

Strengthening Your Community

NSW Independent Local Government Review Panel

Consultation Paper

July 2012



www.localgovernmentreview.nsw.gov.au

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Have Your Say!

Everyone in local communities across New South Wales is strongly encouraged to get involved.

The Independent Local Government Review Panel is developing proposals to create stronger, more effective councils that can in turn promote stronger local communities.

The Panel will make its recommendations to Government based on evidence of community needs for better local government.

Have your say now to inform the Panel's work.

Key Questions

In this first stage of consultation the Panel would like to hear your views on three key questions:

- 1. What are the best aspects of NSW local government in its current form?**
- 2. What challenges will your community have to meet over the next 25 years?**
- 3. What 'top 5' changes should be made to local government to help meet your community's future challenges?**

Submissions close on 14th September 2012.

Visit www.localgovernmentreview.nsw.gov.au or see page 18 for details on how to make your submission.



Introduction

Local government is the government of communities and places. 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 play a greater role as a partner of State and Commonwealth governments in achieving regional, state and national goals.

The NSW Government has therefore appointed an Independent Local Government Review Panel. Its task is to develop options to improve the strength and effectiveness of local government in NSW. The review will drive key strategic directions identified in the Destination 2036 initiative (details below) and support the broader objectives of the State as outlined in NSW 2021: A Plan to Make NSW Number One (the State Plan).

Why this review matters to you

Capable and effective local government is vital to provide essential community services and maintain our quality of life. But across NSW many councils are struggling with financial problems, growing infrastructure backlogs, and difficulties in attracting and retaining skilled staff and councillors.

Communities deserve high capacity local councils that can:

- deliver services and infrastructure you need at a price you can afford
- 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 objectives, for example in transport and housing
- maximise the local benefits from spending the rates and charges you pay.

This review's goal is to ensure that every community in NSW has local government that reaches the highest possible standard.

The purpose of this Consultation Paper is to present information and ideas for discussion. It should not be interpreted as a statement of the Panel's views or an indication of likely recommendations.

The Review Panel

The Review Panel was appointed in April 2012 following an approach by the NSW Local Government and Shires Associations. It is an expert group of three members, with support staff seconded from the NSW Division of Local Government. It can also commission its own research and advice to inform its thinking. No limits have been placed on the way the Panel goes about addressing its terms of reference.

It is chaired by Professor Graham Sansom, Director of the Australian Centre for Excellence in Local Government. The other two members are Ms Jude Munro AO, a former CEO of four metropolitan councils across three states, including the city of Brisbane; and Mr Glenn Inglis, who has extensive experience as a council general manager in rural and regional NSW.

The Panel will consult widely with the NSW community and other stakeholders. It will make recommendations to Government based on evidence gathered and supporting research. It will look at the pros and cons of different options for change and present its findings for further consultation in a transparent and open way. The Panel will make its final report to the NSW Government in July 2013.



Why review NSW local government?

Communities are different and changing

Our communities vary enormously in size, demographics, economic base and other factors and as a result, their needs also vary enormously. What a community needs in Balranald or Bega will be very different to Bondi or Broken Hill.

At the same time, significant economic, social and environmental changes are being felt in most, if not all, NSW communities. For example:

- Global financial uncertainty is affecting economic growth, business confidence and public finances. This impacts on businesses and families in local communities, the public services they require and the money that is available to pay for them.
- Our economy is going through major structural change as mining increases its share of investment and employment. This impacts jobs, the social fabric of communities, the future of towns and villages, and the infrastructure those communities need to function.
- Environmental factors are affecting how and where we live. We need to use renewable energy, protect our coastlines and reduce the amount of waste we send to landfill. Many communities have suffered from natural disasters and are likely to continue to do so.
- Rapid social change is seeing more people live in city and coastal areas, more elderly people requiring appropriate housing and services, and more diverse communities. Population numbers in most rural communities are declining.
- Technological advances are changing how we communicate, do business and access services.

These changes impact on different communities in different ways. Local councils need the skills and resources to help communities adapt and prosper into the future.

Councils are different and changing

Councils across NSW have served their communities well for many years, but today local needs are much more varied and complex than they were even 50 years ago. The 152 councils around NSW today are led by more than 1,500 councillors, employ over 50,000 people, spend more than \$9.3 billion annually, and are responsible for over \$117 billion in public assets.

Did you know?

- There are 152 councils in NSW with an average population of 48,000. This is less than Queensland (63,000) and Victoria (71,000), but more than the Australian average of 41,000.
- The smallest in area (Hunters Hill) is 6km² – smaller than Sydney Olympic Park.
- The largest (Central Darling) is over 53,000 km² – about the size of Croatia.
- Urana Council has a population of 1,200 – about the number of pupils in a large high school.
- Blacktown has over 307,000 residents – about the number of people living in Iceland.
- The fastest growing in percentage terms is Auburn (in the ‘middle ring’ of Sydney), with average annual growth of over 3% (2,400 people). However, several larger councils are growing faster in absolute numbers of new residents.

