations

Amalgamations and boundary changes are not the panacea for local government's problems, nor are they the only type of structural reform that should be pursued. However, the Panel believes that they are an essential element of a wider package of reforms. Creating a sustainable system that can cope with the challenges of a changing world must involve some reduction in the number of local government areas. NSW simply cannot sustain 152 councils: many are highly dependent on grant support; fiscal imperatives demand efficiencies in government across the board; and there are shortages of highly-skilled personnel. The shortage of engineers, for example, is a significant factor limiting the capacity of councils to deal with infrastructure backlogs.

Taxpayers should not be expected to increase grant funding indefinitely to support councils that are unnecessarily small, lack capacity and build excessive costs into the system. Mergers should be pursued where they can make a substantial contribution to addressing financial problems, reducing fragmentation of resources and duplication of effort, and building strategic capacity for the long term. Capacity should be *further* enhanced through regional collaboration via the new Joint Organisations.

In metropolitan areas, amalgamations and more effective sub-regional arrangements will be needed to establish a system of local government that has

the capacity to be a real partner of State and federal governments in addressing the challenges of growth and change well into the mid-21st Century, when Sydney's population will be around 7 million.

The ACELG report *Consolidation in Local Government: A Fresh Look* examined the extent to which different forms of consolidation can achieve the benefits sought. Table 4 is drawn from that report. It suggests that amalgamations offer the surest way to achieve efficiency and economies of scale, service improvements and strategic capacity. Stronger regional collaboration and shared services organisations may do so, but the outcomes *across the board* are less certain.

Table 4: Summary Attributes of Different Forms of Consolidation

	Amalgamation	Boundary Change [^]	Shared Services [#]	Regional Collaboration [*]
Efficiency and Economies of Scale	Strong link	Potentially strong link subject to size/disposition of re-shaped councils	Strong link	Weak link
Strategic Capacity	Strong link	As above – benefits will flow to larger 'new' council/s	Potential medium-strong link subject to organisation structure and governance	Weak link
Service Improvement and Innovation	Strong link	As above	Strong link (but limited to services that are effectively shared)	Potential link subject to nature and scope of collaboration
Potential Diminution of Local Democracy	Distinct risk, but can be managed	Some risk depending on nature of 'new' councils – can be managed	Risk where extensive decision-making is ceded to joint authority – may be difficult to manage	Little or no risk

[^]To create a larger, higher capacity council

[#] Assumes more robust, statutory regional organisations

^{*} Along the lines of a regional organisation of councils

The principal arguments used against amalgamations are that there is no direct, general relationship between council size and the efficiency of service delivery; that mergers will fail to produce worthwhile cost savings; that local identity and representation will suffer; and that regional cooperation and shared services can deliver the desired outcome. However, those arguments miss several crucial points:

- The evidence shows that for some local government functions, notably infrastructure and ‘back-office’ services, increased scale can and does bring efficiencies and cost savings
- A number of ‘before and after’ case studies of individual amalgamations have shown significant efficiency gains (but not necessarily cuts in rates, because savings have been ploughed back into other service and infrastructure improvements)
- Local government does much more than just deliver services and needs greater ‘strategic capacity’ (as outlined previously in section 4.2) to plan effectively for the future of localities, to advocate and negotiate on behalf of communities, and to play a stronger role in the wider system of government
- Mechanisms such as Community Boards and new approaches to place management, community engagement and customer service make it possible to maintain local representation and identity within larger council areas (see section 10.5)

- To date, regional cooperation has been mostly voluntary, and its performance in delivering shared services has been patchy and variable over time (see section 11.1 for a fuller discussion of this point).

Having said that, the Panel acknowledges that:

- Boundary changes can be disruptive, and transition costs may place a heavy strain on new organisations in their early years of operation
- Merging two or three weak or unsustainable councils may simply produce a larger weak or unsustainable council – complementary action will be required to address underlying issues
- Amalgamations are not possible where physical distances between communities and service centres are simply too great.

The Panel accepts that there is no simple relationship between council size and efficiency, and hence no guarantee amalgamations will produce the benefits sought, especially cost savings. The ACELG report made that clear. However, the Panel has noted a number of recent studies in NSW and elsewhere clearly demonstrate the potential for amalgamations – properly managed – to generate both efficiencies and increased strategic capacity (economies of scale and scope). What NSW needs is a new process to enable the *option* of amalgamations to be carefully assessed on a case-by-case basis within the context of the broader range of structural options presented above.

Community attitudes

The Panel undertook its own polling to assess, among other things, community attitudes to amalgamations. It also considered the findings of polling commissioned by Hornsby Shire Council that explored community responses to options for mergers and boundary changes advanced in the Panel’s *Future Directions* report of April 2013. Several broad findings can be identified.

- For the overwhelming majority of people, issues of local government operations and reform are not ‘top of mind’
- When amalgamation proposals are first raised they lack majority community support and attract strong opposition from a substantial minority – around 25-30%.
- However, when people are prompted to give a more considered view, there is a much more even split between those in favour and those opposed
- Supporters of amalgamation point to potential efficiencies, savings, and improvements to services
- Opponents are chiefly concerned about loss of local identity and representation, as well as the risk of a large, inefficient bureaucracy.

The Panel’s conclusion is that achieving majority community support for amalgamations is by no means an impossible task, provided the public is given

timely and accurate information about what is involved, what the benefits could be, and how possible adverse impacts will be handled. Experience in other states confirms the finding that for most people local government reform is not a 'make or break' issue, and that after a relatively brief settling-in period new arrangements are widely accepted.

10.3 Towards a better process

In the end, arguments about 'forced' versus 'voluntary' amalgamations are essentially a distraction from the core issue, which is how the role and capacity of NSW local government can best be strengthened in the interests of the communities it is expected to represent. That objective will not be achieved by self-interest or special pleading. It requires a willingness to take a fresh look at the system of local government and its relationship with the State, and to explore new options with an open mind. At the very least, merger proposals and boundary changes that appear to have merit ought to be properly considered, even if they are ultimately rejected.

The Panel has little doubt that the majority of those in local government who argue so strongly for 'no forced amalgamations' are in fact rejecting amalgamations under almost any circumstances. For reasons given earlier, the Panel cannot see this as a reasonable or realistic attitude. It therefore suggests that 'no forced amalgamations' be replaced with a new policy based on the following principles:

- That the State government's currently unfettered right to impose amalgamations and major boundary changes more or less at will should be limited
- That any amalgamation or major boundary change should be preceded by careful analysis of the issues to be addressed and all the options available
- That there should be full community consultation
- That the process should be handled by an expert, independent body
- That the Government should not be able to over-rule the findings and recommendation of that body without good cause.

As far as its own task is concerned, the Panel wishes to emphasise that setting out desirable options for boundary changes is NOT the same as recommending forced amalgamations. Moreover, under the current provisions of the Local Government Act, amalgamations and boundary changes cannot occur without a *further process* after the Panel completes its work, and would involve the Boundaries Commission (see below). Thus whether and when the Panel's options are pursued is entirely a matter for the State government and the councils and communities involved.

Learning from experience

To inform its analysis of these issues, the Panel commissioned a study of a sample of the 2004 amalgamations in NSW (the 'Tate' report), and has

held numerous discussions with other councils created at that time. The overwhelming finding is that, properly planned, mergers can produce stronger, more effective councils, and that community identity *can* be maintained. However, the research also showed that the 2004 amalgamations were poorly planned and as a result gave rise to unnecessary concerns and disruption.

The research made it clear that better information and careful analysis of relevant issues can smooth the path. Moreover, increased benefits for residents and ratepayers can be realised more quickly and more certainly if changes are thoroughly planned and the necessary expertise in change management is available in the period immediately before and after the new organisation comes into being.

The process for any future mergers or major boundary changes should therefore be based on a well-managed, four-step process:

- Deciding about the need for change, assessing the business case and formulating a suitable proposal
- Detailed planning for the transition and ongoing implementation
- Effectively managing all aspects of implementation in accordance with an agreed plan
- Ongoing monitoring and evaluation.

The Panel sees the same approach being applied to establishment of regional Joint Organisations or any other form of structural change. The State government should make available resources and expertise to enable and support this process (see section 18).

Reconstituting the Boundaries Commission

The NSW Local Government Act already contains provisions for an independent Boundaries Commission and for a review process that, in the case of amalgamations, involves consulting every elector in the affected areas through questionnaires or a formal poll. The Panel believes that these provisions offer a starting point for a much improved system. However,

they were compromised by amendments made to the Act in 1999 which gave the Director General a similar role to the Commission, such that the Commission's authority and independence were significantly weakened. Those amendments need to be repealed.

The other major stumbling block with the current provisions is that unqualified decision-making power is vested in the Minister. S/he decides whether or not a proposal should even be considered by the Commission in the first place, and can then substantially amend the Commission's ultimate recommendations – without any scrutiny or need for explanation. Again, this needs to change to increase public confidence in the decision-making process.

Box 26 outlines the Panel's proposals for a better approach, so that in future councils and communities can be assured that proposals for amalgamations and boundary changes will be examined independently, impartially and on the merits of the case. This will hopefully overcome the current impasse.

As part of these changes, the Panel believes that the Boundaries Commission should have an ongoing research and monitoring role. It should periodically review boundaries across the State, and also monitor practices in other jurisdictions. Again, this should help build trust in its independence and capacity.

Box 26: A Revised Process for Boundary Changes

- | | |
|---|---|
| <ul style="list-style-type: none"> • Reconstitute the Boundaries Commission to comprise three members, none of whom may be a serving public official nor a current or former councillor or State politician: an independent chair nominated by the Minister and two other members nominated jointly by the Minister and President of LGNSW • Appoint Commission members for a minimum 5 years • Give the Commission a small dedicated secretariat, plus funding for research • Require the Commission to undertake regular reviews of local government boundaries across NSW, in accordance with a schedule to be determined by the Minister, and to initiate proposals for changes when there is evidence they are warranted • Allow the Minister, any council or public authority, or a group of electors (250 or 10%, whichever is the lesser, across the affected area/s) to submit a specific proposal to the Commission • Require the Commission to determine whether or not the proposal has sufficient merit to proceed, and to publish the reasons for its decision • If the proposal proceeds, require the Commission to prepare a public information report setting out arguments for and against | <ul style="list-style-type: none"> • Retain the current provisions for inquiries, surveys and polls, but remove the Minister's power to decide whether an inquiry is warranted • In every case of an amalgamation, require the Commission to conduct a survey or poll of all residents and ratepayers in the area/s affected, unless two or more councils have proposed a voluntary merger and the Commission is satisfied that those councils have already undertaken adequate community consultation • Require the Commission at the end of its investigations to report to the Minister on whether or not the proposal should proceed and, if so, precisely what form it should take and what steps and resources are required for its effective implementation • Enable the Minister to request the Commission to reconsider its recommendations, but require any proposed amendments and the reasons for them to be published • Require the Minister to implement the Commission's final recommendations in full unless s/he reasonably forms the opinion that the process has been flawed and/or that to proceed would be contrary to the wider public interest. |
|---|---|

Factors in defining boundaries

Section 263 of the Local Government Act already lists a range of factors to be taken into account by the Boundaries Commission in considering council boundaries. This offers a useful starting point but the Panel believes some additional points need to be included and that consideration of boundary changes should be more clearly outcomes-focused. Box 27 suggests criteria on which to base a revised list.

10.4 Promoting voluntary mergers

Having regard to the Government's current policy of 'no forced amalgamations', the Panel was particularly asked to consider barriers and incentives for *voluntary* mergers. The barriers are evident from many of the submissions received. They include:

- A belief that there will be no change to the 'no forced amalgamations' policy, and hence that the status quo can be maintained indefinitely
- In the case of rural-remote councils, a failure in many cases to come to terms with the issue of long-term sustainability, and a faith that 'something will turn up' to reverse population decline
- Concerns about loss of local identity, employment and democratic representation
- Institutional inertia and the (understandable) self-interest of current councillors and some staff who may lose their positions

Box 27: Criteria for Determining Future Local Government Boundaries

- **Sustainability and Strategic Capacity**
Councils need a strong base to ensure their long-term sustainability; to achieve economies of scale and scope; to deliver quality services; to provide a pool of talented councillor candidates; to attract skilled staff; and to develop strategic capacity in governance, advocacy, planning, and management.
- **Efficiency and Effectiveness**
Councils should be able to operate efficiently and effectively within the limits imposed by their location, geography and the characteristics of the communities they serve. They should be able to provide 'value for money' to their ratepayers and external funding agencies.
- **Integrated Planning**
LGA boundaries should not unnecessarily divide areas with strong economic and social inter-relationships; they should facilitate integrated planning, coordinated service delivery, and regional development.
- **Local Identity and Sense of Place**
Consistent with the need for integrated planning, boundaries should reflect a sense of identity and place, including important historical and traditional values. (However, other mechanisms available to maintain local identity should be taken into account.)
- **Population Growth**
The boundaries of a local government area (LGA) should be able to accommodate projected population growth generated by the LGA over at least the next 25 years.
- **Accessibility**
As a general rule, it should be possible to drive to the boundaries of a LGA from a main administration centre within 60-90 minutes in country areas, and within 30 to 45 minutes in metropolitan areas.
- **Strong Centre**
Each LGA should have a substantial population centre that can provide higher order commercial, administrative, education, health and other services.
- **Key Infrastructure**
As far as possible, key transport infrastructure such as airports and ports, and those nearby urban and regional centres that are principal destination points, should be within the same LGA.
- **Combining Existing Municipalities**
Wherever practicable, amalgamations should combine the whole of two or more existing LGAs without the additional cost and disruption of associated boundary adjustments.

- Lack of understanding of the potential long term consequences of resisting change, and of potential benefits
- Limited knowledge of what has actually occurred in other jurisdictions, and how structural reform is linked to wider changes in the role and status of local government
- Anticipated disruption and transition costs, and fears that financial assets will be ‘stolen’ or that some communities will incur increased costs and liabilities as part of an amalgamated area
- A perception in the eyes of many (but not all) senior managers and councillors that the current employment protection provisions in the Act make it too difficult to complete necessary organisation change after an amalgamation
- Lack of factual public information on the pros and cons of change, and hence the ease of generating ‘scare campaigns’ against amalgamation
- The difficulty of the process for launching community-initiated amalgamation proposals.

The Panel’s view is that under current policy and legislative settings these barriers are likely to prove insurmountable in all but a very few cases. NSW has witnessed only a handful of voluntary mergers over the past 20 years. For voluntary amalgamations to gain ground, the barriers need to be lowered and some significant incentives introduced. However, the Panel cautions strongly against attempting to ‘buy’ amalgamations: the potential cost would be very considerable (potentially several million dollars per merger), and great care needs to be taken not to set any undesirable precedent. Many larger urban councils in NSW could afford to carry the costs of

a merger, and evidence from recent studies commissioned by some Sydney councils indicates that well-planned mergers can generate savings far in excess of costs.

Box 28 presents measures that warrant further consideration.

Box 28: Incentives for Council Mergers

- Make it clear that ‘no change’ is not an option, and that Government is committed to the early establishment of statutory Joint Organisations
- Introduce the new process for considering boundary changes set out in section 10.3
- Task the Boundaries Commission with providing unbiased information for local communities about the pros and cons of mergers
- Provide professional change management support for assessing business cases and then negotiating, planning and implementing mergers
- Provide expert consultants to assist councils with the integration of rating and IT systems
- Allow up to two terms of merged councils for complete implementation of all the changes involved, especially rationalising rating systems
- Similarly, allow an increased number of councillors in the first two terms to ensure adequate local representation during the transition phase
- Introduce provisions for Community Boards as a new option to ensure democratic, community-level governance in large council areas (see section 12.2)
- Ensure that the accumulated reserves of a former council are retained or expended primarily for the benefit of its area
- Provide transitional funding through a mix of grants and low- or no-interest loans (eg for IT systems, office improvements, signage etc), consistent with an agreed implementation plan
- Focus financial support on councils with limited revenue potential and/or those merging with adjoining areas that have serious infrastructure backlogs or other liabilities.

10.5 Maintaining local identity and representation

Opponents of amalgamation rely heavily on the argument that local identity will be lost in bigger local government units; that larger councils will pay less attention to specific needs of different suburbs or neighbourhoods and will fail to take steps to maintain their character. However, the Panel can find no evidence that loss of local identity is an *inevitable consequence* of creating larger local government areas. What does seem clear is that very rarely communities are so different, or so fiercely independent, that forcing them to share a local council is probably unwise.

Experience also suggests that special efforts need to be made after an amalgamation, or in a large, growing local government area, to maintain a sense of local identity and place. Many councils have done this successfully and the concept of ‘place management’ is well understood. Good examples in NSW include Lake Macquarie and the City of Sydney.

Clearly, it is simply not possible to have a separate council for every identifiable place or community. That would mean, for instance, dividing Sydney into hundreds of suburban council areas. The Panel therefore believes that as part of a wider package of structural reform, a range of methods have to be used where necessary to keep the ‘local’ in larger local government areas. These can include:

- Establishing elected Community Boards, as in New Zealand (see section 12.2)
- ‘Place management’ approaches as mentioned above, with community committees, preparation and implementation with communities of suburb or townships plans and development projects, and local service centres
- Dividing local government areas into wards, with ward councillors convening local committees or forums
- Using new communications technologies and social media to establish closer contact between councils and their communities, to inform and engage local people, and to conduct ‘citizens panels’ or online forums to explore community views and ideas
- Modern customer service systems that ensure swift replies to requests for information and rapid responses to problems or concerns.

Recommendations to Advance Structural Reform

31	Introduce additional options for local government structures, including regional Joint Organisations, ‘Rural Councils’ and Community Boards, to facilitate a better response to the needs and circumstances of different regions (10.1)
32	Legislate a revised process for considering potential amalgamations and boundary changes through a re-constituted and more independent Boundaries Commission (10.3)
33	Encourage voluntary mergers of councils through measures to lower barriers and provide professional and financial support (10.4)
34	Provide and promote a range of options to maintain local identity and representation in local government areas with large populations and/or diverse localities (10.5)

11. Regional Joint Organisations

The Panel sees stronger regional cooperation as a central plank of local government reform. This will enhance the role of councils and facilitate more productive State-local relations, especially in strategic planning, economic development, infrastructure provision and service delivery. Thus the Panel's objective is to create a robust but flexible framework within which councils can *negotiate* the establishment of statutory regional organisations that will undertake strategic planning and other joint activities, and provide a platform for much more extensive and effective State-local dialogue and cooperation.

In *Future Directions* the Panel proposed that the existing County Council provisions of the Local Government Act, suitably amended, could be used to establish the stronger regional entities it had in mind. Those proposals were not well received by local government, due largely to perceived problems with the current legal framework for County Councils. The Panel has therefore developed a substantially modified set of proposals for what it now terms 'Joint Organisations'.

11.1 Future of Regional Organisations of Councils

The great majority of NSW councils in both metropolitan and rural and regional areas are already members of a Regional Organisation of Councils

(ROCs). These are voluntary groupings, typically established under s355 of the Local Government Act, or as an incorporated association or company limited by guarantee. Most have existed in one form or another for 20-30 years or more. They carry out a diverse range of functions with and for their member councils, including regional advocacy, strategic planning, joint procurement and shared service provision. Some ROCs have established jointly-owned commercial enterprises.

The Panel commissioned an independent review of the prospects for ROCs by Gooding Davies Consultancy Pty Ltd. The report highlights the valuable role played by a number of ROCs over many years, but notes also that their performance has been patchy and uneven, especially in the delivery of shared services. It suggests that this reflects the disparate size, number and wealth of participating councils, as well as variations in the level of commitment and institutional leadership. There are also legislative impediments to effective shared services arrangements, including the need for each participating council to separately approve tenders for regional provision of goods and services, and limits on councils' ability to form companies.

Many submissions to the Panel have argued that ROCs, more or less in their current form, should continue to be the primary form of regional

collaboration in local government, although some have proposed that membership should become mandatory. The Panel's concern, however, is that the embedded culture of ROCs is one of voluntarism, either in membership or participation in joint activities or both. Their scope of operations and effectiveness varies too much from time to time and region to region. Without stronger, statutory regional bodies whose role and functions are fixed over the medium-long term, it is difficult to see local government as a whole being able to present itself as a reliable and capable partner of State agencies.

11.2 Existing County Councils

There are 14 existing County Councils in NSW, established under sections 383-400 of the Local Government Act. They are regional bodies undertaking specific functions on behalf of their constituent councils, which elect the members of the governing body. Currently the only functions assigned to a County Council are water supply (in 5 cases, one of which also has responsibility for sewerage), noxious weeds eradication (8), and floodplain management (1).