Councils are clearly ‘big business’ and of fundamental importance not only to the quality of their local places and wellbeing of local communities, but to the prospects of the state as a whole.

Councils reflect the diversity of their communities: they vary greatly in size, resources and the services they provide. Yet today, NSW councils are basically structured and governed in the same way, with the same laws applying to each council regardless of whether it is in the middle of Sydney or in a rural area, and whether it serves 2,000 or 200,000 people. This poses real challenges as councils with very different capacities and very different needs try to carry out their functions with basically the same tools.

Despite this, many councils are adapting well to social, economic and environmental changes and the increasing complexity of modern government. Recent decades have seen significant changes to council boundaries, improvements to strategic planning (notably the introduction a few years ago of ‘Integrated Planning and Reporting’ reforms), new approaches to community consultation, better financial and asset management, use of new technologies in service delivery, increased regional collaboration, and a host of other advances.

However, a considerable number of councils are struggling with the impacts of change and to meet the legitimate needs and expectations of their communities, as well as playing their part in the wider system of government. In some cases this is due to declining populations and limited funding. Difficulty attracting and retaining skilled staff and councillors is also an issue. In other cases, councils’ resources are being stretched to the limits due to rapid growth.



Increasingly communities and other spheres of government are looking to councils to have a vision for the local area and to work across public, private and community sectors to make that vision a reality. Communities expect their councils to provide strong and stable leadership that rises above narrow interests and effectively represents their needs and aspirations. They expect local leaders to work with other levels of government to create more liveable places.

So local councils need not only to continue recent improvements but also to consider more fundamental change if they aim to realise the vision of Destination 2036 to create strong communities through partnerships.

Building on Previous Reviews

The Panel does not intend to 're-invent the wheel'. Several recent studies and inquiries have provided valuable research and ideas about the future of local government in NSW, and the Panel will build on that work. Some important examples are the 'Sproats' review of inner Sydney councils (2001); the 'Allan' inquiry commissioned by the Local Government and Shires Associations (2006); and reports on council revenues by the Productivity Commission (2008) and IPART (2009).

Significant government policy papers include 'A New Direction for Local Government' (2006) and the Government's response to the 'Allan' inquiry.

Most recently, the Destination 2036 initiative identified the challenges facing councils, a vision for the future and a roadmap for achieving it. This is summarised in the accompanying box.

The Panel will also consider relevant reports from interstate and overseas, such as those of the Queensland Local Government Reform Commission (2007), the Independent Review of Structures for Local Governance and Service Delivery in Southern Tasmania (2011) and the Perth Metropolitan Governance Review (2012). Finally, there are numerous papers published by academic researchers and think-tanks, such as the Australian Centre of Excellence for Local Government and the Centres for Local Government at the University of Technology, Sydney, and the University of New England.

Links to a broad cross-section of all this material can be found under 'Supporting Information' on the Panel's website.

What makes a 'good' council?

When he announced this review, Don Page, the NSW Minister for Local Government, highlighted the need to find ways to create stronger and better councils for the future.

In the early stages of its work the Review Panel wants to talk to people across NSW about what makes a good council and how they see the future for local government.

How local councils are structured and governed differs around Australia and indeed around the world in order to meet the varied needs of diverse communities. The Panel will look at some of these different models of local government and try to identify the best features of each. But to understand which approaches would be good for NSW, we need to test them against what the community says it wants councils to be like, and what it needs them to do.

For example, councils already play numerous different roles: they deliver services and infrastructure; they provide important community amenities and facilities; they prepare strategic and land use plans; they control building and development; they promote environmental and community health; they administer numerous regulations; they advocate on behalf of the local area to State and Federal governments; and so on.

Which of councils' many functions do you see as most important? What do they do well, and what needs to be improved?

Looking to the future, do you see councils continuing to expand their range of activities as they have done over recent decades? Or is it time to focus more on 'core business'? If so, what exactly is 'core business' for local government in the 21st century?

In the UK, the 'Lyons' inquiry into local government that reported a few years ago argued strongly that councils should be 'place shapers', linking their various service delivery, planning and regulatory roles so as to make a real difference to the quality of the places and communities they govern. That concept is also at the heart of the Integrated Planning and Reporting Framework in NSW: councils working with their communities to plan strategically across environmental, social and economic issues to create a better future for their areas.

Are these broader concepts of the role of local government sufficiently understood and accepted by citizens and ratepayers, and are they affordable?

Another critical question concerns the meaning of 'local' in local government. As discussed earlier the amalgamation of councils is often seen as unacceptable because it could lead to a loss of local identity and representation. On the other hand, there is some evidence that people are more focused on receiving good quality services and do not mind (or bother to ask) who delivers any particular service as long as it meets their needs. It has also been argued that large councils can bring more resources to bear on consulting their communities and working effectively at a 'neighbourhood' level.



The quality of governance is also a key factor in deciding whether local government is performing well. This covers issues such as whether councils are open and transparent in their decision-making; whether council meetings run smoothly and debate is well informed and productive; whether high standards of probity are maintained; and whether councils' activities and progress in implementing their plans and programs are reported regularly and in a straightforward way to their communities.

Does more need to be done to ensure high standards of governance in local government? Are councils providing sound leadership for their communities?

All these things are important. However, the reality is that resources are limited and there will be some trade-offs between different objectives in designing stronger, more effective local government for the mid 21st century.

What are the most important features of today's local government that we want to retain, and what may need to change?

What the Panel will do

The Panel's Terms of Reference

The Panel is to investigate and identify options for governance models, structural arrangements and boundary changes for local government in NSW, taking into consideration:

1. Ability to support the current and future needs of local communities
2. Ability to deliver services and infrastructure efficiently effectively and in a timely manner
3. The financial sustainability of each local government area
4. Ability for local representation and decision making
5. 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

Seven actions in the Destination 2036 Action Plan have been referred to the Panel. The Panel will address these issues as far as its resources allow, and to the extent that they are consistent with its terms of reference.

- 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
- Examine the pros and cons of alternative governance models
- Research and develop alternative structural models, identifying their key features and assessing their applicability to NSW
- Identify barriers and incentives to encourage the voluntary amalgamation or boundary adjustment of councils
- 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

Governance, structures and boundaries

The Panel has been asked to develop options for governance, structures and boundaries for local government. Broadly speaking this means looking at how councils are led by their councillors and senior managers, and how they are organised to deliver services and infrastructure. It also involves thinking about the different features of different communities and how their needs can best be addressed. These issues are complex and inter-related. They are about much more than simply amalgamating councils: the best approach will depend on the role we want local government to play and the specific functions councils need to carry out.

Governance in this context refers to the way councils are organised politically and administratively and how they make decisions. For example: is the mayor elected directly by voters, or chosen by the councillors? How many councillors are there? Are councillors elected in wards or 'at large' by voters across the whole council area? What are the respective roles and responsibilities of councillors and senior managers? Does the council have committees that include community representatives? How does the council consult local people before making major decisions? And so on. Communities and their councils have made different choices about these arrangements.

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, cooperatives, registered associations, council-owned companies and others. In the Unincorporated Far West region of NSW there are no councils in the normal sense, but some local representation is provided through elected Village Committees in Silverton and Tibooburra. Many other structural models can be found inter-state and overseas, so there are plenty of options and models to consider and there is no 'one-size-fits-all' solution.

Boundary changes can also take different forms. Historically, most boundary changes 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. Many different types of boundary changes have been made in NSW, Australia and around the world over recent decades: again, there is no 'one-size-fits-all'.



Destination 2036

The Review is the first initiative under Destination 2036, a joint State-local government program based on a vision for councils 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

The Independent Review Panel will liaise closely with the Destination 2036 Implementation Steering Committee, which is the Presidents of the Local Government Association, Shires Association and Local Government Managers Australia (NSW) and the Chief Executive of the Division of Local Government, but will also form its own views on the issues raised.



NSW 2021 – ‘A plan to make NSW number one’

NSW 2021 is the NSW Government’s 10-year strategic business plan to ‘rebuild the economy, return quality services, renovate infrastructure, strengthen our local environment and communities, and restore accountability to government.’

Its goals include:

- ‘invest in critical infrastructure’, which aims to ‘increase investment in regional infrastructure’,
- ‘involve the community in decision making on government policy, services and projects’, which aims to ‘increase opportunities for people to participate in local government decision making.’

It aims to bring together government, community and business to respond to the challenges and opportunities NSW faces.

Localising NSW 2021

As each local community in NSW has its own set of priorities, the Government is working on localising NSW 2021. Across the State, Regional Ministers and Members of Parliament are consulting with local government and communities to develop regional action plans aligned to NSW 2021. These plans will focus on the most important action the NSW Government can take to improve outcomes in each region and locality.

The Panel will take into account the broader interests of the State including the goals and targets set out in NSW 2021.

A copy of NSW 2021 can be accessed at www.2021.nsw.gov.au

Local Government Act Review

The State Government has foreshadowed a review of the Local Government Act, which is expected to commence shortly. The two reviews will cooperate closely. From time to time the Panel will provide advice to the Act review on issues that are likely to require amendments to legislation. Also, it is expected that the Act review will not be completed until late 2013 and will therefore take full account of the Panel’s final report.