Table 5 indicates how existing County Councils could be incorporated into the new Joint Organisations. This will require transitional provisions as part of the amendments to the Local Government Act proposed in section 11.5. The Panel sees this as an opportunity to address the concern expressed by a number of councils that the County Council which they are supposed to 'own' is now effectively beyond their control. Provisions could be included in the Act along the lines of those used in New Zealand for 'Council Controlled Organisations', which are required to enter into an annual agreement ('Statement of Intent') with their shareholder councils on strategies and priorities.

11.3 Water utilities

The Panel was tasked in particular with reviewing proposals to consolidate the existing 105 local government-owned water utilities into around 30 regional bodies or alliances, as proposed by the 2009 Armstrong-Gellatly report and more recently by Infrastructure NSW. The State government has adopted those recommendations in principle.

The latest assessment by the NSW Office of Water shows that overwhelmingly local government water utilities are performing very well. Accordingly, the Panel believes that local government should retain its current responsibilities for water supply and sewerage, not only because it is delivering those services efficiently and effectively, but also because

they give rural local government critical financial mass and the capacity to recruit and retain professional staff. Similarly, the Panel sees no case at present to require councils to transfer water and sewerage assets to new regional entities.

In addition to the five existing County Councils that operate water utilities, there are several emerging regional alliances promoting closer cooperation between member councils. The Panel sees an opportunity for new Joint Organisations to build on these foundations by incorporating functions such as strategic business and network planning, regional water cycle management, high-level technical support to smaller councils, and – where agreed – joint infrastructure development and service delivery. Making existing County Councils and regional water alliances subsidiaries of the new JOs would help achieve those objectives. It would also ensure that rural water supply and sewerage assets and operations remain firmly in local government hands.

11.4 Defining regions

As noted above, most NSW councils are already members of ROCs, which cover nearly all the State and have generally well-defined boundaries. However, in a number of places ROC boundaries differ from those of existing County Councils, and also from regional boundaries used or proposed by State agencies. The Panel has therefore had wide-

ranging discussions to determine whether consistent regional boundaries can be established as the basis for both the proposed Joint Organisations, and to facilitate stronger partnerships between councils and key State agencies, especially in strategic planning.

Maps 2 and 3 show proposed regional boundaries across the State and in metropolitan Sydney. The various factors taken into account are summarised in Box 29.

Proposed boundaries are aligned with, or nested within, those to be used for delivery of the State Plan, for regional coordination amongst State agencies, and for preparation of Regional Growth Plans by the Department of Planning and Infrastructure. Not every council will be happy with the proposed regions, but the Panel believes they represent a reasonable compromise that should satisfy the great majority. In the metropolitan region the boundaries shown are considered suitable for strategic planning purposes, but if Joint Organisations are to be established with a wider range of functions, then some sub-regions would need to be divided as they include a large number of councils.

Box 29: Factors in Defining Regions

- Manageable geographic area and suitable scale for strategic planning
- Regional or sub-regional communities of interest reflected in current arrangements, including existing ROCs and County Councils
- Alignment as far as possible with key State and federal agencies for strategic planning purposes
- In the Sydney region, alignment with sub-regional boundaries proposed for the metropolitan strategy
- Strong socio-economic links identified through the Panel's 'cluster-factor' analysis
- Viability of a regional alliance of water utilities (at least 10,000 connections)*
- A regional centre with existing or potential strategic capacity to anchor the Joint Organisation and to assist smaller member councils where required.*

*The Panel has some doubts about the capacity of the proposed Mid-Murray Region in these areas, which will require further investigation

11.5 Establishment of new Joint Organisations

The Panel understands the concerns raised in relation to the model of 'new look' County Councils proposed in *Future Directions*. However, it remains supportive of the underlying *concept* of statutory regional entities established by individual proclamations that specify their area and functions, as well as various aspects of governance and operations. The Panel believes that a flexible and enabling framework along those lines has great merit: it can facilitate a negotiated approach to the establishment of robust organisations tailored to the particular circumstances and needs of different groups of councils.

The Panel has therefore developed a revised proposal under which the existing County Council provisions (Part 5 of Chapter 12 of the Act) would be replaced by new provisions enabling the establishment and operation of Joint Organisations, with transitional provisions for existing County Councils.

The name 'Joint Organisations' (JOs) has been adopted as a generic descriptor of the new regional entities. This term is deliberately neutral: groups of councils would be free to use whatever name they agree for their particular organisation (eg 'Council of Mayors', 'XYZ Councils'). A new JO would be established for each region by negotiation amongst member councils and with the Minister. Planning and facilitation support would be provided through expert consultants (see section 18.2).

The Panel sees no need for uniform structures and processes across all regions provided there is a consistent framework. This can be achieved by combining the concept of individual proclamations with Ministerial Guidelines to require some basic elements and offer guidance on others. Key features of the proposed approach are set out in Box 30. It offers a very high degree of flexibility for councils to structure their Joint Organisations as they see fit.

Whilst the role of JOs would essentially replace that of existing ROCs, the Panel's proposals would not prevent councils maintaining ROCs or other cooperative arrangements for activities that are not within the remit of their JO, or as a means of collaboration with adjoining (sub)regions, if they so choose.

Box 30: Framework for Establishing New Joint Organisations

- JOs would be regional bodies established under new provisions of the Local Government Act replacing those for County Councils
- Membership and ongoing active participation by councils would be mandatory
- Each JO would be established by a separate proclamation which would be negotiated amongst the member councils and with the Minister, with the assistance of expert facilitators provided by the State government
- The proclamation would set out the name, area, membership, functions, staffing and governance and financial arrangements (including payment of any 'dividends' to member councils)
- In finalising a proclamation the Minister would act on the advice of a Ministerial Advisory Group (see section 18.1)
- The governing body would comprise the mayor of each member council, but the proclamation could provide for additional council representatives and for 'participating observers' or advisers from outside local government
- Each JO would prepare a 10 year Strategic Business Plan and 4-year Delivery Program to guide (but not restrict) operations, both to be endorsed by member councils and updated as required
- JOs would be able to establish subsidiaries to undertake specific functions, and would incorporate existing County Councils (for which transitional provisions would apply)
- Subsidiaries would have their own boards, which would be skills-based, and could include senior council staff and people with relevant expertise drawn from outside local government
- Subsidiaries would be required to agree an annual Statement of Intent with the governing body to ensure that their activities and priorities align with those of the JO and its member councils
- JOs would hold annual general meetings open to all councillors of member councils and to the public, at which they would report on and account for their activities, and at which priorities and strategies for the coming year could be discussed
- Other provisions of the Act would apply to JOs as they do to councils, but variations could be made by Regulations or the terms of proclamations (eg to eliminate unwarranted compliance processes).

The Panel's view is that, to facilitate the development of strong, effective organisations, all activities of a JO should be conducted within a single set of regional boundaries (except in those few cases where an existing County Council already operates in more than one region – see Table 5). Also, as a general rule each council should only be a full member of one JO. However, the legislation can be written in such a way as to enable departures from this approach if suitable alternative provisions are agreed and included in the proclamation.

Metropolitan Sydney and Central Coast

In the case of the Sydney metropolitan and Central Coast regions the Panel considers that establishment of 'fully-fledged' Joint Organisations should be deferred pending further consideration of options for council mergers. This is discussed further in sections 13.5 and 14.2. In the meantime, the boundaries shown on Map 3 should be used for groupings of councils to undertake joint sub-regional strategic planning.

Pilot regions

The Panel is aware of at least 2-3 regional groups of councils that appear interested in becoming 'pilot' regions for the establishment of JOs, including Regional Water Alliances and Regional Roads Groups. If agreed, an early start could be made in those regions based on the proposed new legislative provisions.

11.6 Functions and structure of Joint Organisations

The Panel has no desire to create a 'fourth tier of government', nor an additional layer of bureaucracy. Rather, JOs would be embedded within the system of local government. Local councils would remain the core of the system: they would 'own' and resource the JOs in a similar way to ROCs. Selected regional functions would be referred to the JOs which would then work *alongside* their member councils in performing those tasks.

Proposed core functions of JOs are listed in Box 31. These should be set by Ministerial Guidelines. Water supply, sewerage, roads and other infrastructure assets would remain in the ownership of individual councils, unless already owned by a County Council or transferred voluntarily.

Box 31: Proposed Core Functions of Joint Organisations

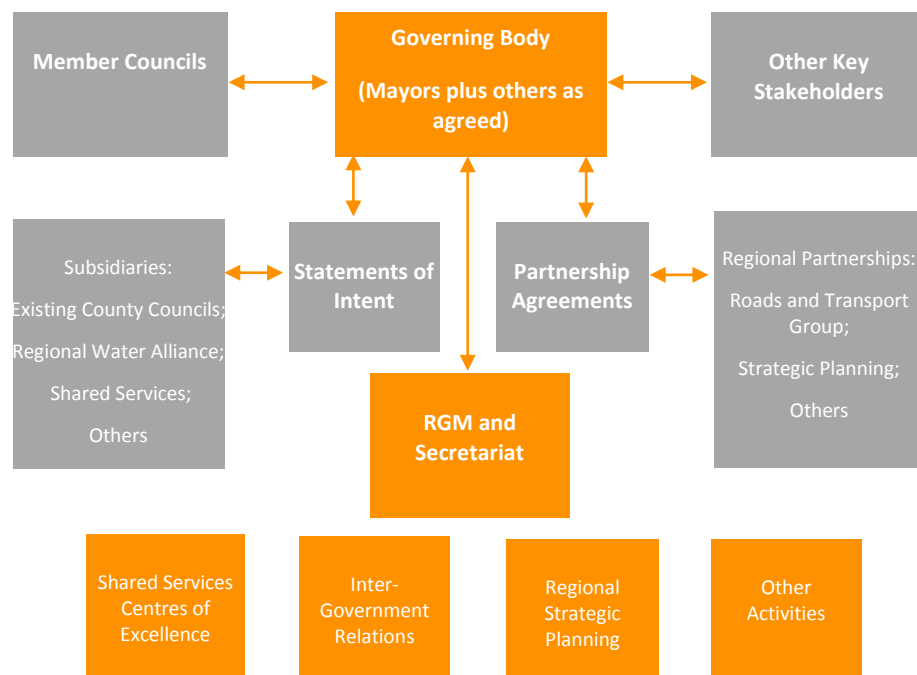
- Strategic regional and sub-regional planning
- Inter-government relations and regional advocacy
- Information and technical exchanges between member councils
- Activities of existing County Councils
- Regional alliances of local government water utilities
- Road network planning and major projects (through Regional Roads Groups as discussed in section 7.4)
- Collaboration with State and federal agencies in infrastructure and service provision
- Strategic procurement (which could also include accessing state-wide contracts and arrangements)
- Other joint activities specified in the proclamation, such as major infrastructure projects, regional waste and environmental management (including weeds and floodplain management), regional economic development, regional library services and 'high level' corporate services or 'back office' functions
- Administrative and technical support for any 'Rural Councils' established within the JO's area (see section 12.1).

Staffing of JOs would normally be limited to a Regional General Manager and administrative team. There would also be a small group of professional staff engaged in regional strategic planning, inter-government relations, technical support to member councils and management of regional projects. This may involve seconding a few senior management and technical staff from member councils to the JO, although in many cases they could remain based in their current workplace. The Panel does not see any need for transfer or relocation of operational staff. However, where an existing County Council has administrative and operational staff and becomes a subsidiary of a JO, they would become employees of the JO under the Local Government Award.

The scope of shared services would be detailed in the proclamation. Some activities might involve all councils in the region, others just some. However, once the proclamation has been finalised, there would be no opting out for at least the life of the Strategic Business Plan. This is essential to ensure that planned efficiencies can be realised. It is envisaged that a number of shared services activities could be handled by one or more member councils becoming a 'centre of excellence' for the region in specific areas of operation eg human resources, IT, waste management, economic development etc.

Figure 7 depicts a model structure for a JO, but this could vary from region to region depending on the agreed terms of the proclamation.

Figure 7: Model Structure for Joint Organisation



Funding arrangements

As indicated above, the Panel does not see JOs as large and costly bureaucracies. Moreover, the bulk of their activities will replace those already being undertaken by existing ROCs, County Councils and member councils.

Funding arrangements should be resolved amongst member councils as part of the negotiations to agree the terms of the proclamation. They may well vary considerably from region to region. In general terms, however, the Panel sees five main sources of funding for JOs:

- Current operating budgets of ROCs and County Councils
- General-purpose financial contributions by member councils
- Special-purpose contributions by member councils towards the cost of Regional Water Alliances and Regional Roads Groups (either cash or in-kind eg secondment of expert professional staff)
- Support through LIRS, the proposed Strategic Projects Fund, and various State grants
- General-purpose federal Financial Assistance Grants.

The last point may be controversial, in that it could entail some redistribution of existing grant funding away from individual councils. However, the Panel notes that such funding could often be used more efficiently and to greater effect at a regional level, and that any adjustment could be made over several years, taking advantage of the annual growth in FAGs.

11.7 Regional centres

In some non-metropolitan regions there is a well-established major regional centre that could play a leadership role and offer technical support where required to other member councils (see Box 32). Dubbo City Council provides a good example of how this can work through its leadership of the Lower Macquarie Water Alliance. The extent of the technical support role will vary within and between regions depending on the capacity of member councils: in some regions all the members of the proposed JO are substantial organisations in their own right. Financial arrangements for provision of technical support would be negotiated and set out in the JO proclamation.

The Panel has also identified a number of cases where it believes there could be merit in an amalgamation of councils around a regional centre (see Table 6). These options warrant further investigation for one or more of three reasons:

- to create a regional centre with the necessary scale and capacity to anchor a JO (eg Deniliquin-Murray-Conargo)
- to reflect close functional inter-relationships (eg ‘overspill’ development, commuter catchments, service provision) between a regional centre and adjoining council areas (eg Orange-Cabonne, Queanbeyan-Palerang, Albury-Greater Hume, Dubbo-Narromine-Wellington)
- as an option for adjoining ‘councils at risk’ (eg Wagga-Lockhart, Griffith-Murrumbidgee, Bathurst-Oberon, Armidale-Guyra).

There would be value in formalising a State-wide network of regional centres to drive growth in regional NSW; to facilitate exchange of information and expertise; and to strengthen liaison with key State and federal agencies. This could usefully build on the existing EvoCities group. An important function would be exchange of information and experience to build the leadership capacity of regional centres: the Panel is concerned that in some cases relations between major urban centres and surrounding rural councils are not as collaborative and productive as they should be, and that regional development efforts can suffer as a result. Key attributes of a regional centre are set out in Box 32.

Box 32: Key Attributes of a Regional Centre

- **Population and economy** – a large (normally >20,000), stable or growing population, with a robust economy and projected ongoing growth.
- **Hierarchy** – hosts regionally significant public and private services, infrastructure and facilities that support residents and businesses in nearby local government areas.
- **Accessibility** – located on major transport routes facilitating easy road access from surrounding areas.
- **Scale and stature** – ‘first among equals’ in its region; a credible partner of State and federal agencies; potential to attract national and international interest and investment.
- **Strategic capacity** – a strong revenue base; staff with high level strategic, professional and technical skills; the ability to lead regional strategic planning; and capacity to undertake high level economic and infrastructure projects.
- **Leadership and facilitation** – willing and able to see its role as a leader of its region; to commit resources to regional projects on the basis that a strong region is in its long-term interest; to promote the region and its opportunities for growth, including regional advocacy and negotiation with other governments; to negotiate partnerships with neighbouring regions and councils; and to gain acceptance as a regional leader that can be trusted.
- **Good governance** – councillors who understand their regional role and can make decisions in the regional interest; structures and models that support regional decision-making, regional service delivery and the sharing of resources; building social capital in the region through an engaged community.

11.8 Inter-government relations and strategic planning

One of the most important functions of JOs will be to provide a new platform for State-local cooperation. The NSW government is moving to establish much more effective arrangements for strategic planning and regional coordination across its agencies, notably through the Regional Action Plans prepared to 'localise' the State Plan, the new Regional Growth Plans to be prepared by the Department of Planning and Infrastructure (DP&I), and perhaps most importantly, the regional coordination system managed by the Department of Premier and Cabinet (DPC).

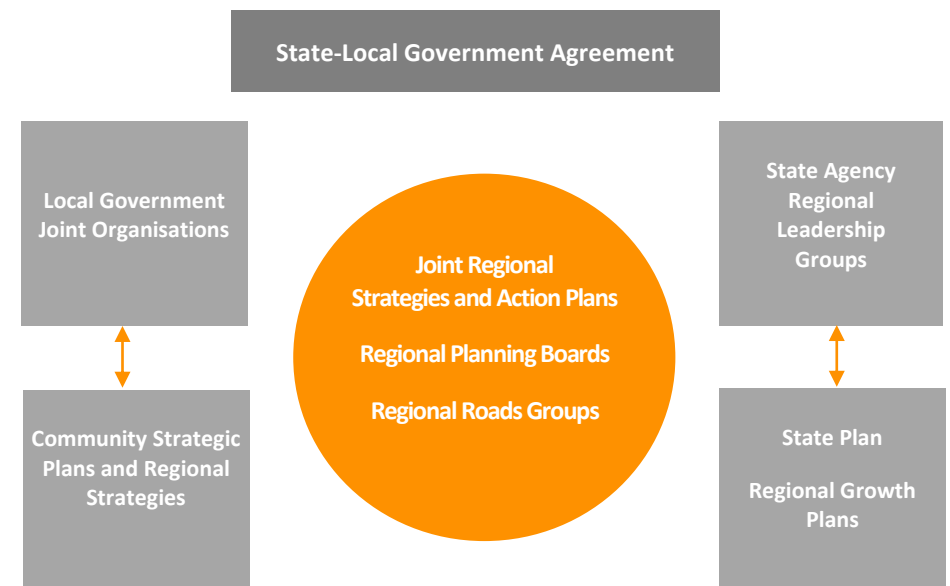
These moves present a rare opportunity for local government to become a real partner in regional planning and development, provided it is organised appropriately, adopts a professional approach to inter-government relations, and is willing and able to commit significant resources to joint activities. By the same token, the State government needs to embrace a partnership approach in its dealings with local government (see section 17).

The Panel believes that a fresh approach to State-local cooperation at the regional level should be pursued on the following basis:

- State government recognition of JOs as partner organisations for the purposes of joint strategic planning and project coordination, including in particular updating and implementation of the *NSW 2021 State Plan* and Regional Action Plans, as well as preparation and implementation of DP&I's Regional Growth Plans
- Appointment of at least one representative of each JO to the relevant Regional Leadership Group of State agencies
- Appointment of local government representatives on (Sub) Regional Planning Boards through JOs rather than individual councils.

To facilitate local government input to regional plans and strategies, the Panel proposes an amendment to the Integrated Planning and Reporting guidelines to require councils to include a section on key regional strategies and proposed joint projects with other regional councils in both their Community Strategic Plans and 4-year Delivery Programs, and to prepare that content in consultation with other regional councils and State agencies through the JO. The JO would then consolidate relevant material for discussion with State agencies through the DPC Regional Leadership Group, with a view to its inclusion in State plans and strategies, and to identify joint State-local projects.

Figure 8: State-Local Collaboration at the Regional Level



11.9 Cross-border issues

Development in the border regions of NSW and around the ACT is driven to a very significant extent by cross-border economic and social links and provision of essential services. As a consequence, several councils along the Queensland and Victorian borders have questioned the relevance to their circumstances of participating in a NSW regional organisation.

Such views are understandable, but ultimately all councils have to play their part within the NSW system of local government. Nevertheless, more needs to be done to recognise and respond to the particular circumstances of border councils, and increasingly arrangements for local and regional governance will need to facilitate cross-border collaboration.

The Panel has discussed these matters with the State's Cross-Border Commissioner, who is formulating policy proposals and working with councils to address specific concerns. Clearly, future regional strategies (especially Regional Action Plans under the State Plan) will need to give greater attention to cross-border issues, and it will be important to ensure that local government is recognised as a key player in relevant inter-government forums and agreements. This is already a well-established principle in respect of the ACT, but seemingly less so along the Queensland and Victorian borders.

Recommendations for Regional Joint Organisations

35	Establish new Joint Organisations for each of the regions shown on Maps 2 by means of individual proclamations negotiated under new provisions of the Local Government Act that replace those for County Councils(11.5) • Defer establishment of JOs in the Sydney metropolitan region, except for sub-regional strategic planning, pending further consideration of options for council mergers (11.5) • Enter into discussions with 2-3 regions to establish 'pilot' JOs (11.5) • Re-constitute existing County Councils as subsidiaries of new regional Joint Organisations, as indicated in Table 5 (11.2) • Establish Regional Water Alliances in each JO along the lines proposed in the 2009 Armstrong-Gellatly report (11.3) • Set the core functions of Joint Organisations by means of Ministerial Guidelines (11.6) • Seek federal government agreement to make JOs eligible for general-purpose FAGs (11.6)
36	Identify one or more regional centres within each Joint Organisation and: • Create a network of those centres to drive development across regional NSW (11.7) • Consider potential mergers of councils to consolidate regional centres, as indicated in Table 6 (11.7)
37	Develop close working partnerships between Joint Organisations and State agencies for strategic planning, infrastructure development and regional service delivery (11.8), and • Add representatives of Joint Organisations to State agency Regional Leadership Groups (11.8) • Give particular attention to cross-border issues and relationships in the operations of Joint Organisations and in future regional strategies (11.9)

Map 2: Proposed Non-Metropolitan Regions



Map 3: Proposed Metropolitan Sub-Regions

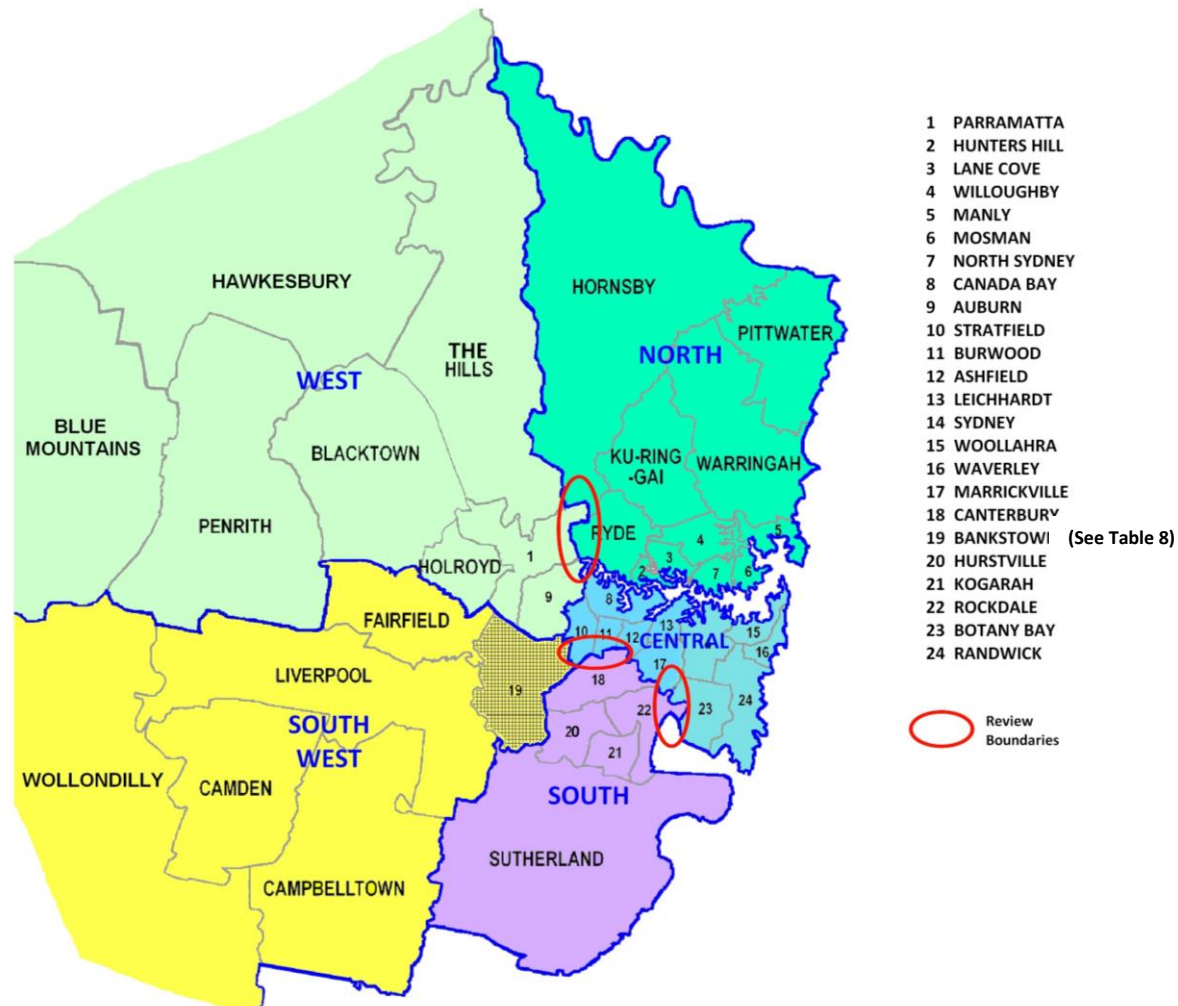


Table 5: Future of Existing County Councils

County Council	Member Councils	Functions	Future Options
Castlereagh-Macquarie	Walgett, Coonamble, Warren, Gilgandra, Warrumbungle	Eradication of Noxious Weeds	Subsidiary of Orana JO; service agreement with Walgett (if required)
Central Murray	Berrigan, Conargo, Murray, Deniliquin	Eradication of Noxious Weeds	Subsidiary of Mid-Murray JO
Central Tablelands^	Blayney, Cabonne, Weddin	Water supply to 5,500 connections	Subsidiary of Central West JO
Far North Coast	Tweed, Byron, Ballina, Lismore, Richmond Valley and Kyogle	Eradication of Noxious Weeds	Subsidiary of Northern Rivers JO
Goldenfields Water^	Bland, Coolamon, Cootamundra, Harden, Junee, Temora, Young, part Narrandera	Bulk water supply to Cootamundra town plus Harden and Young shires; reticulation to remainder (10,600 connections)	Amalgamate with Riverina Water as subsidiary of Riverina JO and establish service agreements with adjoining JOs* as follows: • With Tablelands JO for bulk supply to Harden and Young • With Murrumbidgee JO for Narrandera • With Upper Murray JO for Urana and Greater Hume
Hawkesbury River	Hawkesbury, Penrith, Blacktown, The Hills	Eradication of Noxious Weeds	Retain or incorporate as subsidiary of Western Sydney JO
MidCoast Water^	Greater Taree, Great Lakes, Gloucester	Water and sewerage services (supply and reticulation) to 40,000 households	Subsidiary of Mid-North Coast JO
New England Tablelands	Armidale, Guyra, Walcha, Uralla	Eradication of Noxious Weeds	Subsidiary of New England JO
Richmond River	Lismore, Ballina, Richmond Valley	Floodplain Management	Subsidiary of Northern Rivers JO
Riverina Water^	Wagga Wagga, Lockhart, Urana, Greater Hume	Water supply to 25,700 connections, mostly in Wagga Wagga	Amalgamate with Goldenfields Water with service agreements as above
Rous Water^	Lismore (excluding Nimbin), Ballina (excluding Wardell), Byron (excluding Mullumbimby), Richmond Valley	Bulk potable water supply	Subsidiary of Northern Rivers JO
Southern Slopes	Boorowa, Harden, Young, Yass Valley	Eradication of Noxious Weeds	Subsidiary of Tablelands JO
Upper Hunter	Muswellbrook, Upper Hunter, Singleton	Eradication of Noxious Weeds	Subsidiary of Hunter JO
Upper Macquarie	Bathurst Regional, Lithgow, Oberon, Blayney	Eradication of Noxious Weeds	Subsidiary of Mid-West JO; service agreement with Blayney (if required)

^These former County councils should both maintain their current functions and provide a platform for regional water alliances across the whole JO area

*Service agreements should be with JOs rather than individual councils to facilitate integrated network planning and water cycle management

Table 6: Options for Amalgamations around Regional Centres

Centre	Potential Amalgamation	Comments
Albury	+ Greater Hume (part or whole) <i>Combined 2031 population 68,500</i>	- Greater Hume's long term sustainability is questionable, but it could continue as a council for some time - Boundary changes to merge the southernmost parts of Greater Hume with Albury and/or Corowa appear warranted
Armidale-Dumaresq	+ Guyra + Uralla/Walcha <i>Combined 2031 population 46,700</i>	- Amalgamation has been proposed on several previous occasions and strongly resisted – but the evidence from neighbouring Tamworth is that it would bring considerable benefits - Community Boards should be established in the former shires - An alternative is to merge Guyra (5,300) with Armidale (32,100), and Uralla (7,600) with Walcha (2,600)
Bathurst	+ Oberon <i>Combined 2031 population 57,900</i>	- Oberon's long term sustainability is questionable: it could continue as a council for some years but amalgamation would provide a higher capacity base - A Community Board should be established in the former Shire
Deniliquin	+ Conargo + Murray <i>Combined 2031 population 18,400</i>	- Conargo and Murray create a 'doughnut' around Deniliquin - Conargo Shire is based in Deniliquin and its projected population of just 2,000 is considered too small to warrant a separate entity - Deniliquin is at present the largest urban centre but by 2036 Murray Shire will have a much larger population - Wakool might also be included and would increase projected population to 21,200 - Community Boards should be established in the former LGAs
Dubbo	+ Narromine + Wellington <i>Combined 2031 population 60,800</i>	- Narromine and Wellington may be sustainable into the medium-long term, although Wellington has a Weak FSR - Community Boards should be established for Narromine and Wellington if amalgamation occurs
Griffith	+ Murrumbidgee <i>Combined 2031 population 21,900</i>	- Murrumbidgee's projected population of 1,400 is considered too small to warrant a separate entity, especially given its proximity to Griffith: a Community Board would be appropriate - Also adjust boundary with Carrathool to reduce 'doughnut' effect around Griffith
Orange	+ Cabonne <i>Combined 2031 population 64,400</i>	- Cabonne may well be sustainable into the long term, but its recent and projected growth is overspill from Orange - Some areas on the northern and western fringes of Cabonne are seeking to move to adjoining councils - Blayney could also be added and would increase the projected population to 73,100: it could remain sustainable as a separate council for several decades but amalgamation would provide a much higher capacity base - Community Boards should be established as required in the former LGAs
Queanbeyan	+ Palerang <i>Combined 2031 population 77,100</i>	- Palering was created in 2004 and has been through a difficult establishment period: its financial position remains questionable and projected substantial growth is essentially ACT and Queanbeyan overspill - There may be a case to divide Palerang amongst all its adjoining councils, but this would be very disruptive
Wagga Wagga	+ Lockhart <i>Combined 2031 population 75,900</i>	A Community Board would need to be established for Lockhart if a merger proceeded

12. Rural Councils and Community Boards

As discussed in section 10.1, a future system of local government in NSW needs to balance two seemingly opposed agendas: the need for increased scale and capacity to meet a number of key challenges facing councils and communities, and the importance of ‘keeping the local’ in local government so that community identity and local democracy are protected and where possible enhanced.

The Panel believes that in order to find the right balance, two additional types of local government bodies should become part of the new system – to be available as options where appropriate. These are Rural Councils and Community Boards.

12.1 ‘Rural Councils’

Across NSW there are a number of predominantly rural local government areas that have small and declining populations (typically in the range 2-4,000) and appear unlikely to remain sustainable in their current form, but where neither amalgamation nor regional collaboration on their own seem to offer a the best way forward. Circumstances vary from case to case, but some combination of the following factors is involved:

- The local government area has a low rate base and is highly dependent on grant funding to maintain operations
- There are long distances between the administrative centres of adjoining councils, and to the nearest major regional centre
- Adjoining councils also have small populations and limited resources, so that an amalgamation is unlikely to offer a sustainable solution in the medium-long term
- The council concerned is presently sound and may be able to continue as a separate local government unit for some years, but it has and/or will have limited capacity to undertake the full range of local government functions.

In such circumstances, the Panel sees a need or opportunity to maintain a separate local government unit, but one with reduced responsibilities and a lower cost base more appropriate to rural-remote areas with small populations – a ‘Rural Council’. The Panel’s objective is to ensure that local government in these areas remains in place and is ‘fit for purpose’ and can maintain community life and identity to the maximum possible extent.

Proposed defining features of a Rural Council are set out in Box 33.

Box 33: Proposed Features of a ‘Rural Council’

- A strong focus on maintaining local service delivery and quality of life, enabling and supporting community efforts
- A maximum of five councillors, including the mayor
- A reduced number of full council meetings – no more than six each year – and a very limited committee structure, if any
- Either a fully shared administration with an adjoining council, or extensive resource-sharing as part of a Joint Organisation in order to minimise requirements for senior staff and greatly reduce administrative overheads
- Simplified regulatory, compliance and reporting requirements under both the local Government Act and other relevant legislation (eg the new Planning Act)
- Regulatory responsibilities handled largely by arrangement with a regional centre or other partner council having the necessary expertise
- Modified Integrated Planning and Reporting and internal audit requirements consistent with a small population and budget.

Whilst 'Rural Councils' would have a somewhat reduced role compared to existing councils, the Panel believes they should retain the right to set rates and manage their own finances, consistent with maximizing efficiencies through resource sharing as part of a Joint Organisation. They would be full members of Joint Organisations. Also, 'Rural Councils' would maintain their local operational workforce, service centres and offices, and current employment guarantees under the Local Government Act should apply.

The Panel acknowledges that further work needs to be done to determine precisely what amendments to the Local Government Act and other legislation would be necessary to give effect to this model. Opportunities to simplify processes and maximise resource sharing should be investigated further as part of the proposed IPART review of the regulatory, reporting and compliance burden on local government proposed in section 8.2; and the development of business cases and operating plans for the new regional Joint Organisations (section 11). A working party should be established to explore all the issues involved. This could be convened by the Ministerial Advisory Group proposed in section 18.1, and should include representatives of DLG, LGNSW, LGMA and unions.

It is envisaged that provisions for 'Rural Councils' would be finalised and introduced into the revised Local Government Act sometime in 2015.

12.2 Community Boards

The second new form of local government body would be 'Community Boards' – elected or appointed sub-council organisations that can carry out a range of representational, planning and service delivery functions delegated by the 'parent' council. Community Boards could be established in two situations:

- To replace small or very small (in population) rural-remote councils that could appropriately amalgamate with a larger neighbour, but where it is important to maintain community identity and there is a case for an ongoing form of local self-government
- To provide representation and some service delivery at suburb or district level within very large metropolitan councils, including following amalgamation – perhaps as a transitional measure in the latter case.

It follows that the Panel sees the establishment of Community Boards as entirely *optional* and that decisions about whether or not to do so should be left to the communities and councils concerned. However, in the case of amalgamations the possibility of establishing Community Boards should be considered in the formulation of the business case and implementation plan, and this issue should also be canvassed with local communities as part of the regular representation reviews proposed in section 9.1.

To inform its thinking on Community Boards the Panel commissioned a review by McKinlay Douglas Limited of recent experience with Community-Level Governance in New Zealand, England and elsewhere in Australia. The Panel has also taken into account relevant experience in NSW, for example Lake Macquarie City Council's Sustainable Neighbourhoods Program and extensive delegation of responsibilities to council/community committees under s355 of the Local Government Act. Many councils use s355 in a similar way, and establish ward or neighbourhood forums. Thus to some extent it already provides a legislative basis for community governance initiatives.

In the Panel's view, however, an additional mechanism is required so that where appropriate, community-level organisations can play a stronger and somewhat more independent role. McKinlay Douglas found a need for:

...not just good engagement mechanisms operated by a council, but some form of infrastructure at the community level capable of delivering an on-going involvement and involving individual communities in decisions about their preferred futures, including local place shaping. (p.41)

Current legislation in New Zealand and England enables a broad spectrum of different arrangements, ranging from formalised neighbourhood planning processes undertaken by self-selected forums (England); through locally elected but still largely

advisory community or local boards (New Zealand); to elected Parish or Town Councils that undertake neighbourhood planning and can also levy a rates surcharge to fund local services and projects (England).

Community Boards have operated in New Zealand for over 30 years. Under the NZ Local Government Act Community Boards are established by the 'parent' council in the course of regular representation reviews or following an application from a 'community'. They may also be established by order of the independent Local Government Commission. Every Community Board must consist of between 4 and 12 members. At least 4 must be directly elected from the local community, but other members may be appointed, provided the number of appointed members is less than half the total.

The *minimum* role of a Community Board is to:

- represent, and act as an advocate for, the interests of the community
- consider and report on all matters referred to it by the territorial authority (council), or any

matter of interest or concern to the community board

- maintain an overview of services provided by the territorial authority within the community
- prepare an annual submission to the territorial authority for expenditure within the community
- communicate with community organisations and special interest groups within the community.

A wide range of additional responsibilities may be delegated by the council, but in general terms these exclude making a rate, borrowing money, purchasing or disposing of assets, and or determining council policy.

In recent years the number of Community Boards has been in decline, but there are still 108 in operation across about two-thirds of New Zealand councils. In some cases they have been strengthened to form a key element of councils' governance models. A good example is the Thames-Coromandel District (see Box 34)

Box 34: Community Boards in the Thames-Coromandel District

- A new community governance model was adopted in 2012 as part of moves to allow more local self-determination.
- Of particular note are provisions covering the transfer of decision-making functions, developing various local plans, and proposing budgets 'that would generally be approved by the District Council subject to affordability and the council being satisfied it is meeting its overall accountability requirements'.
- Community Boards make formal recommendations to the District Council and may be represented at every council meeting.
- Critical to implementation of the governance model is a new 'place-management' structure of area offices and staff teams working with the Boards. Area managers have been appointed at second tier management level. Changes have also been made to the reporting lines for other staff positions. The effect is to bring together the relevant skills and responsibilities around the local area.
- A significant outcome has been more cost-effective service provision based on bringing more local knowledge and resources into decision-making.

In the case of the newly amalgamated Auckland Council, which covers a metropolitan area of approaching 1.5m people, 21 'Local Boards' have been established by law to provide community-level governance. Like Community Boards they are directly elected and their core role is essentially advisory, although the legislation indicates that a more substantial set of functions is envisaged, including community planning and guiding the provision of services and facilities. There have been a number of well-reported 'teething problems' in defining and developing their activities, as well as their relations with the governing body of the council and the various arms of its operations. However, the Panel's investigations suggest that these difficulties are being steadily addressed.

In England, there are some 9,000 elected 'local councils' (Parish, Town or Neighbourhood Councils) serving more than a third of the total population. They employ about 25,000 staff and have a combined expenditure of around \$800m per annum. Their functions include representing the local community to the 'principal authority' (district or borough council); delivering some local services; and improving the local quality of life and environment. Community-led planning has been a strong theme in their activities, and this role has been strengthened under the new Localism Act. The number of 'local councils' continues to grow, albeit slowly.

English 'local councils' have the power to raise their own revenue through a precept on council tax (rates). Currently, this averages around \$80pa for residential properties in the median valuation band.

Having regard to New Zealand and England experience, the Panel's preferred approach is to add a flexible set of provisions to the Local Government Act that would enable councils to establish Community Boards that could:

- Be elected **and/or** appointed for a fixed term (but would always include at least one appointed councillor)
- Advise the council on local priorities and acceptable levels of service
- Play a significant role in IPR and budget processes
- Undertake **only** delegated functions **or** also be mandated to raise a 'community rate' in their area and to fund local projects and services at their discretion – like other Special Rates such rates should be exempt from rate-pegging limits.

The Panel envisages that the 'higher functioning' form of Community Board would be particularly relevant in instances where a rural-remote council that represents a community with a long-established local identity is amalgamated with a larger neighbour, leading to concerns that the community's interests will not receive the attention they deserve.

As in the case of Rural Councils, the Panel accepts that considerably more work needs to be done to flesh out this concept, but is confident that the models and experience documented in the McKinlay Douglas report provide an adequate basis for that task. Again, a working party should be established in order to formulate specific proposals for inclusion in the revised Local Government Act.

Recommendations for 'Rural Councils' and Community Boards

- | | |
|----|---|
| 38 | Establish a working party as part of the Ministerial Advisory Group proposed in section 18 to further develop the concept of 'Rural Councils' for inclusion in the re-written Local Government Act (12.1) |
| 39 | Include provisions for <i>optional</i> Community Boards in the re-written Act, based on the New Zealand model, but also enabling the setting of a supplementary 'community rate' with the approval of the 'parent' council (12.2) |

13. Metropolitan Sydney

13.1 Reshaping metropolitan governance

The Panel is convinced that for Sydney to remain Australasia's pre-eminent global city, very substantial changes are needed to the way the region is governed at both local and State levels. This is hardly a novel finding: the need to improve Sydney's governance was emphasised by the Barnett Committee in 1973. It has been highlighted in various official reports since then, notably the recent COAG Reform Council review of 'Capital City' strategic planning, and in a number of submissions to the Panel. As well, the Panel has considered the findings of the recent independent review of local government in the Perth region: they could all be applied equally to Sydney (see Box 35).