Five big issues

In thinking about possible governance models, structural arrangements and boundary changes for local government in NSW, the Panel will be addressing the five big issues set out in its terms of reference.

I. Councils' ability to support the current and future needs of local communities

Did you know?

- Of the 152 councils in NSW, 25 have populations of less than 5,000.
- Current projections show that the great majority of small local government areas in the west of the state will decline in population over the next 25 years. By contrast, coastal councils outside of the greater metropolitan area are expected to grow on average by 1.2% pa.
- Many councils have diverse populations. In some rural local government areas Aboriginal people make up more than 60% of the population, whilst some metropolitan areas have populations with more than 50% from a non-English speaking background.
- The number of people over the age of 65 is expected to more than double from just over 1 million now (14% of the population) to 2.5 million in 2050 (24%), making it the fastest growing population group in NSW. Over half of people aged over 65 live in the Sydney metropolitan region.

We need to understand what challenges and opportunities communities currently face, what our communities will look like in 25 years time, and what this means for local government. There is no doubt that environmental, economic, social and technological changes will transform many places and communities: how can local councils best understand and plan for those changes, and will they have the capacity to respond effectively?

Changes over coming decades are also likely to sharpen differences between metropolitan areas, regional centres and rural and remote communities. What are the implications for our system of local government, the different roles councils may play in different regions, and the resources they will have available?

Although there will be pockets of growth, across much of inland NSW population levels are likely to remain static or decline significantly between now and 2036. Will it be possible to maintain local councils in their present form across the whole of NSW? If not, what are our options?

Rural and remote local government includes councils that are geographically some of the largest in NSW, but with the smallest populations and very fragile budgets.

The economy of rural and remote communities is changing. The mining boom is driving economic growth in certain locations, and improved telecommunications may help create more employment opportunities in others. However, farms continue to become less labour intensive and maintaining provision of local services is problematic.

A declining population is therefore a feature of many rural and remote councils. Of 52 local government areas with a population of less than 10,000, the vast majority (88%) will experience significant loss of population by 2036.

The biggest challenges for rural and remote councils are infrastructure and financial sustainability. Some western region councils are responsible for over 2,000 kilometres of local road networks, but depend heavily on grant funding for their survival. In addition, climate change may be affecting rainfall and weather patterns, and rural and remote councils are especially vulnerable to any increase in the frequency of natural disasters such as floods and bushfires.

Sydney metropolitan councils include both some with the smallest land areas in NSW, and others with the largest populations and budgets. Sydney's population is growing rapidly. By 2031, the metropolitan region will have 1.4 million more people.

The population of Sydney councils varies considerably. The average population size of the 14 smallest is around 45,000 (the smallest has a population of just 15,000). By contrast, the average size of the 14 largest is 145,000 (the biggest being over 300,000 – larger than all councils in any other state except Queensland).

Population growth is putting intense pressure on all types of infrastructure, especially roads and public transport. Councils are responsible for much of the road system. They also face the need to provide adequate drainage systems, parks and other community facilities for areas with growing populations, whilst maintaining existing infrastructure to adequate standards. Ways need to be found to fund essential infrastructure improvements without placing unreasonable burdens on homebuyers or ratepayers.

Meanwhile, along the coast and in metropolitan areas the key challenge will be to ensure that local government has the capacity to play its full part in managing rapid growth. This will require consideration of the need for substantial improvements to infrastructure and service provision, strategic planning and financial management. Will councils have the right skills, organisational capacity, and decision-making processes?

The very different challenges faced by councils in different parts of NSW may require significant changes to the system of local government so that it can respond more flexibly and effectively to those different circumstances. Levels and types of services provided by councils already vary from one part of the state to another according to community needs and the capacity of councils to deliver. These variations may need to be recognised in legislation so that, for example, small (in resources) councils are not burdened with unnecessarily complex planning and management requirements.

New models of service delivery will also have to be considered. In remote areas resource sharing and joint service delivery between councils and State agencies is one option. The scope for increased use of internet-based service delivery also needs to be examined.

Another important factor to be considered is the availability of skilled staff. Australia is experiencing skills shortages in key professions such as engineering, planning and financial management, and councils also face competition for skilled workers from mining and other growth industries which can often afford much higher wages. This situation calls for new approaches to recruiting, retaining and up-skilling staff. It also raises the question of whether the pool and quality of senior managers is sufficient to support the current number of councils at the level of professionalism required.