Box 35: Key Findings of Perth Metropolitan Review

- Enhanced leadership across the State and local government sector and the wider community will be required to manage the extraordinary growth of metropolitan Perth over the next 50 years
- The current local government arrangements will not provide the best outcomes for the community into the future. The status quo cannot and should not remain.
- The outcome of the Review should be a stronger, more effective, more capable local government sector, with an enhanced role and greater authority.
- The creation of larger local governments alone will not address all the shortcomings of the present system.
- The structure and governance arrangements for local government in Perth cannot be considered in isolation from the role and function of local government, and from the relationship between State government and local governments.
- A sense of place and local identity can be maintained through appropriate governance regardless of the size of a local government.

Achieving more effective metropolitan governance requires a partnership approach involving State, local and, if possible, federal governments. Again, this has been spelled out in numerous reports over the years. At a minimum there needs to be much stronger coordination focused on metropolitan planning and major projects, with a clear locus of responsibility (perhaps through the Premier's department's regional coordination processes); full alignment of the State Plan and Metropolitan Strategy (including through sub-regional plans); and robust arrangements for a much closer working relationship with councils. The State government needs to do more to discharge its own responsibilities in these areas.

Table 7: Characteristics of Sydney Metropolitan Councils

Council	TCorp FSR and Outlook	Population 2011	Projected 2031 Population
Ashfield	Sound-Neutral	43,683	53,900
Auburn	Sound-Negative	78,286	121,700
Bankstown	Moderate-Negative	190,637	222,100
Blacktown	Moderate-Neutral	312,479	459,800
Blue Mountains	Weak-Neutral	78,391	93,300
Botany Bay	Weak-Neutral	41,674	59,700
Burwood	Weak-Positive	34,305	50,800
Camden	Moderate-Neutral	58,376	149,300
Campbelltown	Moderate-Negative	15,221	233,800
Canada Bay	Moderate-Neutral	79,905	108,100
Canterbury	Moderate-Negative	144,751	178,500
Fairfield	Sound-Neutral	196,622	238,900
Hawkesbury	Moderate-Negative	64,234	81,500
Holroyd	Weak-Neutral	103,869	131,400
Hornsby	Moderate-Neutral	163,865	201,100
Hunters Hill	Moderate-Neutral	13,880	17,400
Hurstville	Moderate-Neutral	82,569	105,700
Kogarah	Moderate-Neutral	58,938	73,000
Ku-ring-gai	Sound-Neutral	114,704	147,700
Lane Cove	Sound-Negative	33,197	42,700
Leichhardt	Sound-Neutral	55,651	65,500

Council	TCorp FSR and Outlook	Population 2011	Projected 2031 Population
Liverpool	Sound-Negative	188,083	294,000
Manly	Sound-Neutral	42,531	51,900
Marrickville	Moderate-Neutral	81,489	97,600
Mosman	Weak-Positive	29,475	33,800
North Sydney	Moderate-Neutral	67,033	83,800
Parramatta	Moderate-Neutral	174,554	257,400
Penrith	Weak-Neutral	184,681	271,300
Pittwater	Sound-Neutral	60,260	82,000
Randwick	Sound-Neutral	137,757	171,300
Rockdale	Moderate-Neutral	102,843	134,400
Ryde	Sound-Negative	108,371	143,900
Strathfield	Moderate-Negative	37,141	56,500
Sutherland	Moderate-Neutral	219,751	262,900
Sydney	Strong-Positive	183,494	290,500
The Hills	Sound-Positive	176,986	275,300
Warringah	Sound-Positive	147,611	173,500
Waverley	Moderate-Neutral	68,567	80,100
Willoughby	Moderate-Neutral	71,637	91,700
Wollondilly	Weak-Neutral	44,403	59,600
Woollahra	Moderate-Neutral	56,324	67,800

13.2 Alternative futures for local government

The Panel has given careful consideration to the range of views and evidence put forward in responses to *Future Directions*. In summary, it sees two distinct alternatives for the future structure of metropolitan local government:

- Retain more or less the current number and distribution of councils, and rely heavily on sub-regional Joint Organisations to contribute to metropolitan issues, engage with State agencies at a sub-regional level, undertake joint planning and projects, and promote increased delivery of shared services.
- Substantially reduce the number of councils so that each has the resources and credibility to be a player in metropolitan affairs in its own right, and so that they can all come together in a strong metropolitan-wide organisation such as a ‘Council of Mayors’.

In considering these options the Panel has taken the following factors into account.

- With 41 councils in metropolitan Sydney (excluding the Central Coast) local government is fragmented (especially in the eastern half of the region) and lacks credibility as a significant player and partner in metropolitan planning and management. There are simply too many voices striving to be heard, and there also tends to be a ‘lowest common denominator’ effect that undermines the efforts and standing of those councils that do have the resources and initiative to play a strategic role.
- There is continuing unnecessary duplication between councils in planning and service delivery, and scarce expertise and resources are not being used to their full potential.
- Without changes to council boundaries there will be an increasingly severe imbalance in the structures of local government between eastern and western Sydney: by 2031 the 28 councils east of Parramatta will have average populations of 108,800, whilst the 13 to the west will average 212,900.

- Coordination and cooperation between councils would undoubtedly be improved by the establishment of robust sub-regional organisations, but in some parts of Sydney there are so many small local government areas, often with a long history of focussing on strictly local matters, that building a durable consensus and consistent approach to complex metropolitan issues is likely to prove extremely difficult.
- Moreover, achievements to date in sub-regional cooperation and shared services can at best be described as patchy. Enhanced capacity for local government to play a major role in strategic planning, delivery of major infrastructure and improvement projects, and partnering effectively with State and federal agencies is more likely to be achieved if the basic building blocks – individual councils – are larger and more capable.
- There is an often expressed community concern that creating substantially larger local government areas will reduce local representation and destroy local identity. However, as discussed in section 10.5, there are a number of ways in which local identity and representation can be maintained, even in very large council areas: the City of Sydney’s ‘City of Villages’ strategy offers a good example in a local government area of approaching 200,000 people.

13.3 Options for mergers

Taking all these factors into account, as well as the generally successful outcomes of amalgamations in metropolitan Melbourne and South East Queensland, the Panel has concluded that the number of local councils in the Sydney basin should be significantly reduced. This applies mainly to the inner and eastern suburbs, the lower North Shore and around Parramatta and Liverpool. The Panel’s objectives are to:

- Create high capacity councils that can better represent and serve their local communities on metropolitan issues, and be true partners of State and federal agencies
- Establish a more equitable pattern of local government across the metropolitan area, taking into account planned development
- Underpin Sydney’s status as a global city

- Support implementation of the Metropolitan Strategy, especially the planning and development of major centres and the preparation and implementation of sub-regional Delivery Plans.

Options and reasons for boundary changes are set out in Map 4 and Table 8. The Panel's proposals have been amended in several key respects from those put forward in *Future Directions* to take into account issues raised in submissions, as well as the opportunity to align sub-regional boundaries with those to be used for the State Plan and Metropolitan Strategy.

In particular, the Metropolitan Strategy places particular emphasis on the planning and development of a series of regional centres. The history of efforts over the past 40 years to establish Parramatta as Sydney's 'second CBD' suggests that this goal requires those centres to be under the management of a strong, well-resourced local council: there is little doubt that Parramatta's development has been hindered by the limited scale and narrow boundaries of the current local government area. Looking ahead, it will be important to ensure that the centres of both Parramatta and Liverpool are governed by councils with considerably greater capacity and strength in sub-regional leadership than has been the case.

The options put forward are far-reaching but not as radical as some might prefer. The Panel's view is that on balance, looking ahead to the mid-21st Century when Sydney's population will reach about 7 million, having about 15-18 councils is appropriate. A smaller number could tend to create several 'mini-states', which would not be helpful at this stage. The Panel's proposals leave scope to make further structural changes in the future if required.

Amalgamated councils should have the option of establishing Community Boards, as described in section 12.2. This would help smooth the transition to much larger local government areas and enable ongoing representation of local communities of interest. The Panel emphasises, however, that none of the amalgamation options would produce a council with a population larger than Gold Coast City in Queensland, and only three would exceed 500,000 by 2031.

Next steps

Submissions to the Panel indicate intense opposition to mergers amongst some metropolitan councils, but also a significant degree of support for change. The same applies in the community, and analysis of polling suggests that initial 'reflex' opposition to amalgamations is not as firm as it might appear. At least three councils have commissioned studies to explore the potential benefits of mergers, and others have suggested substantial boundary changes.

It is essential that any changes to boundaries in metropolitan Sydney occur within a consistent strategic framework designed to support strategic planning and infrastructure provision, and to complement State government efforts to improve metropolitan governance. The Panel therefore believes that the best way forward would be first, to seek *evidence-based* responses from councils to its proposals; then to refer both the proposals and responses to the proposed Ministerial Advisory Group (section 18.1); and then, if warranted, to the Boundaries Commission for further consideration. The Panel would caution against supporting any isolated voluntary amalgamations until there is a clear long-term strategy. Experience with the 'semi-voluntary' mergers that occurred in Adelaide in the mid-1990s indicates that, whilst some benefits are achieved, the overall outcome can be a very unsatisfactory 'patchwork quilt'.

13.4 The Cities of Sydney and Parramatta

As a centrepiece of governance reform the Panel sees a need for expanded cities of Sydney and Parramatta that will anchor metropolitan local government.

In the case of the City of Sydney, the Panel would argue strongly against any attempt to revert to a small 'CBD council'. This is seen in some quarters as attractive to business interests, but drawing a tight boundary around the CBD has been made much more difficult by the spread of commercial development into adjoining suburbs, and by extensive residential development in the CBD itself.

Again, two options can be considered:

- Relatively minor adjustments to the city's current boundaries to enhance the potential for improved urban management (eg at Newtown, Paddington and south into Botany) and to include regional facilities such as Centennial Park.
- A greatly enlarged city that takes in the whole of the Eastern Suburbs and stretches south to the airport and Port Botany, thus incorporating nearly all the iconic locations and features that contribute to Sydney's global identity, as well as much of the supporting infrastructure.

The first option would produce a somewhat strengthened city with a population of around 300,000 in 2031. The second would create a local government of considerably greater stature and capacity. Its population would reach about 670,000 by 2031. This is large by NSW standards, but much smaller than Brisbane and Auckland, and by no means 'mega' in international terms. It would, however, have the scale and capacity appropriate to Sydney's global aspirations. Like Brisbane, it could become a highly capable and well-resourced partner of the State government in projecting Sydney's image, fostering economic development and providing essential infrastructure. The Panel's reasoning is summarised in Box 36.

The Panel supports a separate City of Sydney Act that can highlight and make provision for special 'capital city' features and functions. An updated Act could build on the success of the Central Sydney Planning Committee to incorporate further measures for closer State-City cooperation. The Act could also provide for areas such as Barangaroo to be progressively returned to the normal system of local government management (whilst remaining State-owned), as has occurred with Green Square and Melbourne's Docklands. This would have the major advantage of making better use of the City's revenue potential (see below).

Box 36: Key Attributes of a Global Capital City

- **Physical size** – its area should encompass a broad area and cross-section of inner metropolitan suburbs, including iconic locations of global significance.
- **Hierarchy** – its area should include major infrastructure and facilities that are at the peak of the hierarchy for that function (government, transport, health, education, business, recreation, culture etc).
- **Leadership** – it should be the 'first amongst equals' of metropolitan councils due to the importance of its decisions, geographic scale, budget and responsibilities, reputation and profile, and relationship to political, business and civic leaders.
- **Strategic capacity** – it should have the ability to manage major regional facilities and to undertake or facilitate major economic and infrastructure development to address the changing needs of the inner metropolitan region.
- **Global credibility** – it needs to be able to be a leader in the Asia Pacific and to maximize opportunities to partner or compete as required with other global capital cities in the race for capital investment and international reputation.
- **Governability** – it should attract the best of candidates for political leadership, with a broad, diverse and balanced constituency that will facilitate good governance.
- **Partnership with the State** – it should not be so large as to challenge the primacy of the State, but have the stature, maturity and skills to be a respected partner and to develop productive working relationship with State and federal agencies.

Several of the global city attributes set out in Box 36 also apply to Parramatta. As noted earlier, the Panel takes the view that Parramatta's development as the 'second CBD' and commercial focus of the western suburbs has been hampered by the constrained boundaries, relatively limited resources and low profile of the City Council. The option favoured by the Panel is a new local government area that includes the whole of Parramatta, Auburn and Holroyd plus parts of The Hills and Hornsby south of the M2, and roughly the western third of Ryde (including the whole of Epping). Such an area would control very considerable resources and could undertake integrated planning for both the Parramatta CBD and complementary development in adjoining areas. It would have a population approaching 600,000 in 2031.

An important step for both Sydney and Parramatta would be the establishment of 'City Partnership Committees' that bring together local, State and perhaps also federal governments to undertake integrated planning and promote economic development. The Adelaide Capital City Committee provides a model (see Box 37).

Box 37: Adelaide's Capital City Committee

The Capital City Committee is established under the City of Adelaide Act 1998. Its focus is the strategic development of Adelaide as the State's capital city and heart of South Australia. Current membership includes the Premier (chair), Minister for Planning, Minister for Transport and Infrastructure, Lord Mayor, Deputy Lord Mayor and one other councillor.

The Committee plays a facilitation, initiation and coordination role, and formal decisions are referred to either State Cabinet or the Adelaide City Council. Its functions are to:

- identify and promote key strategic requirements for the economic, social, physical and environmental development and growth of the city
- promote and assist in maximising opportunities for the effective coordination of public and private resources
- monitor the implementation of programs to promote the development of the city
- make provision for the publication of key strategies, goals and commitments relevant to the development and growth of the city
- collect, analyse and distribute information about the economic, social, physical and environmental development of the city.

13.5 Sub-regional arrangements

If the number of councils in the Sydney region is substantially reduced, then sub-regional arrangements would be focused primarily on working with DP&I and DPC to prepare and implement sub-regional Delivery Plans and Regional Action Plans. There would probably be no need for 'fully-fledged' Joint Organisations as proposed for the rest of the State in section 11, and boundaries of local government groupings should be as shown previously on Map 3.

The Panel does have significant reservations, however, about inclusion of Bankstown in the new South-West sub-region proposed by DP&I. Bankstown has previously been part of the Southern Sydney ROC and has links with Canterbury to the east. A merger of Bankstown and Canterbury could offer considerable benefits, and this option needs to be kept open (see Table 8).

If, on the other hand, there is little or no restructuring of existing council boundaries, then multi-purpose JOs should be established to undertake a wide range of functions on behalf of their members, as in the rest of NSW. Close collaboration in strategic planning, infrastructure provision and shared services would be especially important. The JOs would also be critical for strengthening partnerships with State and federal agencies to bring about more effective metropolitan governance and growth management. Given the large number of councils in the inner and middle rings of Sydney, there may be a need to split some of the sub-regions shown on Map 3.

13.6 Maximising available resources

Restructuring local government in the eastern half of metropolitan Sydney would maximise opportunities to make more use of the revenue potential from high land values and, in particular, the surge in medium- and high-density residential development. The Panel's investigations indicate that most councils east of Parramatta are under-utilising their rating base, largely because with their current limited responsibilities they simply do not need the untapped revenue. The City of Sydney offers the clearest example: it is able to fund a \$1.9bn capital works program over the next decade with no borrowings; with many owners of luxury apartments paying only the minimum rate; and with pensioners paying no rates at all. A considerable number of other councils across northern and eastern Sydney are in similarly strong positions.

As discussed in section 6, 23 Sydney councils receive only the minimum general-purpose FAGs grant, suggesting little or no need for external support. Property owners in most of those areas pay relatively low rates as a proportion of land values. Preliminary calculations show that if they paid a similar percentage of land value as the metropolitan average, the councils concerned could collectively raise more than \$150m extra each year.

The Panel is not suggesting that must happen. However, it does believe that local councils in relatively affluent areas and with significant under-utilised revenue potential can and should contribute more to the task of managing metropolitan growth and change. This would free-up State resources to provide greater assistance to councils in western Sydney and elsewhere in NSW that are struggling to fund essential infrastructure and services. This expanded role for well-resourced councils might include, for example:

- Becoming full equity partners in sub-regional transport undertakings, such as the proposed light rail system in eastern Sydney and, as in the case of Brisbane, bus services
- Taking full responsibility for sub-regional cycleway networks

- Contributing more to other major sub-regional infrastructure projects, such as major road improvements and drainage systems
- Assuming responsibility for some State-managed facilities, such as the Sydney Harbour National Park, Centennial Park and the Botanic Gardens.

This approach would work best with the merger options suggested in Table 8, which would create just seven councils east of Parramatta. However, it could also be facilitated through Joint Organisations if mergers do not proceed.

13.7 The metropolitan fringe

Three local government areas – Hawkesbury, Blue Mountains and Wollondilly – make up the western fringe of Sydney. Each is responsible for a mix of growing urban centres and rural or natural areas (including water catchments) that provide important 'green spaces' around the metropolitan complex.

At this stage there appears to be merit in retaining these councils in more or less their current form to play specialist roles in managing the important areas under their control. However, a number of significant issues need to be addressed:

- The TCorp sustainability assessments gave Blue Mountains and Wollondilly a Weak-Neutral rating, indicating a need for prompt action to address financial concerns and infrastructure funding.
- Hawkesbury and Wollondilly could be subject to boundary adjustments to facilitate sound planning of metropolitan growth.
- Substantial boundary adjustments could result in those two LGAs having quite small populations by metropolitan standards, and there may be a case to consider amalgamations with neighbouring councils in the medium term (options are set out in Table 8).

13.8 A metropolitan Council of Mayors

Sydney needs a metropolitan councils organisation that can provide a 'voice' for the region, and that can represent local government and local communities in high-level consultations with State and federal governments, as well as internationally. With many fewer councils, there would be an opportunity – as well as a strong case – to establish a body similar to the South East Queensland Council of Mayors. If restructuring takes place along the lines suggested by the Panel, such a Council of Mayors would logically be chaired by the Lord Mayor of either Sydney or Parramatta.

If the number of councils remains more or less as at present, then an alternative model would be several sub-regional Councils of Mayors that come together periodically as a metropolitan local government assembly.

Recommendations for Metropolitan Sydney

40	Strengthen arrangements within State government for coordinated metropolitan planning and governance, and to ensure more effective collaboration with local government (13.1)
41	Seek evidence-based responses from metropolitan councils to the Panel's proposals for mergers and major boundary changes, and refer both the proposals and responses to the proposed Ministerial Advisory Group (section 18.1) for review, with the possibility of subsequent referrals to the Boundaries Commission (13.3)
42	Prioritise assessments of potential changes to the boundaries of the Cities of Sydney and Parramatta, and • Retain a separate City of Sydney Act to recognise its Capital City role • Establish State-local City Partnership Committees for Sydney and Parramatta along the lines of Adelaide's Capital City Committee (13.4)
43	Pending any future action on mergers, establish Joint organisations of councils for the purposes of strategic sub-regional planning (13.5)
44	Maximise utilisation of the available local government revenue base in order to free-up State resources for support to councils in less advantaged areas (13.6)
45	Continue to monitor the sustainability and appropriateness in their current form of the Hawkesbury, Blue Mountains and Wollondilly local government areas (13.7)
46	Promote the establishment of a Metropolitan Council of Mayors (13.8)

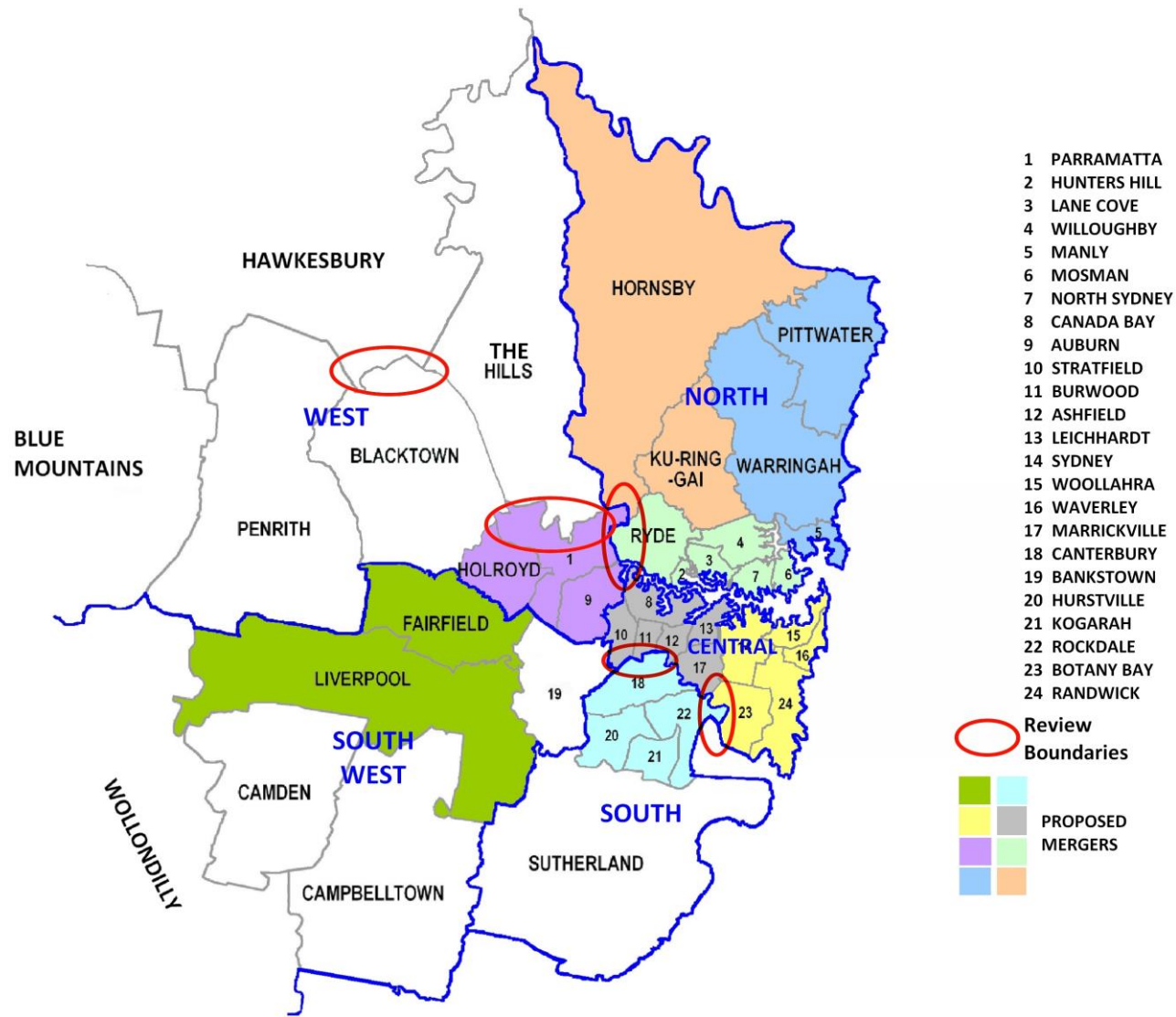
Table 8: Merger and Boundary Change Options for Sydney Metropolitan Councils

Council/s	Options (preferred option in bold)	Rationale
Ashfield, Burwood, Canada Bay, Leichhardt, Marrickville, Strathfield	• Amalgamate or • Combine as strong Joint Organisation	• Projected 2031 population 432,400 • Close functional interaction and economic/social links between these councils • Need for unified local government to plan and manage Parramatta Road, the impact and integration of West Connex, inner west redevelopment and proposed major centre at Burwood • 3 of these councils will have fewer than 60,000 people in 2036
Auburn, Holroyd, Parramatta, Ryde (part), The Hills (part)	• Amalgamate (eastern two-thirds of Ryde to be included with North Shore group) and • Move northern boundary of Parramatta to M2 (balance of The Hills to remain an individual council) or • Adjust Parramatta's boundaries to include parts of Ryde and The Hills and combine Auburn, Holroyd and Parramatta as a strong Joint Organisation	• Projected 2031 population approx. 558,500, including about one-third population of Ryde and without other boundary adjustments • Close functional interaction and economic/social links between these councils • Need for stronger unified local government to develop Parramatta as second CBD • Parramatta's northern boundary is very close to its CBD; relocation to M2 would facilitate planning and improve socio-economic mix and community linkages • Incorporation of part of Ryde would strengthen link between Parramatta and 'Global Sydney Corridor' and improve scope for integrated planning around Epping station
Botany Bay, Randwick, Sydney, Waverley, Woollahra	• Amalgamate or • Combine as strong Joint Organisation	• Projected 2031 population 669,400 • Close functional interaction and economic/social links between these councils • Need for high-level strategic capacity to promote and support Sydney's ongoing development as Australia's premier global city • Scope to bring together Sydney's international icons and key infrastructure under a single council, and to make better use of the strong rating base of these councils
Fairfield, Liverpool	• Amalgamate or • Combine as strong Joint Organisation with Bankstown, Camden, Campbelltown and Wollondilly	• Projected 2031 population 532,900 • Close functional interaction and economic/social links • Need for a higher-capacity council to manage proposed Liverpool regional centre, which is close to Fairfield boundary
Hornsby, Ku-Ring-Gai	• Amalgamate or • Combine as strong Joint Organisation and • Boundary with Parramatta shifted to M2	• Projected 2031 population 348,800 (would be reduced somewhat by boundary change) • See comments above re Parramatta boundary change • Strong socio-economic and urban links
Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde (part), Willoughby	• Amalgamate or • Combine as strong Joint Organisation	• Projected 2031 population 365,400, including about two-thirds population of Ryde • Close functional interaction and economic/social links between these councils • Need for integrated planning for major centres, Sydney Harbour foreshores etc • 3 of these councils projected to have fewer than 50,000 people in 2031

Council/s	Options (preferred option in bold)	Rationale
Canterbury, Hurstville, Kogarah, Rockdale	• Amalgamate or • Combine as strong Joint Organisation, also including Sutherland and • Adjust Rockdale boundary at airport	• Projected 2031 population 491,600 • Close functional interaction and economic/social links between these councils • Need for unified local government to support community development, and plan and manage major centres, redevelopment, foreshores etc • An alternative for Canterbury could be to amalgamate with Bankstown
Manly, Pittwater, Warringah	• Amalgamate or • Combine as strong Joint Organisation	• Projected 2031 population 307,400 • Close functional interaction and economic/social links between these councils which constitute an 'island' in the metro region • Need for integrated planning of centres, coast, transport etc
Bankstown	• No change or • Combine as strong Joint Organisation with Liverpool, Fairfield, Camden, Campbelltown, Wollondilly	• Projected 2031 population of 222,100 on its own • The expected pattern of sub-regional boundaries effectively rules out an amalgamation of Bankstown except with Liverpool: this is considered problematic given the scale and complexity of challenges that would face the resulting entity • An alternative could be to amalgamate with Canterbury as part of the South sub-region
Blacktown	• No change or • Combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, The Hills, Hawkesbury, Penrith, Blue Mountains and • Possible boundary adjustments with The Hills and Hawkesbury to facilitate NW Growth Centre	• Projected 2031 population 459,800 on its own, with further substantial growth planned
Blue Mountains	• No change or • Combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, The Hills, Hawkesbury, Penrith, Blacktown	• Projected 2031 population 93,300 • Specialised role in managing urban areas within National Parks
Camden	• No change or • Combine as strong Joint Organisation with Liverpool, Fairfield, Bankstown, Campbelltown, Wollondilly	• Projected 2031 population 149,300 on its own, with further substantial growth planned
Campbelltown	• No change or • Combine as strong Joint Organisation with Liverpool, Fairfield, Bankstown, Camden, Wollondilly	• Projected 2031 population 233,800 on its own
Hawkesbury	• No change or • Combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, The Hills, Blacktown, Penrith, Blue Mountains and	• Projected 2031 population 81,500 (without boundary adjustments) • Specialised role in managing peri-urban fringe • May require further boundary adjustments depending on urban growth patterns

Council/s	Options (preferred option in bold)	Rationale
	- Possible boundary adjustments with The Hills and Blacktown to facilitate NW Growth Centre and - Possible longer term merger with The Hills	Functional, socio-economic and environmental links may justify merger with The Hills
The Hills	No change or - Combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, Blacktown, Hawkesbury, Penrith, Blue Mountains and - Boundary with Parramatta shifted to M2 and - Possible boundary adjustments with Blacktown and Hawkesbury to facilitate NW Growth Centre and - Possible longer term merger with Hawkesbury	- Projected 2031 population 275,300 (without boundary changes) - See comments above re Parramatta boundary change and possible merger with Hawkesbury
Penrith	No change or - Combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, Blacktown, Hawkesbury, The Hills, Blue Mountains	- Projected 2031 population 271,300 on its own - Focus on growth management and new regional centre
Sutherland	No change or - Combine as strong Joint Organisation with Canterbury, Rockdale, Kogarah, Hurstville	Projected 2031 population 262,900 on its own
Wollondilly	No change or - Combine as strong Joint Organisation with Liverpool, Fairfield, Bankstown, Camden, Campbelltown and - Possible longer term merger/s with Camden/Campbelltown/Wingecarribee	- Projected 2031 population 59,600 (less if boundary adjustments) - Specialised role in managing peri-urban fringe - May require substantial boundary adjustments with Camden, Campbelltown and Penrith depending on urban growth patterns - Scope for closer linkages with Wingecarribee, perhaps eventual merger of 'non-metropolitan' areas

Map 4: Preferred merger options for Sydney Metropolitan Councils



14. Hunter, Central Coast and Illawarra

The Hunter and Illawarra regions are vital 'engine rooms' of the NSW economy, and local government has an essential role to play in ensuring sound regional development. This requires improved frameworks for local and regional governance. The Central Coast has important links with both the Hunter and the Sydney metropolitan region, is experiencing significant growth pressures, and would also benefit from stronger governance.

14.1 Hunter

As proposed in section 11.4, the Hunter region consists of nine local government areas. Summary details are shown in Table 9.

Table 9: Characteristics of Hunter Region Councils

Council	TCorp FSR	Population 2011	Projected 2031 Population
Cessnock	Moderate-Negative	52,493	67,400
Dungog	Weak-Negative	8,547	9,800
Lake Macquarie	Moderate-Neutral	195,909	219,600
Maitland	Moderate-Neutral	69,646	98,900
Muswellbrook	Moderate-Neutral	16,322	19,300
Newcastle	Moderate-Negative	154,896	192,500
Port Stephens	Moderate-Neutral	67,058	91,200
Singleton	Moderate-Neutral	23,456	27,700
Upper Hunter	Sound-Negative	14,206	16,500

In *Future Directions* the Panel proposed that the three Upper Hunter councils establish a separate 'county council', given that they are all water utilities whilst the Lower Hunter is served by a State corporation ('Hunter Water'). However, all the Hunter councils have indicated that they would prefer a single regional organization to continue the current work of the Hunter Councils group, and the Panel accepts that view. This may require an agreement with Hunter Water for regional network planning and integrated water cycle management.

All Hunter councils appear financially sustainable, with the possible exception of Dungog, which has 'Weak-Negative' FSR and received a 'Distressed' rating in DLG's Infrastructure Audit. The Panel understands that Dungog council itself has reservations about its capacity to meet its infrastructure obligations in the medium term, and an updated sustainability assessment needs to be undertaken as soon as possible. That assessment should consider the option of merging Dungog with Maitland.

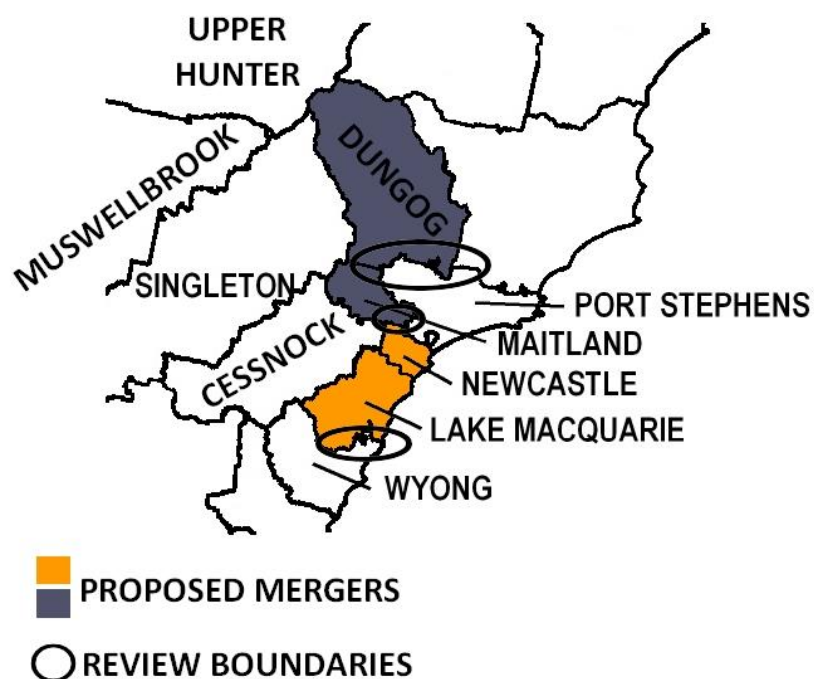
The Lower Hunter presents a range of issues needing attention. The financial positions of Newcastle and Cessnock give some grounds for concern, and there are complex patterns of socio-economic linkages, urban development and council boundaries. The quality and stability of governance has also been an issue in some councils.

The City of Newcastle faces significant challenges including forecast operating deficits, large capital works requirements and demanding issues associated with urban renewal. Its southern suburbs merge seamlessly into the Lake Macquarie area to form a single metropolis that needs to be planned and managed as an integrated whole. The Panel sees this as a fundamental factor in determining the future strength and capacity of local government in the region. It has therefore concluded that Newcastle and Lake Macquarie should be amalgamated to form a new council with a projected population of around 390,000 in 2031. At the same time, there may well be a case for the southern area of Lake Macquarie around

Morriset to be added to Wyong or a new Central Coast council, reflecting expected patterns of urban growth and an orientation towards Sydney. Also, the Beresfield area of Newcastle, which is separated by a major wetland from the rest of the city, could be transferred to Maitland.

Port Stephens council appears likely to remain sustainable in its present form well into the future, and there are no pressing boundary issues. The only change that might be considered in the shorter term is the possible transfer of the area west of the Williams River to an amalgamated Dungog-Maitland. This needs to be investigated further.

Map 5: Options for Hunter Councils



14.2 Central Coast

Gosford and Wyong exhibit very strong socio-economic and functional linkages. The two councils already form a regional organisation and have been planning a joint water corporation for several years. Amalgamation has been discussed from time to time and recently came close to fruition, but the impetus appears once again to have been lost. The 2031 projected population for the two combined is about 390,000 – large but not exceptional.

Options for the Central Coast are a full amalgamation or a multi-purpose Joint Organisation. The Panel does not believe a separate water corporation should proceed before those options have been properly evaluated. The potential for an amalgamation warrants further investigation, but if that option is rejected or deferred indefinitely, then a Joint Organisation should be established and should assume responsibility for water along with other strategic functions.

14.3 Illawarra

For the purposes of this report, the Illawarra region is defined as the areas of Wollongong, Shellharbour and Kiama. This definition accords with the approach favoured by DP&I. The Panel has some concerns about the exclusion of Shoalhaven, which was previously included in the Illawarra for the purposes of the State Plan, and which has longstanding links to the north through the Southern Councils group and its predecessor regional organisations. However, it understands that inclusion of Shoalhaven in the South East-Tablelands region is the preferred option for the preparation of a new Regional Growth Plan, and specifically for integrated planning along the south coast.

Table 10: Characteristics of Illawarra Region Councils

Council	TCorp FSR and Outlook	Population 2011	Projected 2031 Population
Kiama	Moderate-Neutral	20,832	29,300
Shellharbour	Moderate-Negative	66,054	89,300
Wollongong	Moderate-Neutral	201,215	234,000

All three councils are currently rated Moderate by TCorp. Shellharbour has a Negative Outlook, but has implemented a Special Rate Variation to address the issues involved. In terms of economic, social, environmental and transport linkages, and for strategic planning purposes, the councils form a well-established region and have cooperated for many years through regional organisations, although shared services activity is very limited.

Like the Hunter, the Illawarra faces major economic and social challenges, coupled with substantial urban growth in Wollongong and Shellharbour. The Panel has considered whether a merger or mergers are necessary at this stage. It has taken into account a combination of four key factors:

- Each council appears sustainable for at least the medium term
- Existing boundaries do not pose significant urban management problems
- Water supply and sewerage are handled separately by Sydney Water
- Kiama's distinctive rural and coastal setting and 'country town' character, compared to Wollongong and Shellharbour.

On that basis, the Panel considers that closer collaboration through a Joint Organisation should enable a sufficient response to regional challenges for some time to come. Emerging issues should be kept under review. If amalgamation options need to be revisited, the Panel suggests that Shoalhaven might be a more appropriate partner for Kiama than Wollongong-Shellharbour, although the new definition of the region could present an obstacle.

Recommendations for Hunter, Central Coast and Illawarra

47

Seek evidence-based responses from Hunter and Central Coast councils to the Panel's proposals for mergers and boundary changes, and refer both the proposals and responses to the proposed Ministerial Advisory Group (section 18.1) for review, with the possibility of subsequent referrals to the Boundaries Commission (14.1 and 14.2)

48

Defer negotiations for the establishment of a Central Coast Joint Organisation pending investigation of a possible merger of Gosford and Wyong councils (14.2)

49

Pursue the establishment of Joint Organisations for the Hunter and Illawarra in accordance with Recommendation 35 (14.1 and 14.3)

15. Non-Metropolitan Regions

As explained in section 3.5, the Panel has identified 52 small (in population) rural-remote councils that may be considered ‘at risk’ based on the TCorp analysis and a range of other factors. Seven of these, plus Broken Hill, are the subject of section 16 on the Far West region. The future of Dungog has already been discussed in section 14.

An over-riding consideration for many of these councils is the weakness of their own-source revenue base relative to their service delivery and infrastructure responsibilities. Often those responsibilities have expanded to fill service gaps resulting from the withdrawal of State and federal agencies or a declining private sector. This trend is often linked to static or declining populations.

The Panel believes that more can and should be done to channel additional support to rural-remote councils. However, this cannot be in the form of ‘blank cheques’: rural-remote councils, like their urban counterparts, need to show that they are taking all possible steps to address whatever challenges and difficulties they face. A range of

options have to be considered, but given limited resources the Panel’s conclusion is that the number of small (in population) councils will need to be significantly reduced. As a rule of thumb, by 2036 the great majority of councils should have populations close to or greater than 10,000. However, individual differences must be considered carefully.

15.1 Options for investigation

Table 11 sets out options for the future of every council outside the Sydney, Hunter, Central Coast and Illawarra regions. These options include:

- Working as part of a Joint Organisation (JO), as outlined in section 11, with significant levels of resource sharing
- Merging with one or more adjoining councils to create a more robust unit
- Transitioning to the status of a ‘Rural Council’ under the umbrella of a JO
- Forming part of the proposed new arrangements for the Far West region.

The concept of Rural Councils was explained in section 12. It is designed to cut the cost of governance – of simply maintaining a separate body politic and administration – and ensure that the maximum possible resources are available for delivering services. The Panel’s view is that as a general rule a population of less than around 5,000 is unlikely to be sufficient to support a ‘stand-alone’ local government: governance costs will consume too great a proportion of total revenue. Either an amalgamation (where feasible) or conversion to ‘Rural Council’ status should therefore be considered as soon as possible, either during or immediately after establishment of the new regional JOs.

Table 11 thus divides non-metropolitan councils into seven groups:

- Group A is the 8 Far West councils discussed in section 16.
- Group B consists of 9 councils with current and/or projected populations below 4,000, all of which could readily be merged with a neighbour. All have a low rating base and/or are highly dependent on grant support to continue operating in their current form. Investigations into the future of these councils need to be taken as soon as possible.
- Group C includes 11 councils with projected 2031 populations less than 5,000. Again, all have a low rating base and (with one exception) are highly dependent on grants. However, in each case it is debatable whether a merger is a realistic option. Thus all are considered suitable candidates for the new status of 'Rural Council' but in nearly every case the possibility of a merger should not be ruled out until it has been properly assessed. Investigation of the options available should be undertaken once regional JOs have been established and the scope for mutual support can be determined (see section 12.1).
- Group D includes 14 councils which could be partners in a merger with one or more of the councils in Groups B and C.
- Group E comprises 13 councils that could be involved in mergers to consolidate major regional centres, as already discussed in section 11.7.
- Group F includes 14 councils with projected 2031 populations between 5,000 and 10,000. In some cases (generally where projected populations exceed 8,000) these councils may well be able to continue as 'stand-alone' entities for several decades to come. However, most need to consider whether a merger could improve their sustainability and build strategic capacity. They should all be kept under review to ensure that they remain sustainable and are able both to provide an adequate range of local services, and to work effectively as a full member of a Joint Organisation (although all will benefit from resource sharing and exchange of technical expertise within the JO). A formal review of the progress made by each of these councils, including whether a desirable merger has been completed, should be scheduled for no later than 2021.
- Group G is the remaining 28 larger councils, all of which appear likely to be sustainable in their current form for several decades. In some cases, however, they could be considered as merger partners for councils in Group F, and may need to be reviewed in that context some years from now.