The Panel will need to:

- **Review available information on future challenges, opportunities and directions set out in the State Plan, regional strategies and other relevant documents.**
- **Commission further analysis to identify how demographic, economic and technological trends are likely to impact different communities across NSW, and what this will mean for local government.**
- **Consider whether those councils most affected by change – whether it be rapid growth or significant decline – have the capacity to deal with the challenges they face, and what options exist to enhance their capacity.**
- **Assess whether models of local government and service delivery may need to vary from one part of the state to another.**



2. Councils' ability to deliver services and infrastructure efficiently, effectively and in a timely manner

Did you know?

- NSW councils spend over \$9.3 billion each year to carry out their functions in service delivery, infrastructure, planning, regulation, economic and social development etc.
- Councils are responsible for about \$117 billion in public assets, including roads, water, sewer, and drainage systems, parks, swimming pools, libraries, community centres and many others.
- The Local Government Act 1993 provides NSW councils with their major powers, functions and responsibilities. The Act empowers councils to independently plan and manage local services and facilities in consultation with their communities.
- Councils also have responsibilities under over 120 other Acts, including the Environmental Planning and Assessment Act 1979, the Food Act 2003 and the Roads Act 1993.

With the changing and growing needs of many communities, the ability of councils to deliver services and infrastructure efficiently, effectively and in a timely manner is increasingly under strain. Councils are responding to this in different ways, through improved planning, asset and financial management; through increased delivery of shared services with adjoining or nearby councils (using county councils, jointly owned companies, regional organisations of councils or strategic alliances); and through contracting-out or public-private partnerships.

However, some councils argue they are overburdened with regulation, and that they encounter barriers in establishing joint enterprises and working with other levels of government. Many have experienced difficulties in recruiting and retaining skilled staff. Limited revenues are another cause for concern, although the State government recently introduced a Local Infrastructure Renewal Scheme that provides interest free subsidies for councils wishing to borrow for infrastructure projects.

Ensuring adequate provision and maintenance of community infrastructure is a particular challenge. A very large infrastructure backlog has arisen in recent decades due to inadequate funding of depreciation and asset renewal.

In 2006, the 'Allan' inquiry estimated the backlog at over \$6 billion. To address this, the inquiry concluded that local councils would need to spend at least an extra \$900 million per annum. It is doubtful whether councils can both address the backlog and maintain other essential services within their current financial capacity. However, at this stage we need more and better data to determine precisely how serious the infrastructure backlog has become, and what options exist to tackle problems.

One of the reasons put forward to explain the infrastructure backlog is the wider range of services now being provided by councils. Since the 1970s many councils have moved into new areas of activity such as environmental management, economic development, aged care and a variety of other community services. This has imposed cost pressures, and spending on more traditional items such as road maintenance has been held back to balance budgets.

Integrated Planning and Reporting

In 2009 new requirements were introduced for councils to improve planning for their activities through Integrated Planning and Reporting (IPR). This requires each council to work with their communities to prepare a Community Strategic Plan that covers at least the next 10 years and identifies priorities and aspirations for the future of the local government area.

Councils must then translate the strategic plan into a 4 year Delivery Program and annual Operational Plan to achieve the strategic goals during their term of office. This involves setting out the services and facilities to be provided, how much they will cost, and how they will be funded.

The aim of IPR is to encourage councils to plan more carefully and in more detail to ensure that priority services and infrastructure can be delivered efficiently and effectively, thereby meeting community needs to the maximum possible extent.

The Panel will need to:

- **Assess the underlying capacity of NSW local government to undertake its current broad range of functions.**
- **Understand the extent of the infrastructure backlog, the issues that have caused it, and ways it might be addressed.**
- **Look at trends around Australia and abroad to identify potential new or improved models of service delivery and whether they may be suitable in NSW.**
- **Examine possible barriers to delivering better services, for example, funding issues, legislative requirements, skills shortages and governance arrangements.**

Regional collaboration

One way councils can increase their capacity to deliver services and infrastructure is through regional collaboration. 'Resource sharing' and 'shared services' are growing in importance, and take various forms.

In NSW there are 14 County Councils formally established under the Local Government Act to provide joint services for member councils (7 for water supply, 6 for weeds eradication and 1 for floodplain management).

Most NSW councils are members of one or more of the 18 Regional Organisations of Councils (ROCs) which cover most of the state. As well as being forums for regional advocacy, research and planning, ROCs can provide councils with bulk buying power and provide important services to local and regional communities. For example, ROCs may play a role in waste management, water supply and sewerage, libraries, roads, environmental management and regional facilities.

There are over 600 other council partnerships, including special interest groups, sister cities, strategic alliances and legally binding contracts. Some ROCs and other partnerships have established separate corporate entities to provide services on a more commercial basis, although this can raise concerns that staff will no longer be employed under the local government award.



3. The financial sustainability of each local government area

Did you know?

- Rates are the only tax available to local councils, but they can also levy a range of fees and user charges (e.g. for waste collection, water and sewerage, swimming pools).
- Councils collect around \$4.7 billion each year in rates and annual charges – about 46% of their total revenue.
- In 2009-10, the average residential rate in NSW was \$786, and ranged between \$96 and \$1,234.
- In 2008-09 the proportion of revenue from rates in Australian jurisdictions varied from 17% (\$327 per capita) to 55% (\$589 per capita) with NSW at 34% (\$426 per capita)
- Rate concessions to pensioners, charities etc cost councils about \$60 million pa.
- The annual revenue of the City of Sydney (\$504 million) is over 70 times the annual revenue of Urana Council (around \$7 million, the smallest).
- In 2011-12, it is anticipated that NSW local councils will receive over \$480 million in general purpose financial assistance grants from the Commonwealth Government.
- In 2010-11, NSW local councils spent over \$9 billion, including \$1.7 billion (around 20%) on transport and communications – mostly roads and \$1.1 billion (about 13%) on recreation and culture.
- Councils spend around \$3.4 billion (36% of their annual expenditure) on employee costs.

Ensuring the financial sustainability of councils is a central challenge in maintaining a strong and effective system of local government.

A sustainable council is one that is able to meet all its essential commitments in the short, medium and long term, provide a good level of services that the public can afford, and manage any unforeseen financial pressures or shocks (such as a natural disaster). We know that many councils struggle to meet these criteria. A 2006 Access Economics study conducted for the 'Allan' inquiry suggested that around 26% of NSW councils may be unsustainable in the medium-long term.

In most cases the key factors in determining sustainability are the size of the council's revenue base and the scale of the infrastructure backlog discussed in the previous section. Many small (in population) councils in NSW have very limited revenues from rates and charges and are heavily dependent on State and Federal grants. On the other hand, research by the Productivity Commission has shown that some communities would be able to afford increased rates to strengthen their council's finances and pay for necessary improvements to services and infrastructure.

Since 1979 NSW has had a system of rate-pegging designed to protect households against 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 a high level of community support. IPART's work suggests that ratepayers may be willing to pay more if they are convinced the additional funds will be earmarked for specific improvements to essential services and facilities.

Sustainability and infrastructure assessments

To assist the Panel, the Division of Local Government has commissioned the NSW Treasury Corporation (TCorp) to analyse the financial sustainability of each council. Also, the Panel will be able to draw on the findings of similar studies in other states, and compare both the financial position of NSW councils with that of their counterparts elsewhere, and the policy settings that apply.

In addition, the Division of Local Government is conducting a council-by-council audit of the local infrastructure backlog, covering maintenance, renewal and the building of new infrastructure that is required to provide for existing needs and future growth. It will provide better information on where investment is needed and identify how the State Government can work with councils to deliver on those needs through initiatives like its Local Infrastructure Renewal Scheme.

Local government organisations have argued strongly that to improve the sustainability of councils State and Federal grants to councils should be increased, there should be no more 'cost-shifting' – transfer of responsibilities from State and Federal governments to councils without corresponding funding, and rate-pegging should be abolished. These claims need to be tested: the capacity of State and Federal governments to provide increased grants to councils in the short-medium term appears very limited; the extent of 'cost-shifting' has yet to be agreed; and relatively few councils seek 'special variations' above the rate-pegging limit. Also, several studies have found that some councils could do more to help themselves through improved asset and financial management.

Review of the revenue system

As mentioned earlier, the Destination 2036 Implementation Steering Committee has asked the Panel to 'examine the current Local Government revenue system to ensure the system is contemporary, including rating provisions and other revenue options' (item 5b in the Action Plan). In its Action Plan the Committee states that:

... a number of other changes over the period [since the 'Allan' inquiry], such as the cap on developer contributions under section 94 of the Environmental Planning and Assessment Act 1979, have negatively impacted on revenue flexibility for some councils.

...Government legislation should be reviewed to ensure the system is contemporary in the context of the principles of Local Government taxation; namely equity, benefit to the community, capacity of ratepayers to pay, the efficiency of the impact of the taxes, and the simplicity of the taxation system.



The Panel will need to:

- **Review and update previous research into the sustainability of NSW councils.**
- **Carefully examine the findings of the new TCorp assessments of each council's finances and the Division of Local Government's council-by-council infrastructure audits.**
- **Determine whether councils are likely to have access to sufficient revenues to meet future needs for adequate services and infrastructure, and if not, identify options to increase revenue or reduce costs.**
- **Look at how other jurisdictions in Australia and elsewhere deal with the capacity of local government to raise revenues within acceptable limits of fiscal responsibility.**
- **Consider the possible need for further improvements to financial and asset management.**

4. The ability of councils to provide local representation and decision-making

Did you know?