Councils in Groups B-F would be progressively referred to the Boundaries Commission for review under the new process proposed in section 10.3. The suggested sequence and timeline for these referrals is as follows:

1. **Group B** during 2014 (these are all cases where mergers would be relatively straightforward and/or the Panel cannot see a realistic alternative)
2. **Group C** from late 2015 (following establishment of the new regional Joint Organisations, as discussed in section 11)
3. **Group D** during 2014-16, depending on their links to councils in Groups B and C
4. **Group E** in 2017
5. **Group F** from 2018 to 2020

Councils in Group A could be reviewed separately as part of the establishment of the proposed Western Region Authority (see section 16). However, if that proposal does not proceed, then they should be referred to the Boundaries Commission together with Groups B and D (except for Cobar and Walgett which could be added to Group F).

15.2 Sustainability reviews

Across all groups there are 38 councils that were allocated a Weak or Very Weak FSR by TCorp, and/or rated as Weak, Very Weak or Distressed in DLG's audit of asset management. These councils are shown in italics in Table 11.

The Panel commissioned case studies of two councils that appeared to be facing particularly serious challenges. In both cases it appeared that a combination of substantial rate increases, increased borrowings, significant additional grant support and some reductions in levels of service could progressively achieve long-term sustainability, but difficult decisions would be required.

Many of the 38 councils will face similar scenarios. Within the next 2 years they should all be the subject of updated sustainability assessments based on revised long term financial and asset management plans. Detailed responses will vary from council to council, but all require revised medium-long term financial strategies, rigorous fiscal discipline, and likely painful adjustments to revenue and expenditure. Some will also need considerable external support, at least in the short term whilst new strategies take effect. Action plans will have to be agreed with the State government, having regard to rate-pegging and other policy and legislative requirements.

In some cases amalgamations may form part of medium-longer term solutions. However, amalgamations alone will not solve the councils' financial problems, and those need to be addressed first. Establishment of the proposed Joint Organisations will help to achieve economies of scale and scope in planning, service delivery, major infrastructure projects and sharing of expertise.

In the case of the eight Far West councils updated sustainability assessments and necessary changes to plans and policies could be undertaken as part of establishing the new regional authority proposed in the next section.

Recommendations for Rural and Regional Councils

- | | |
|----|---|
| 50 | Explore options for non-metropolitan councils in Group A as part of establishing the Western Region Authority proposed in section 16 (15.1) |
| 51 | Refer councils in Groups B-F to the Boundaries Commission in accordance with Table 11 and the proposed timeline (15.1) |
| 52 | Complete updated sustainability assessments and revised long term asset and financial plans for the 38 councils identified in Table 11 by no later than mid-2015 (15.2) |

Table 11: Options for Non-Metropolitan Councils

Note: †As projected by DP&I without boundary changes or mergers. ‡As defined in the NIEIR cluster-factor analysis (see references). *Grants as percentage of total revenue in 2011-12: High if >40%, Very High if >50%. ^Based on availability and proximity of a suitable partner. *Councils shown in italics* urgently require a revised long-term asset and financial management plan plus an updated sustainability assessment (see section 15.2).

Council	Popn. 2011	†Popn. 2031	TCorp FSR (Apr 13)	TCorp Outlook (Apr 13)	DLG Inf. Audit (May 13)	‡Rate Base	*Grant Depend-ency	^Merger Potential	Options (preferred options shown in bold where applicable)
Group A: Western Region Councils (see section 16)									
<i>Balranald</i>	2,361	1,700	Weak	Negative	Weak	Low	Very High	Low	Joint administration or merger with Wentworth
<i>Bourke</i>	3,085	2,300	Weak	Negative	Weak	Low	High	Medium	Rural Council; joint administration or merger with Brewarrina
<i>Brewarrina</i>	1,895	1,700	Weak	Negative	Weak	Low	Very High	Medium	Joint administration or merger with Bourke
<i>Broken Hill</i>	19,150	15,100	Very Weak	Neutral	Weak		High	Low	Council in Far West region
<i>Central Darling</i>	2,108	1,800	Very Weak	Negative	Weak	Low	Very High	Low	Unincorporated with Community Boards
<i>Cobar</i>	4,931	4,800	Weak	Negative	Very Weak	Low	High	Low	Council in Far West region (review by 2020)
<i>Walgett</i>	6,860	5,900	Moderate	Negative	Moderate	Low	Very High	Medium	Council in Far West region (review by 2020)
<i>Wentworth</i>	6,787	7,000	Weak	Negative	Weak	Low	High	Low	Council; joint administration or merger with Balranald
Group B: Projected 2031 population below 4,000; 'High' merger potential (2014 referrals to Boundaries Commission)									
Bombala	2,458	2,000	Moderate	Neutral	Moderate	Low	High	High	Merge with Cooma-M and Snowy R or Rural Council in South East JO
Boorowa	2,469	2,700	Moderate	Negative	Strong	Low	Very High	High	Merge with Harden and Young or Rural Council in Tablelands JO
Conargo	1,585	1,800	Sound	Neutral	Strong	Low	Very High	High	Merge with Deniliquin and Murray or Rural Council in Mid-Murray JO
Gundagai	3,753	3,400	Moderate	Negative	Distressed	Low	Very High	High	Merge with Tumut or Rural Council in Riverina CC
Harden	3,680	3,600	Moderate	Negative	Strong	Low	Very High	High	Merge with Boorowa and Young or Rural Council in Tablelands JO
Jerilderie	1,534	1,200	Moderate	Negative	Weak	Low	Very High	High	Merge with Berrigan or Rural Council in Mid-Murray JO
Murrumbidgee	2,338	1,700	Moderate	Neutral	Not avail.	Low	High	High	Merge with Griffith or rural Council in Murrumbidgee JO
Urana	1,180	800	Weak	Neutral	Very weak	Low	Very High	High	Merge with Corowa or Rural Council in Upper Murray JO
Walcha	3,122	2,800	Weak	Negative	Distressed			High	Merge with Uralla or Rural Council in New England JO
Group C: Projected 2031 population below 5,000; 'Low' or 'Medium' merger potential (2015-16 referrals to Boundaries Commission)									
Bogan	3,020	2,600	Moderate	Neutral	Moderate	Low	Very High	Medium	Rural Council in Orana JO or merge with Warren
Carrathool	2,668	2,100	Weak	Neutral	Weak	Low	Very High	Medium	Rural Council in Murrumbidgee JO or merge with Griffith
Coolamon	4,213	4,200	Sound	Negative	Very weak	Low	Very High	Medium	Rural Council in Riverina JO or merge with Bland and/or Temora
Coonamble	4,274	3,100	Sound	Negative	Moderate	Low	High	Medium	Rural Council in Orana JO or merge with Gilgandra
Gilgandra	4,534	4,100	Weak	Neutral	Weak	Low	High	Medium	Rural Council in Orana JO or merge with Coonamble
Hay	3,097	2,100	Moderate	Negative	Moderate	Low	Very High	Low	Rural Council in Murrumbidgee JO
Lockhart	3,082	2,900	Sound	Neutral	Moderate	Low	Very High	Medium	Rural Council in Riverina JO or merge with Wagga Wagga
Tumbarumba	3,440	3,200	Strong	Negative	Very Strong	Low	Very High	Medium	Rural Council in Riverina JO or merge with Tumut/Gundagai

<i>Wakool</i>	4,080	3,400	Weak	Negative	Moderate	Low	Very High	Medium	Rural Council in Mid-Murray JO or merge with Murray/Conargo/D'quin
<i>Warren</i>	2,877	2,100	Moderate	Neutral	Distressed	Low	High	Medium	Rural Council in Orana JO or merge with Bogan
<i>Weddin</i>	3,734	3,500	Moderate	Negative	Weak	Low	Very High	Medium	Rural Council in Central West JO or merge with Forbes or Cowra
Group D: Potential merger partners for Groups B and C councils (2014-16 referrals to Boundaries Commission)									
<i>Berrigan</i>	8,282	9,300	Moderate	Neutral	Strong	Low	High	High	Council in Mid-Murray JO or merge with Jerilderie
<i>Bland</i>	6,018	5,500	Weak	Neutral	Strong		Very High	Medium	Council in Riverina JO or merge with Coolamon and/or Temora
<i>Cooma-Monaro</i>	10,086	10,800	Weak	Neutral	Weak			High	Council in South East JO or merge with Bombala and Snowy River
<i>Corowa</i>	11,302	13,400	Moderate	Negative	Strong			High	Council in Upper Murray JO or merge with Urana
<i>Cowra</i>	12,526	11,700	Sound	Negative	Very Weak			Medium	Council in Central West JO or merge with Weddin
<i>Deniliquin</i>	7,317	5,700	Moderate	Negative	Weak	Low		High	Council in Mid-Murray JO or merge with Conargo/Murray and Wakool
<i>Griffith</i>	25,292	20,200	Sound	Negative	Moderate			High	Council in Murrumbidgee JO or merge with Murrumbidgee
<i>Murray</i>	7,159	10,900	Moderate	Neutral	Moderate		High	High	Council in Mid-Murray JO or merge with D'quin/Conargo and Wakool
<i>Snowy River</i>	7,752	9,200	Moderate	Negative	Weak			High	Council in South East JO or merge with Bombala/Cooma-Monaro
<i>Temora</i>	5,928	5,000	Sound	Neutral	Strong	Low	High	High	Council in Riverina JO or merge with Coolamon and/or Bland
<i>Tumut</i>	11,272	9,300	Moderate	Neutral	Weak			High	Council in Riverina JO or merge with Gundagai and Tumbarumba
<i>Uralla</i>	6,260	7,400	Weak	Neutral	Very weak	Low	Very High	High	Council in New England JO or merge with Walcha
<i>Wagga Wagga</i>	61,509	73,000	Moderate	Negative	Moderate			Medium	Council in Riverina JO or merge with Lockhart
<i>Young</i>	12,514	13,000	Sound	Negative	Weak			High	Council in Tablelands JO or merge with Boorowa/Harden
Group E: Other potential mergers to consolidate major regional centres (2017 referrals to Boundaries Commission)									
<i>Albury</i>	49,467	57,300	Moderate	Neutral	Moderate			High	Council in Upper Murray JO or merge with Greater Hume (part or all)
<i>Armidale</i>	25,270	31,500	Moderate	Neutral	Moderate			High	Council in New England JO or merge with Guyra
<i>Bathurst Regional</i>	39,936	52,500	Moderate	Negative	Moderate			Medium	Council in Central West JO or merge with Oberon
<i>Blayney</i>	7,186	8,700	Moderate	Negative	Weak			High	Council in Central West JO or merge with Orange
<i>Cabonne</i>	13,188	18,600	Sound	Negative	Moderate			High	Council in Central West JO or merge with Orange
<i>Dubbo</i>	40,491	45,400	Moderate	Neutral	Moderate			Medium	Council in Orana JO or merge with Wellington and/or Narromine
<i>Greater Hume</i>	10,039	11,200	Moderate	Negative	Weak		Very High	High (part)	Council in Upper Murray JO or merge part or all with Albury
<i>Guyra</i>	4,543	5,000	Moderate	Negative	Very weak		High	High	Council in New England JO or merge with Armidale
<i>Narromine</i>	6,929	6,800	Moderate	Neutral	Moderate	Low	Very High	Medium	Council in Orana CC or merge with Dubbo
<i>Orange</i>	39,480	45,800	Sound	Negative	Moderate			High	Council in Central West JO or merge with Cabonne and/or Blayney
<i>Palerang</i>	14,835	23,300	Moderate	Negative	Distressed			High	Council in South East JO or merge with Queanbeyan
<i>Queanbeyan</i>	39,826	53,800	Weak	Neutral	Weak			high	Council in South East JO or merge with Palerang
<i>Wellington</i>	8,937	8,600	Weak	Neutral	Weak	Low	High	Medium	Council in Orana JO or merge with Dubbo
Group F: Current and/or projected 2031 population 5-10,000 (Review status by 2020)									
<i>Cootamundra</i>	7,501	7,100	Moderate	Neutral	Moderate	Low		Medium	Council in Riverina JO or merge with Junee
<i>Forbes</i>	9,471	9,200	Moderate	Neutral	Moderate			Medium	Council in Central West JO; merge with Weddin
<i>Glen Innes-Severn</i>	8,965	8,900	Moderate	Neutral	Weak		High	Medium	Council in New England JO
<i>Gloucester</i>	4,974	5,700	Very Weak	Neutral	Moderate		Very High	Medium	Council in Mid-North Coast JO or merge with Great Lakes and/or Greater Taree
<i>Gwydir</i>	5,074	5,100	Very Weak	Neutral	Distressed		High	Medium	Council in Namoi JO or merge with Moree Plains

<i>Junee</i>	6,091	5,800	Moderate	Neutral	Weak	Low	High	Medium	Council in Riverina JO or merge with Cootamundra
<i>Kyogle</i>	9,537	9,500	Weak	Negative	Moderate		High	Medium	Council in Northern Rivers JO or merge with Lismore or Richmond Valley
<i>Lachlan</i>	6,758	5,400	Moderate	Negative	Weak	Low	Very High	Medium	Council in Central West JO or merge with Parkes
<i>Liverpool Plains</i>	7,769	8,300	Weak	Negative	Moderate		High	Medium	Council in Namoi JO or merge with Gunnedah
Narrandera	6,123	5,300	Sound	Negative	Strong	Low	Very High	Medium	Council in Murrumbidgee JO or merge with Leeton
Oberon	5,207	5,400	Sound	Negative	Moderate			Medium	Council in Central West JO or merge with Bathurst
<i>Tenterfield</i>	7,024	8,500	Weak	Negative	Weak	Low	Very High	Low	Council in New England JO
Upper Lachlan	7,378	7,900	Sound	Neutral	Strong		High	Medium	Council in Tablelands JO or merge with Goulburn-Mulwaree
<i>Warrumbungle</i>	9,927	9,500	Weak	Negative	Moderate		High	Low	Council in Orana JO
Group G: Larger rural and regional councils (excluding Hunter, Central coast and Illawarra)									
Ballina	40,753	45,400	Moderate	Neutral	Weak			Medium	Council in Northern Rivers JO
Bega Valley	32,999	37,100	Sound	Neutral	Strong			Low	Council in South East JO
Bellingen	12,886	13,300	Moderate	Negative	Weak		High	Medium	Council in North Coast JO
<i>Byron</i>	30,825	31,800	Weak	Negative	Weak			Medium	Council in Northern Rivers JO
<i>Clarence Valley</i>	51,252	53,900	Weak	Negative	Weak			Low	Council in North Coast JO
<i>Coffs Harbour</i>	70,933	80,500	Weak	Negative	Weak			Medium	Council in North Coast JO
Eurobodalla	36,993	43,400	Moderate	Neutral	Weak			Low	Council in South East JO
Goulburn-M'waree	28,285	31,800	Moderate	Negative	Very Weak			Medium	Council in Tablelands JO
Great Lakes	35,601	41,600	Moderate	Neutral	Moderate			Medium	Council in Mid-North Coast JO or merge with Gloucester
<i>Greater Taree</i>	47,955	50,600	Very weak	Negative	Very Weak			Medium	Council in Mid-North Coast JO or merge with Gloucester
Gunnedah	12,515	13,400	Sound	Negative	Very Strong			Medium	Council in Namoi JO
Inverell	16,614	19,600	Moderate	Neutral	Moderate			Low	Council in Namoi JO
<i>Kempsey</i>	29,188	28,500	Weak	Negative	Weak			Medium	Council in Mid-North Coast JO
Leeton	11,406	11,200	Moderate	Negative	Moderate			Medium	Council in Murrumbidgee JO or merge with Narrandera
Lismore	44,282	45,300	Moderate	Negative	Weak			Medium	Council in Northern Rivers JO or merge with Kyogle
Lithgow	20,790	20,700	Sound	Negative	Moderate			Medium	Council in Central West JO
Mid-Western Reg.	23,000	26,100	Sound	Negative	Weak			Medium	Council in Central West JO
Moree Plains	14,189	11,100	Moderate	Neutral	Moderate			Medium	Council in Namoi JO or merge with Gwydir
<i>Nambucca</i>	19,286	21,500	Weak	Negative	Moderate			Medium	Council in North Coast JO
Narrabri	13,475	12,400	Moderate	Negative	Very Weak			Medium	Council in Namoi JO
Parkes	15,047	15,600	Moderate	Negative	Weak			Medium	Council in Central West JO or merge with Lachlan
<i>Port Macq-Hastings</i>	74,949	89,400	Weak	Negative	Moderate			Medium	Council in Mid-North Coast JO
<i>Richmond Valley</i>	22,697	24,800	Weak	Negative	Very Weak			Medium	Council in Northern Rivers JO or merge with Kyogle
Shoalhaven	96,043	106,400	Sound	Negative	Moderate			Low	Council in South East JO
Tamworth Regional	58,351	68,800	Moderate	Neutral	Moderate			Medium	Council in Namoi JO
Tweed	88,463	104,300	Moderate	Neutral	Strong			Low	Council in Northern Rivers JO
Wingecarribee	46,042	51,000	Moderate	Neutral	Moderate			Medium	Council in Tablelands JO
Yass Valley	15,516	23,200	Moderate	Negative	Moderate			Low	Council in Tablelands JO

16. The Far West

The Panel was asked to give particular consideration to governance and service delivery in remote western NSW, including issues affecting Aboriginal communities and the roles of all three spheres of government. After initial consultations, the Panel defined a Far West region comprising the local government areas of Balranald, Bourke, Brewarrina, Broken Hill, Central Darling, Cobar, Walgett and Wentworth, plus the Unincorporated Area adjacent to Queensland and South Australia (Map 6). In April, the Panel released a paper *Strengthening NSW Remote Communities – the Options* which identified and analysed key issues and detailed possible models for future governance. This became the basis for further consultations with councils, Aboriginal communities and other key stakeholders.

Map 6: The Far West Region



The Panel has not been able to secure complete agreement on a new governance and service delivery framework, but believes the options set out below offer the best way forward and would have widespread support. The Far West faces serious and growing problems and there is an urgent need for systemic and sustainable change in the way the region is administered.

This section provides an overview of the Panel's consideration of the issues facing the Far West, and the conclusions it has reached. Further detail can be found in the paper *Strengthening Far West Communities: A pathway for change*, which comprises Volume 3 of the Supporting Information for this report.

16.1 Core issues

The Far West of NSW as defined here covers 40% of the State's landmass but includes less than 1% of the population. Its communities are confronted by many common issues that present complex local challenges. The Panel's consultations have revealed a deep sense of disconnect and discontent associated with social and economic change. There is a lack of trust and an absence of meaningful collaboration between community groups, including tensions within and between Aboriginal and non-Aboriginal communities. Effective leadership is lacking at all levels of government. This combination of communities under stress and a fragmented governance system that has largely failed to come to terms with the underlying issues, now requires bold decisions to put in place new arrangements.

Population numbers are forecast to decline throughout the region, except in Wentworth, which attracts growth from the Mildura area across the Murray River. People are leaving for a number of reasons, including lack of educational, social and employment opportunities; gaps in service provision; and the challenges of living in a harsh environment. The possibility of even higher levels of disadvantage and failing social capital is something that communities find hard to accept, but that governments must seriously consider.

Aboriginal people comprise up to 60% of the population of far western NSW communities, and their numbers are increasing. The future of western NSW is thus closely intertwined with that of Aboriginal communities, which are becoming younger. Aboriginal people will need to take on leadership roles.