- There are 1,513 councillors across NSW (including 152 Mayors) as well as 14 County Council Chairs and 27 County Council members.
- The number of residents per councillor ranges from 141 to around 20,000.
- Currently 32 mayors are popularly elected. Other mayors are chosen by the councillors.
- 27% of councillors are female, compared to about 50% of the NSW population.
- 1.6% of councillors identify as Aboriginal or Torres Strait Islander, compared to 2.2% of the population.
- 3% of councillors identify as having a disability, compared to 4% of the population.
- 9% of councillors speak a language other than English at home, compared to 26% of the population.
- Councillors are paid an allowance of between \$7,740 and \$34,100 pa. Mayors receive an additional allowance of between \$8,220 and \$74,530 pa (with the exception of the City of Sydney whose Mayor is paid up to \$187,180 pa). The amount paid depends on the characteristics of the council.

Effective local representation and decision making is at the heart of strong local government. To understand how well councils do this now and how it could be done in the future, we need to look at the building blocks of governance in NSW councils. These include the provisions of the Local Government Act for elections and the roles of mayors, councillors and general managers, as well as the model Code of Conduct and other guidelines and processes designed to ensure the highest standards of probity and performance.

The quality of decision making depends on the information available, the skills of decision-makers (whether elected members or senior managers), and the way they go about their task. Are councils doing everything possible to ensure that decisions are based on accurate information and sound judgement? In what ways could decision-making be improved?

Of particular importance is the extent and nature of community engagement in planning and decision-making processes. Effective consultation with residents and stakeholders is a central tenet of local government and planning legislation: the Integrated Planning and Reporting arrangements require preparation of a Community Strategic Plan that is based on extensive community engagement to faithfully reflect community priorities and aspirations. Another

key element is regular, thorough and accurate reporting to the community on progress in implementing the Plan and on council's broader activities and financial position.

Many councils are looking for new and better ways of engaging with their communities and providing opportunities for residents to be more involved in local decision making. Neighbourhood committees and forums have been used for many years. In New Zealand, these may take the form of elected Community or Local Boards with their own budgets for small-scale projects and programs.

Increasingly, the internet and social media are being used not only to disseminate information but also to interact with residents and stakeholders on important issues. Some councils have established 'online' panels made up of a representative cross-section of residents who are surveyed regularly to explore community views. New technologies are changing people's expectations about their dealings with local government in terms of both exchanging information and the way services are delivered.

As mentioned earlier, across NSW there are many variations in the way councils are elected and governed. A central issue is the election and role of the mayor. Currently mayors may be popularly elected for the full term, or chosen each year by the councillors. About 20% are popularly elected, but this does not change their legal powers and responsibilities under the Local Government Act. By contrast, in Queensland all mayors are popularly elected, are paid to be full-time, and have additional powers to help ensure the effective running of their councils. Similar provisions are about to be introduced in New Zealand.

Powers and duties of Queensland mayors

- Leading and managing meetings of the local government at which the mayor is the chairperson, including managing the conduct of the participants at the meetings.
- Proposing the adoption of the council's budget.
- Liaising with the chief executive officer on behalf of the other councillors.
- Leading, managing, and providing strategic direction to the chief executive officer in order to achieve the high quality administration of the local government.
- Directing the chief executive officer, in accordance with the local government's policies.

Another debate centres on the roles and numbers of councillors. The current approach across Australia is to have a small number of councillors who are expected to work as a 'board of directors', dealing mainly with policy and strategic issues. Implementation of policy and 'day to day' administration is left to the general manager.