However, the problems of far western NSW should certainly not be cast as an Aboriginal issue: Aboriginal peoples face particular difficulties that need to be addressed, but so do all of the region's communities. The region's natural environment is harsh, fragile and under increasing stress. Service delivery by federal, State and non-government agencies is fragmented and often duplicated. Accountability to local communities is typically weak or non-existent. Many important decisions are made in far distant centres, and there has been little coordination of policies and programs across the region. Except for Walgett, all eight local councils have a FSR of Weak or 'Very Weak – and Walgett's is Moderate with a Negative outlook. Their capacity to meet community needs is severely limited, and their future is in several cases uncertain. Most face major infrastructure backlogs.

16.2 Responses to 'Future Directions'

In its *Future Directions* paper the Panel proposed a number of measures to strengthen governance in accordance with the criteria set out in Box 38. The measures included:

- Establishment of a new Regional Authority to undertake strategic planning and coordination of governance and service delivery
- Membership of the Authority to comprise representatives of local government, Aboriginal communities, the Unincorporated Area and State and federal agencies
- Retaining the existing pattern of local government but transitioning some councils to 'Local Boards'.

Box 38: Criteria for a New Governance Model in Far Western NSW

- Provide a governance and service delivery structure that is capable, credible and trusted; adaptable to change; and sustainable in the longer term
- Preserve local democracy and the individuality of local communities
- Strengthen Aboriginal participation and leadership in governance by understanding the unique complexities and dynamics of Aboriginal representation, decision making and leadership
- Work for and in partnership with all communities, recognising the value of sense of place and purpose, and capitalising on community capacities
- Give communities the best possible access to the services they need
- Formalise partnerships between spheres of government to create a 'whole of government' regional vision, with integrated funding and service delivery models focussed on localised priorities
- Sustain local economies and build employment opportunities
- Continue to preserve a fragile environment
- Build social capital through community participation and trusting social relationships
- Engender a strong belief that ultimately communities themselves must be substantially responsible for their own destinies
- Demonstrate integrity and application of best practice principles in the overall community interest.

Responses to the *Future Directions* proposals were diverse:

- There was an emphasis on the enormous scale and diversity of the region, and a view that a series of sub-regional solutions would be more appropriate
- Some councils gave qualified support to the Regional Authority concept
- Others opposed any structural change and argued that a combination of resource-sharing, increased grant funding, and ending cost-shifting and rate-pegging was necessary to enable them to meet their responsibilities
- Some councils were keen to deliver more State and federal services under delegation, subject to agreed financial arrangements
- Bourke, Brewarrina and Walgett councils advised that they are establishing a 'Barwon Darling Coordination Group' to strengthen cooperation and resource sharing
- Wentworth Shire emphasised the importance of promoting cross-Murray linkages and adjusting

planning and land management policies in order to facilitate associated development opportunities

- Pastoralists wanted to retain the Unincorporated Area
- Aboriginal community representatives highlighted the need for closer engagement with 'mainstream' governance.

The Panel has given careful consideration to these views, and conducted a further round of consultations with all key stakeholders. It appreciates concerns that the region is too large and too diverse for a single authority and governance framework, and has revised its proposals to incorporate stronger sub-regional arrangements. However, it remains of the view that the Far West is united by important common themes:

- Remoteness, and a need for a stronger voice in government
- The need to come to grips with economic, social, and environmental problems that have similar origins and manifestations

- The importance of closer engagement with Aboriginal communities and the issues they face
- The system of Western Lands administration and the adoption of essentially the same regional boundary for Local Land Services
- Growing acceptance of this regional definition by other State agencies.

Above all, the Panel sees an opportunity to promote a fresh, positive approach to the future of the Far West. The Panel has been impressed by the initiatives being taken by a number of councils and communities to get on the front foot in supporting economic and social advancement. These efforts need to be supported and facilitated by a much improved governance framework, and increased external assistance is much more likely to be forthcoming if the region speaks with a single voice.

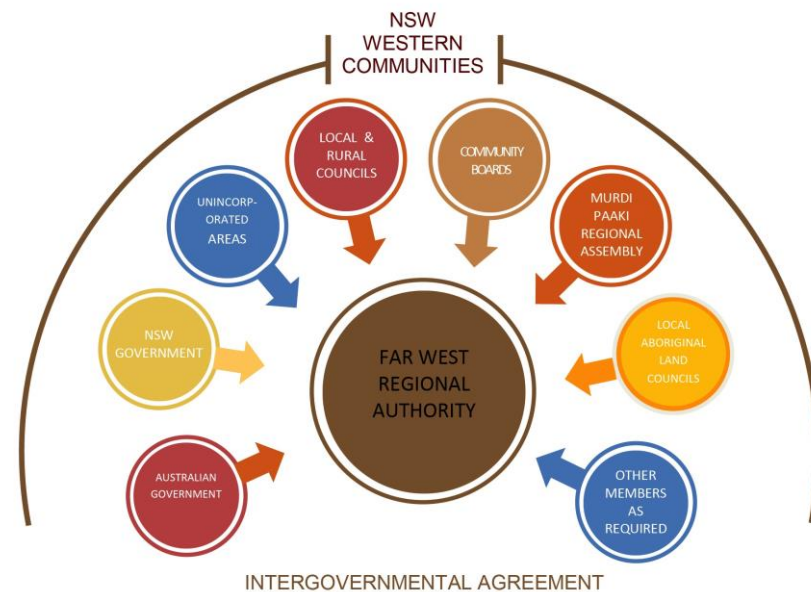
16.3 A regional authority

The Panel therefore concludes that the establishment of an umbrella Far West Regional Authority should proceed as quickly as possible. Its proposed functions are detailed in Box 39:

Box 39: Proposed Functions of Far West Authority

1. Guide vision and strategy – ensure that governments, communities and organisations have a common understanding of needs and desired outcomes
2. Plan for the region as a whole – prepare and facilitate implementation of an inter-governmental Regional Strategic Plan, incorporating regional elements of the plans of councils, Aboriginal communities, and government and non-government agencies
3. Promote aligned activities – ensure governments, communities and organisations share information and coordinate their activities towards common goals
4. Foster continuous improvement – ensure that all parties regularly review and refine their programs against common key performance indicators, and promote creative problem solving initiatives
5. Build community motivation and commitment – work with local government and Aboriginal communities to increase understanding of the issues facing the region and each other, and to empower communities to take action
6. Advance public policy – ensure all levels of governments are more aware and supportive of the policy agendas and priorities needed to tailor programs to local needs
7. Mobilise funding and resources – secure public and private funding (including philanthropic) to drive and support local initiatives
8. Administer Western Lands Leases – incorporate the role of the Western Lands Commissioner
9. Incorporate Local Land Services – incorporate the Western Region board of Local Land Services to maximise linkages with related activities
10. Manage other specific projects and programs – assume responsibility for proposed Community Boards (see below), for delivery of selected works and services, especially in Unincorporated Areas, and for region-wide shared services (eg 'back office' activities of councils and government agencies)

Figure 9: Proposed Structure of Far West Regional Authority



It is envisaged that the Authority would:

- Be established under its own NSW legislation
- Be led by an Executive Chair, appointed by and directly accountable to a senior NSW government minister
- Be governed by a board comprised of mayors, Aboriginal leaders, representatives of Community Boards and Unincorporated Areas, State and federal government appointees, and other skills-based members as required
- Employ its own staff as required, principally for administration, strategic planning and program coordination, but work through existing organisations wherever possible
- Receive federal Financial Assistance Grants
- Otherwise, be supported, resourced and funded by the State government, including through the Western Lands Lease arrangements.

Property owners and lessees in Unincorporated Areas could directly elect one or more representatives to the board, as occurs with Regional Districts in British Columbia. They should pay an equivalent of local government rates to help fund the Regional Authority. This could be a special component of annual fees for Western Lands leases.

16.4 Options for local government

Various options for the future of the region's eight local government bodies, plus the current Village Committees for Silverton and Tibooburra in the Unincorporated Area, are canvassed in the background paper *Strengthening Western NSW Communities: A pathway for change*. Essentially, the Panel's view is that significant change is necessary in current local government arrangements. The Panel is concerned that the TCorp assessments have raised serious doubts about the medium-long term future of most councils, and that very considerable increases in grant funding would be required to retain all the councils in their current form. On current indications it is unlikely such funding can be provided, and questionable whether current arrangements represent the best use of taxpayer support. Nor can the Panel see limited resource sharing and feasible increases in rates amounting to a realistic solution.

Central Darling Shire presents particular difficulties. The evidence presented to the Panel suggests that the council has reached the point where without a major increase in ongoing financial support it is unsustainable as a stand-alone local government entity. It appears that the council's financial situation has further deteriorated since the completion of the TCorp assessment in early 2013 (Very Weak with a Negative outlook), with major concerns about liquidity.

On the basis of all the available information, and having regard to the importance of maintaining local identity and democracy to the maximum possible extent, the Panel's preferred approach is set out in Box 40. These proposals assume:

- The establishment of a Regional Authority
- Redistribution of FAGs and other grants to provide additional financial support
- Collection of an equivalent of local government rates across all unincorporated areas
- Amendment of the Local Government Act as necessary to facilitate a shared administration for two or more councils.

Box 40: Preferred Future Local Government Arrangements for the Far West

- Retain Walgett, Cobar and Broken Hill councils in their current form, but within the framework of the Regional Authority and subject to further review of their prospects for medium-long term sustainability, plus preparation of revised asset and financial plans as required
- Establish full shared administrations for Bourke-Brewarrina and Wentworth-Balranald, but with elected councils, office facilities and operational staff retained in each location
- Continue the development of the Barwon Darling Coordination Group
- Unincorporate Central Darling Shire and establish Community Boards (as proposed in section 12.2), for Wilcannia, White Cliffs, Menindee, Sunset Strip and Ivanhoe – all under the administration of the Regional Authority
- Replace the Village Committees for Silverton and Tibooburra with Community Boards under the administration of the Regional Authority.

An alternative for Menindee, Sunset Strip and Silverton would be to extend the boundaries of Broken Hill City to incorporate them. It would also be possible for the Regional Authority to contract Broken Hill City and Cobar Shire to manage all seven Community Boards on its behalf, subject to suitable financial arrangements.

Another variation would be for Balranald, Bourke and Brewarrina to become 'Rural Councils' within the Regional Authority, along the lines proposed in section 12.1. All three have Weak-Negative FSRs and their populations are forecast to decline. However, this would involve a further expansion of the Regional Authority's role into some aspects of local government administration.

If a Regional Authority is not established, and hence there is no supportive regional umbrella, then more radical restructuring of local government would need to be considered. This could include:

- Amalgamations of Bourke-Brewarrina and Wentworth-Balranald, with establishment of Community Boards for the major towns
- Continuation of the Barwon Darling Coordination Group to maximise resource sharing between Bourke-Brewarrina and Walgett
- A possible longer-term merger of Cobar and Bogan Shire (with the Bogan area transferring from the Orana region to the Far West)
- Un-incorporation of Central Darling Shire
- Creation of a 'Broken Hill Regional Council' to provide local services to the five major settlements in Central Darling, plus Silverton and Tibooburra, as well as selected State and federal services under contract
- Other services to Unincorporated Areas to be provided by the relevant State and federal agencies
- Establishment of a Joint Organisation for the five new local governments to provide 'high level' support services along similar lines to other JOs.

Substantial additional grant funding would be needed to support these alternative arrangements. The Panel also notes that, without a supportive inter-government agency, restructuring of local government cannot be expected to solve the region's underlying problems.

16.5 Next Steps

To advance the options for a Regional Authority and re-organisation of local government set out above, the Panel proposes establishment of a project team as part of the DPC Regional Coordination Program. Key tasks would be to:

- Firm-up the governance and funding model for the Regional Authority, including possible transfer of functions from other agencies, and prepare draft legislation
- In conjunction with Far West councils and DLG, further explore the options and develop business cases and implementation plans for the new local government arrangements, including un-incorporation of Central Darling Shire and establishment of Community Boards
- Liaise with the Office of Aboriginal Affairs to ensure proposed initiatives are consistent with *OCHRE: The NSW Government Aboriginal Affairs Strategy* to strengthen the capacity of western NSW Aboriginal communities to participate in a new governance system.

It would also be appropriate to form a reference group comprising representatives of organisations likely to become board members of the Regional Authority if and when established.

Working Together

As the Panel emphasised in Future Directions, the issues confronting the Far West of NSW can only be addressed by a genuine commitment on all sides to 'working together'. First and foremost, this boils down to finding ways to build the trust and mutual respect that is lacking at present. Governance arrangements alone cannot do this, but a 'fresh start' in regional governance could make a real difference.

Recommendations for the Far West

53	Agree in principle to the establishment of a Far West Regional Authority with the functions proposed in Box 39 and membership as proposed in Figure 9 (16.3)
54	Adopt the preferred new arrangements for local government set out in Box 40 as a basis for further consultation (16.4)
55	Establish a project team and reference group of key stakeholders within the DPC Regional Coordination Program to finalise proposals (16.5)

Part D

Implementation

17. State-Local Government Relations

More productive relations between the State and local government are essential to create the right platform for reform – and to realise the benefits. Whilst the quality of the relationship has improved over the past two years there is a legacy of distrust that still colours dealings between the two sectors. Neither side is convinced that the other is a consistently reliable partner. Further steps need to be taken to address this state of affairs and establish a mature relationship based on shared information, collaborative planning, negotiation and trust. The recently signed *Intergovernmental Agreement to Guide NSW State-Local Government Relations on Strategic Partnerships* offers a way forward.

17.1 Building a lasting partnership

The goal of the *Destination 2036* process – the genesis of this Independent Review – is for State and local governments to work together on a package of reforms that will achieve the vision of ‘strong communities through partnerships’.

Partnerships require give-and-take. The changes proposed in this report undoubtedly contain some elements that sections of local government will oppose strongly – amalgamations are an obvious example. Similarly, the State government may feel uncomfortable about streamlining rate-pegging. However, the Panel hopes that all those concerned on both sides will see that the greater good,

especially the goal of strong communities, will best be achieved by a balanced package. This can be pursued under the aegis of the new State-Local Government agreement.

The Agreement flags moves to advance State-local cooperation in ways similar to those that have proved successful in other jurisdictions. The Panel notes in particular Clause 1.4:

It is intended that this Agreement will serve as a framework under which more specific areas of cooperation and further mechanisms for such cooperation can be agreed.

This has obvious application to pursuing the outcomes of this Review.

Underlying several of the Panel’s proposals is the idea that State and local governments need to be seen as complementary elements of a broader NSW public sector. In the past there has been a sense that the two are competing, rather than looking for ways to pool information, resources and skills in order to achieve agreed local, regional and state-wide objectives. The new Agreement offers an opportunity to build on recent moves towards a more collaborative approach, such as DPC’s increasing involvement of local councils in its regional coordination activities. Further steps should include:

- Establishing State-local relations as a key function of the Premier’s cluster of departments – led by the Division of Local Government and including other key areas of DPC, DP&I and the Office of Environment and Heritage, which together could foster a new culture of cooperation with local government across all State agencies
- Including representatives of the proposed Joint Organisations on DPC’s Regional Leadership Groups, as discussed in section 11.
- Negotiating more detailed MOUs under the Agreement to foster joint initiatives (eg Regional Roads and Transport Groups) and collaborative strategic planning
- Strengthening recognition of democratic local government in the NSW Constitution
- Building a stronger local government association that can present a united view and negotiate more effectively on behalf of the sector

The State-Local Government Agreement includes provisions for regular meetings between LGNSW, the Premier and the Minister for Local Government, as well as for the Chief Executive of DLG to convene meetings of State agencies to consider local government-related issues. This offers an excellent foundation on which to build.

17.2 Collaborative strategic planning

There is evident support amongst State agencies for a closer working relationship with local government – but this depends on two factors:

- The willingness and capacity of councils to work more closely with each other and with the State on a regional basis
- Local government becoming a ‘real’ partner that contributes substantial resources and expertise to joint programs and projects.

The Panel’s proposal for new Joint Organisations is intended to create the right platform for effective State-local collaboration. An obvious starting point is to establish strategic planning partnerships with key State agencies. There are as number of opportunities for this:

- Inclusion of a regional component in councils’ Community Strategic Plans, as proposed in section 11.8, in part to provide ‘feedstock’ for the strategic plans of State agencies, as well as key inputs to the State Plan
- Formulation of the next generation of regional strategies to deliver the State Plan – local council or Joint Organisation projects could be included alongside State initiatives to enhance integration and investment, as well as to maximise opportunities to achieve service delivery efficiencies

- In the future, high performing JOs could be a vehicle for regionalised State government services, on a negotiated funding basis
- Preparation by DP&I of Regional Growth Plans and sub-regional Delivery Plans, especially in the metropolitan area and coastal regions facing intense growth pressures and infrastructure needs – local government can contribute both planning expertise and resources for implementation
- Establishment of ‘Regional Roads Groups’ along the lines of those in Queensland, as discussed in section 7.4
- Local Land Services – working through Joint Organisations local government can partner the new regional agencies for natural resource management.

For its part, local government could reasonably expect State agencies to become ‘real’ partners in the IPR process, contributing information, ideas and resources to the preparation and implementation of councils’ Community Strategic Plans and Delivery Programs. This will involve action to change attitudes towards local government at all levels of State government – and a better understanding within local government of how to work effectively with State agencies.

17.3 Constitutional recognition

Irrespective of what may ultimately happen in terms of recognising local government in the Australian Constitution, the Panel sees considerable value in amending the *State* Constitution to afford greater recognition and protection to democratic local government. This is relevant to the Panel’s consideration of governance issues. Moreover, a suitable amendment to the State Constitution would represent a significant sign of good faith in terms of improving State-local relations.

The current wording of section 51 of the NSW Constitution is as follows:

*(1) There shall continue to be a system of local government for the State under which duly elected or **duly appointed** (emphasis added) local government bodies are constituted with responsibilities for acting for the better government of those parts of the State that are from time to time subject to that system of local government....*

The effect of the words ‘or duly appointed’ in section 51(1) could be to allow *elected* local government to be completely dismantled. The NSW provisions contrast with those in Queensland and Victoria (see Box 41).

Box 41: Local Government in Queensland and Victorian Constitutions

- **Queensland**

71 (1) A local government is an elected body that is charged with the good rule and local government of a part of Queensland allocated to the body.

- **Victoria**

74A (1) Local government is a distinct and essential tier of government consisting of democratically elected Councils having the functions and powers that the Parliament considers are necessary to ensure the peace, order and good government of each municipal district.

Drawing further on the wording used in Queensland and Victoria, the Panel proposes that further consideration be given to amended provisions along the following lines:

1. *There shall continue to be a system of local government for the State under which democratically elected local government bodies are constituted with responsibilities that the Parliament considers are necessary to ensure the good governance of the areas allocated to those bodies.*
2. *Parliament may make laws for or with respect to-*
 - a) *the areas to be allocated to local government bodies; and*
 - b) *suspension or dismissal of an elected local government body; and*
 - c) *the administration of a local government body during a period in which it is suspended or after it has been dismissed; and*
 - d) *the re-instatement or re-election of a local government body.*
3. *A Bill for an Act ending the system of local government may be presented for assent only if a proposal that the system of local government should end has been approved by referendum.*
4. *Notwithstanding any other provision to the contrary, the Lord Howe Island Board, and an administrator with all or any of the functions of a local government body, shall be deemed to be local government bodies.*

Such provisions would emphasise the importance of democratic local government without reducing Parliament's current powers to make laws, except that, as in Queensland, a referendum would have to be passed before the whole system of local government could be wound up.

17.4 Role of Local Government NSW

The recent establishment of a single association for NSW councils – Local Government NSW – opens the door for a fresh start in the way local government presents itself to communities, State and federal governments, and other key stakeholders. However, as indicated in *Case for Sustainable Change*, the new association faces the challenge of leading a change of attitude and culture in a sector that has tended to dwell on its misfortunes (real or perceived) and to focus more on its disparate interests than the 'big picture'.

Clause 4.2 of the new State-Local Government agreement has this to say:

Local Government NSW is responsible for providing leadership and guidance to the local government sector across a wide variety of functions...as well as working with the local government sector in accordance with the agreed Principles, and driving the shared vision for local government in partnership with the NSW State Government.

This undertaking by the association carries very significant implications for the way it relates to its member councils and conducts its affairs. Those implications become even more apparent in the context of the Agreement's first principle: *State and Local Government will work together as drivers of change and improvement to achieve strong communities through partnership.*

Local Government NSW (LGNSW) thus needs to emerge as a stronger and more decisive sector leader that has the full backing of its member councils to pursue a fresh agenda of change and improvement. This approach has been followed successfully by sister organisations in other states, and adds weight to advocacy.

Promotion of good governance is particularly important. The Panel applauds action taken recently to strengthen professional development for councillors and provide

mentoring for mayors. These are vital steps in the right direction. However, as discussed in section 9, all too often local government's reputation is sullied by the actions of individual councillors or elected bodies that appear contrary to good governance and – rightly or wrongly – lead to calls for State intervention. The Panel believes that LGNSW should give a high priority to reputation management and take the lead in handling these situations. Over time this should make it possible for the State to reduce considerably its activities in oversighting and regulating the sector. This approach is already evident in some other states, including South Australia, Queensland and Victoria.

In order to play a more strategic role and to meet its obligations under the State-Local Agreement, LGNSW will also need to allocate a higher priority and additional resources to capacity building programs. There will be opportunities for the association to partner with DLG and other State agencies in areas such as developing performance measures, establishment of Regional Roads Groups and Water Alliances, and regulatory reform.

17.6 Role of the Division of Local Government

The Panel's proposals also have significant implications for the role of the Division of Local Government. Over the past two years the DLG has been restructured to allocate more resources to innovation and capacity building in councils, and re-positioned as an agency within the Department of Premier and Cabinet. It is thus well placed to engage key agencies in the local government reform and development process, and this has been recognised in the State-Local Government Agreement. Currently, however, the Division also carries a heavy workload in local government regulation and compliance, and those functions tend to dominate its image in the sector. They also impact DLG's capacity both for sector development and to promote a closer and more productive working relationship with local government.

If the Panel's proposals are to be pursued, demands on DLG's limited resources will increase considerably. Undoubtedly some additional resources will be required over the next several years to manage the reform process: this is discussed in section

18.2. However, further consideration should also be given to DLG's longer term focus, particularly in light of the ongoing agenda and new arrangements for consultation with local government outlined in the State-Local Agreement, as well as emerging arrangements for strategic planning and regional coordination. DLG needs to be positioned as the champion of these developments.

The Panel believes that a thorough, whole-of-government review of the way local government in NSW is regulated (as proposed in section 8.2) can identify opportunities to reduce the Division's regulatory and compliance-focused workload. There may be scope, for example, to revisit current approaches to the regulation of swimming pools and companion animals, which are labour-intensive. Such changes would both free-up resources for the reform process and sector development and enhance perceptions of DLG's role.

Recommendations for State-Local Government Relations

- | | |
|----|--|
| 56 | Use the State-Local Agreement as the basis and framework for a range of actions to build a lasting partnership, and negotiate supplementary agreements as appropriate (17.2) |
| 57 | Introduce new arrangements for collaborative, whole-of-government strategic planning at a regional level (17.3) |
| 58 | Amend the State Constitution to strengthen recognition of elected local government (17.4) |
| 59 | Seek advice from LGNSW on the measures it proposes to take to meet its obligations under the State-Local Agreement (17.5) |
| 60 | Strengthen the focus of DLG on sector development and seek to reduce its workload in regulation and compliance (17.6) |

18. Driving and Monitoring Reform

The Panel has advanced a wide-ranging agenda for reform, in line with its broad terms of reference. Clearly, implementation of the recommended changes will need to take place progressively over several years. Moreover, some of the Panel's options for structural reform are most unlikely to proceed under the current interpretation of 'no forced amalgamations': the Panel accepts that and has suggested alternative courses of action where feasible.

What is essential, however, is that a start be made and that the momentum for reform is maintained, building on favourable responses to a number of the Panel's key options as set out in *Future Directions*. The Panel is convinced that despite the rhetoric of opposition in some quarters, there is a widespread understanding across local government that significant changes are required, however uncomfortable. At the same time, the Panel again emphasises that reform in local government must be matched by a willingness on the part of the State and its agencies to reflect on their own attitudes and performance.

This section sets out some of the principal elements of implementation, and how the jigsaw of reform and improvement can be pieced together through a staged approach.

18.1 Establish a Ministerial Advisory Group

Whatever decisions are made regarding amalgamations, there is scope in the immediate future to commence implementation of a range of initiatives. To oversee the early stages of implementation, as well as monitor progress, the Panel proposes establishment of a *temporary* Ministerial Advisory Group (MAG) to work alongside the Division of Local Government (DLG), other key agencies and Local Government NSW (LGNSW) during the next 3 years.

The MAG would comprise a chair appointed by the Minister, the Chief Executives of DLG and LGNSW, and two other members appointed by the Minister in consultation with the President of LG NSW. All administration would be handled through DLG. The Panel believes that establishing such a group, including independent members, would demonstrate a collaborative, even-handed approach. Preferably, none of the members would be serving or former councillors or politicians.

The MAG's focus should be on:

- Initiating effective implementation of the package of reforms adopted by Government, and

providing supplementary policy advice as required

- Promoting the establishment of the regional Joint Organisations and advising DLG and the Minister on proposals for proclamations
- Further developing proposals for 'Rural Councils' and Community Boards
- Reviewing the responses of Sydney region, Hunter and Central Coast councils to the Panel's proposals for boundary changes
- Convening periodic forums or roundtables with a broader group of key stakeholders, including professional institutes, local government unions, business and community organisations
- Monitoring progress and reporting to Government on necessary adjustments to the reform package and what further steps might be required.

Future of Destination 2036

The great majority of actions to be undertaken as part of the *Destination 2036* Action Plan are to be completed by late 2013, and the current *D2036* Implementation Steering Committee (ISC) has not met for some time. Unless the parties wish to launch a substantial new agenda under the *Destination 2036* umbrella, the Panel suggests that any outstanding matters could be handled by the MAG.

18.2 Project support

Since its re-structure in 2011, DLG has made significant efforts to focus more resources on sector development. However, like all agencies it is under pressure to contain costs and, given competing priorities, its current staffing would not be sufficient to drive and support the wide-ranging reform program envisaged by the Panel.

The Panel therefore proposes that supplementary resources be provided in the form of:

- A Project Management Office (PMO), based in Sydney, that would lead and support key aspects of implementation, such as legislative change and establishment of JOs, and facilitate the efforts of State agencies involved in the reform program
- Contracted facilitators – engaged by the PMO – to work with regional groups of councils to establish JOs, and also assist with business case development and change management for any council mergers.

The PMO would report to the Chief Executive of DLG. Like the MAG, it would be established for a fixed period of about 3 years.

18.3 A priority package

The Panel's consultations have revealed wide-ranging support for a number of the options advanced in *Future Directions*. Whilst the level of support varied, the Panel has concluded that several of the recommendations put forward in this report could be assembled as a priority implementation package that would be broadly acceptable. Crucially, pressing ahead with such a package would maintain the momentum of the review process and encourage those in both State and local government circles who see the value in grasping this opportunity for change and improvement.

Proposed elements of the package are listed in Box 42.

Box 42: A Priority Implementation Package

1. Establish the new regional Joint Organisations (including Regional Roads Groups, Water Alliances and sub-regional planning groups in metro Sydney): negotiations in 2-3 'pilot' regions could be launched immediately.
2. Build a 3-way strategic planning process that brings together a new regional component of IPR, DP&I Regional Growth Plans, and Premiers Department Regional Action Plans.
3. Further upgrade asset and financial management requirements in IPR, including Delivery Programs (among other things, to provide a basis for proposed changes to rate-pegging).
4. Revise current guidelines to require improved internal audit processes.
5. Place local government audits under the aegis of the Auditor General.
6. Initiate improvements to the rating system eg exemptions, equitable system for rating apartments, and steps to ensure a more equitable distribution of federal Financial Assistance Grants and State grants.
7. Establish a state-wide local government finance facility to cut the cost of borrowing.
8. Commission IPART to review the regulatory, compliance and reporting burdens imposed on councils.
9. Strengthen political leadership: re-write the roles of Mayors, Councillors and General Managers
10. Introduce minimum 2-year terms for mayors elected by the councillors.
11. Amend the State Constitution to secure recognition of elected local government (cf Victoria, Queensland).
12. Re-constitute the Boundaries Commission to progress evidence-based, impartial assessment of possible mergers and boundary changes.

18.4 Facilitating boundary change

The Panel's approach to the issue of structural reform was set out in detail in section 10. Detailed options for all councils were put forward in sections 13-16.

Three key points need to be re-iterated here.

First, the importance of strengthening the Boundaries Commission to play the role of an independent arbiter, charged with undertaking thorough, evidence-based assessments of proposals and ensuring full community consultation. This will require amendments to the Local Government Act (see below).

Second, the need for professional support to help councils consider, plan and implement potential mergers. As indicated above, resources and expertise to enable and support this approach should be provided through the PMO, which should have a group of contracted expert facilitators and change managers to undertake the work. Providing assistance in this way will enable ideas and experiences to be shared by councils across the State, and processes to be progressively improved.

Third, the need for measures to lower the barriers to voluntary mergers and provide incentives to those councils that indicate a willingness to go down that path (as set out in section 10.4). The Panel again advises, however, that voluntary mergers should be pursued within a strategic framework, and that care should be taken to avoid generating unrealistic expectations of the level of financial (as opposed to professional) support that might be available. As a general rule, careful business planning should ensure that the cost of mergers is covered by subsequent savings, particularly amongst larger urban councils.

18.5 Legislative implications

Throughout this report the Panel has flagged the need for amendments to the Local Government Act in order to facilitate implementation of its proposals. It provided advice to the Local Government Acts Task Force on those matters.

The Task Force was responsible for recommending the framework for a comprehensive re-write of the Act, which is likely to take a considerable time to complete. In the meantime, interim amendments would be needed to implement some of the Panel's key recommendations.

Box 43 summarises those matters that would need to be addressed through interim amendments in early 2014, including changes to regulations and guidelines.

Box 44 lists other necessary legislative changes.

Box 43: Proposed Interim Amendments to Local Government Act, Regulations and Guidelines

- Provisions for Joint Organisations, 'Rural Councils' and Community Boards
- Reconstitution of the Boundaries Commission and amendments to the process for dealing with amalgamations and boundary changes (but defer application to Sydney metropolitan region – see section 11.4)
- Amendments to rate-pegging provisions (and associated changes to IPR Guidelines)
- Enabling oversight of local government audits by the Auditor General (may be handled instead through Public Finance and Audit Act)

Box 44: Other Legislative Changes Required

- Establishment of Far West Regional Authority (possibly separate Act)
- Establishment of a local government finance facility (preferably by simply amending TCorp legislation)
- Amendment to State Constitution to strengthen recognition of elected local government
- New or revised provisions in the Local Government Act covering:
 - Goal of sustainable councils
 - Concept of a system of local government
 - Appointment of Chief Financial Officers (or equivalent)
 - Roles of the Council (governing body), Mayors, Councillors and General Managers
 - Direct election of Mayors
 - Preparation of Councillor Development Plans and mandatory professional development requirements for Councillors and Mayors
 - Holding of an Annual General Meeting
- Revised IPR Guidelines for:
 - Delivery Programs and service reviews
 - Regional component of Community Strategic Plans
- New mandatory guidelines for internal audit and continuous improvement processes (including committees)

18.6 Indicative timeline for implementation

Implementation of the full package of changes recommended in this report would take several years. As indicated previously, maintaining momentum in the early months of 2014 will be critical. Table 12 presents an indicative timeline.

Table 12: Indicative Implementation Schedule

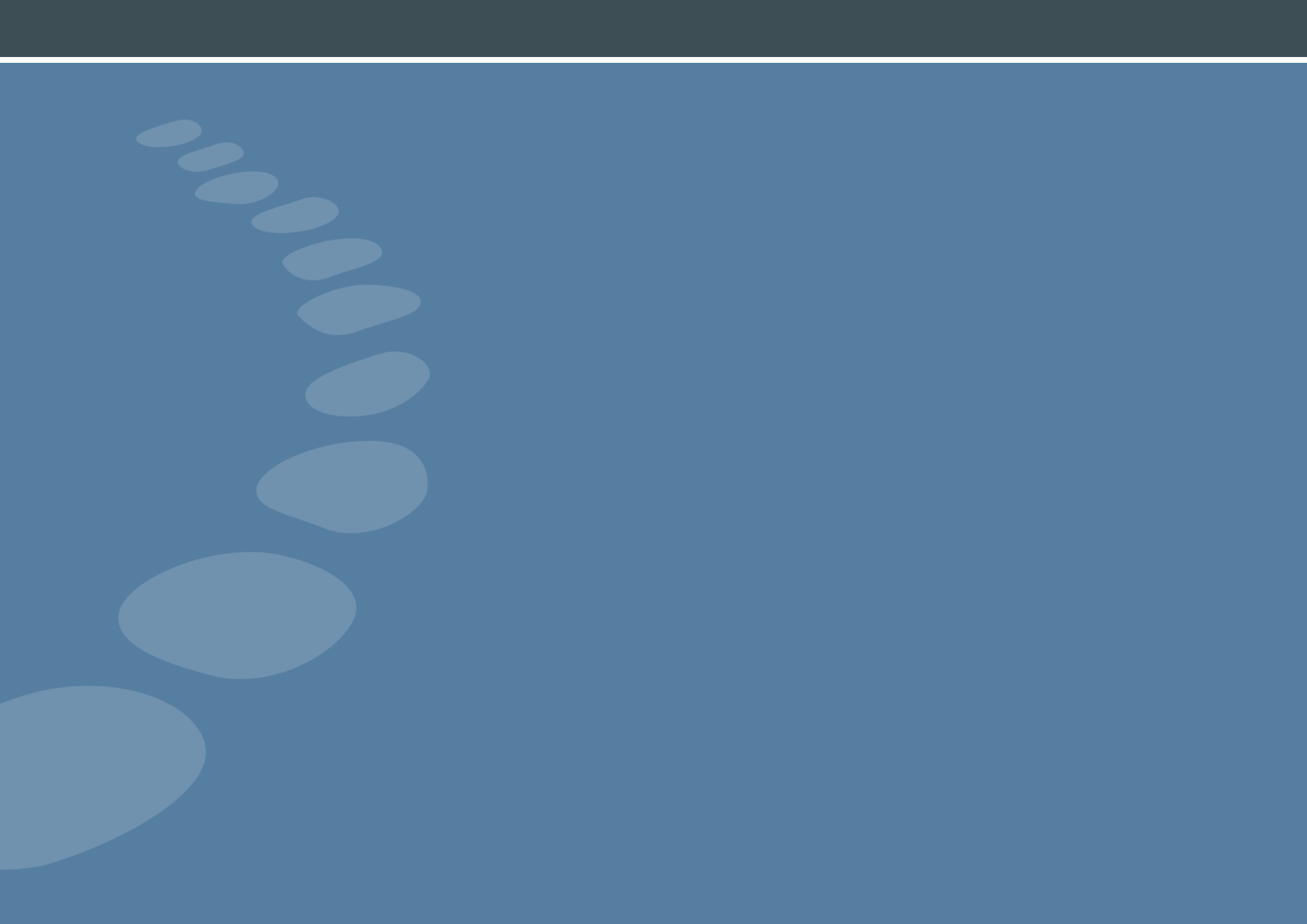
By February 2014	• Government to determine its response to the Panel report, including proposed priority package and short-term legislative changes • Commence implementation of priority package (those matters not requiring legislative change)
By March 2014	• Establish the MAG and PMO • Refer matters as appropriate to the MAG, PMO, Boundaries Commission, Division of Local Government and other agencies • Confirm new arrangements for State-local cooperation at the regional level, especially in strategic planning, State Plan implementation, and through Regional Roads Groups • Finalise short-term changes to Local Government Act, regulations and guidelines • Negotiations under way to establish all non-metro JOs
By June 2014	• Commence implementation of other elements of priority package (except those requiring further legislation) • Complete establishment of sub-regional groups in metropolitan Sydney for strategic planning • Seek evidence-based responses from Sydney, Hunter and Central Coast councils to Panel's proposals for merger • Establish the reconstituted Boundaries Commission • Commence action to establish Far West Regional Authority and review status of constituent councils
By June 2014	• Refer the Panel's options for non-metropolitan councils in Group B to the Boundaries Commission for consideration in accordance with the new procedures • Boundaries Commission announces opportunity for eligible parties to submit other boundary change and/or amalgamation proposals • Finalise incentives package for voluntary mergers (2014-15 budget) • Extend the LIRS program (2014-15 budget) • Establish local government finance facility and associated advisory services through TCorp

Table 12: Indicative Implementation Schedule (continued)

By end 2014	• Complete initial establishment of non-metropolitan JOs • Introduce a modified rate-pegging system, including amended IPR guidelines • Amend State Constitution to strengthen recognition of elected local government • Refer responses from Sydney, Hunter and Central Coast councils to the MAG for review
During 2015	• Complete other required legislative changes (see Box 44) • Establish Far West Regional Authority and introduce new arrangements for non-metropolitan Group A councils • Commence new audit arrangements • MAG to report to Government on progress, in particular the operation of Joint Organisations and possible structural reform in metropolitan Sydney, Hunter and Central Coast • Government to determine further action in Sydney, Hunter and Central Coast regions, including referrals to Boundaries Commission • Refer non-metropolitan councils in Group C to the Boundaries Commission
By mid 2016	• Complete updated sustainability assessments (and revised asset and financial plans as required) for all councils with Weak/Very Weak TCorp FSRs and/or Weak/Very Weak/Distressed ratings in the DLG infrastructure audit • MAG to report on overall progress of the reform agenda
During 2017	• MAG wound-up unless further tasks emerge • Refer non-metropolitan councils in Group E to Boundaries Commission • Update other TCorp sustainability assessments and calculation of infrastructure backlog
By 2020	• Boundaries Commission to complete review of non-metropolitan Group F councils (Table 11)

Recommendations for Driving and Monitoring Reform

- | | |
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| 61 | Establish a Ministerial Advisory Group and Project Management Office (18.1 and 18.2) |
| 62 | Refer outstanding elements of the Destination 2036 Action Plan to the Ministerial Advisory Group (18.1) |
| 63 | Adopt in principle the proposed priority initial implementation package set out in Box 42, as a basis for discussions with LGNSW under the State-Local Government Agreement (18.3) |
| 64 | Further develop the proposals for legislative changes detailed in Boxes 43 and 44, and seek to introduce the amendments listed in Box 43 in early 2014 (18.5) |
| 65 | Adopt in principle the proposed implementation timeline (18.6) |



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Note: Further research, evidence, submissions and supporting documentation considered by the Panel to inform this report is available for review on the Panel's website.

List of Contacts

The Panel would like to thank the following organisations and groups of stakeholders who were actively engaged in discussing options for the future of local government in NSW. We apologise to any we have omitted.

NSW Local Government

All 152 Local Councils
All 14 County Councils
Local Government NSW
Local Government Managers Australia (NSW)
Regional Organisations of Councils and other Council Alliances
United Services Union
Local Government Engineers Association
Development and Environmental Professionals' Association
Institute of Public Works Engineers Australia
Local Government Auditors Association
Institute of Internal Auditors
Australian Services Union

NSW Parliament

NSW Government Ministers
Members of Parliament
Opposition and Greens' spokespersons

State Government Agencies

Division of Local Government, Dept. of Premier & Cabinet
Dept. of Premier & Cabinet
Dept. of Planning & Infrastructure
Dept. of Primary Industries
Roads & Maritime Services
Office of Water
Treasury
Treasury Corporation
Office of Aboriginal Affairs
Office of Environment & Heritage

Independent Pricing & Regulatory Tribunal
State Library of NSW
Valuer General's office
Auditor General's office
Cross-Border Commissioner
Local Government Grants Commission
Local Government Boundaries Commission
Ombudsman's Office
Western Lands Commissioner
Food Authority
Ministry of Health
Land & Property Information
Dept. of Family & Community Services
Dept. of Finance & Services
Office of Communities, Dept. of Education and Communities

Other Governments and Local Government Bodies

Commonwealth Grants Commission
Australian Capital Territory Government
Queensland Department of Local Government
Local Government Victoria
Local Government Association of south Australia
Local Government Association of Queensland
Municipal Association of Victoria
Western Australia Department of Local Government
Victorian Auditor General's Office
Tasmanian Dept. of Premier & Cabinet
Regional Development Australia – Sydney

Other Contributing Stakeholders

Local Government Acts Taskforce
Australian Centre for Excellence in Local Government
University of Technology Sydney, Centre for Local Government
Murdi Paaki Regional Assembly
NSW Aboriginal Land Councils
Urban Taskforce
NSW and Sydney Business Chambers
Property Council (NSW)
The Committee for Sydney
Tourism Taskforce
Economic Development Australia (NSW)

People and Communities across NSW

The thousands of people and community groups that have attended the Panel's state-wide consultations, sent letters and emails, made submissions and provided other input to the review.





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