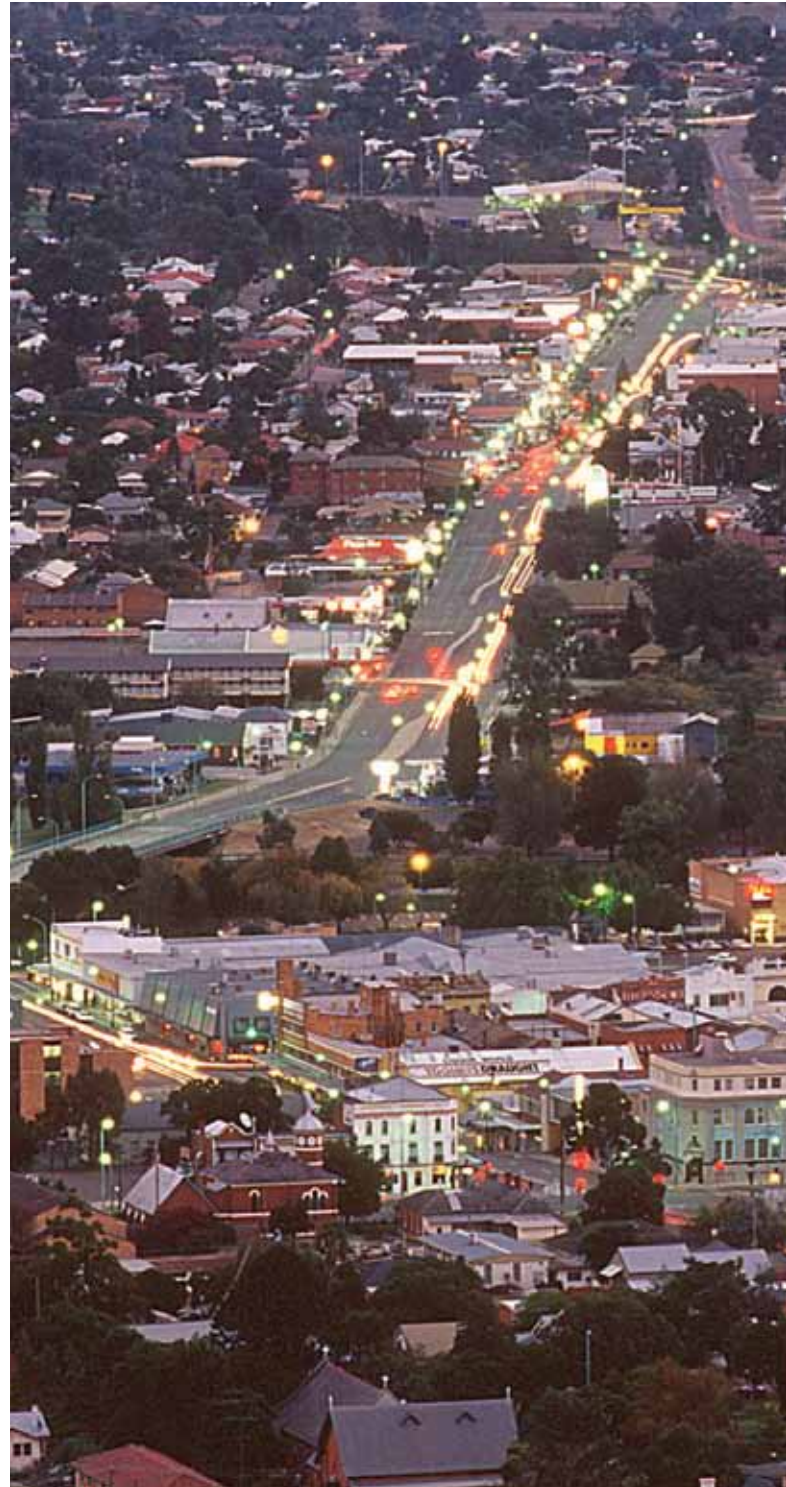
In rural areas and country towns the ratio of population to councillors is typically low, perhaps 1:2,000 or less. However, in large urban councils the ratio can be 1:10,000 or more – and the councillors are still only part-time. This raises questions about whether councillors can really keep in touch with their constituents and hence the quality of local representation. In the UK the average ratio of councillors to population is around 1:5,000. Thus there may be a large number of councillors (often 40 or more), but most are 'backbenchers' and leadership is provided by a small 'cabinet'. In Australia, a 'cabinet' model has been used for many years in Brisbane City Council.

It is important that the composition of councils – both elected members and the workforce – is broadly representative of the local community. At present women, younger people and various other sectors of the population tend to be under-represented generally, or more specifically amongst councillors and senior management. Efforts have been made by governments and councils themselves to change this situation but it appears that much more needs to be done to ensure that local government is truly representative and draws on the diverse talents and resources of its communities.

Further discussion is also needed on other issues flagged earlier, including the use of wards and local committee structures, the respective roles and relationships between elected members and senior managers, and improving the knowledge and skills of both groups.

The Panel will need to:

- **Gather information from other states and internationally to compare emerging ideas and trends with current practice in NSW.**
- **Assess whether existing legislation, policies and institutional arrangements establish the best possible basis for sound representation and decision-making.**
- **If necessary, develop options for new or modified approaches to the way councils are elected, led and organised, and how they relate to their communities.**



5. Barriers and incentives to voluntary boundary changes

Did you know?

- 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.
- Tasmania, Victoria, South Australia and Queensland have all experienced more dramatic amalgamations in recent decades (cutting numbers by 30-60% in one round), but in each case there had been little previous change.
- 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 has been asked to consider barriers and incentives for voluntary boundary changes, which it takes to include council mergers. In doing so, it has to take into account the Liberal-National parties' 2011 election policy of no forced amalgamations. Boundary changes and council amalgamations have been one of the principal avenues of local government reform in all parts of Australia and internationally. In most instances, councils have strongly resisted such changes and sooner or later central governments (state or national) have intervened to force major restructuring. The sweeping amalgamations of councils that took place in Victoria in the mid 1990s, and in Queensland in 2007-08, are well known examples of State intervention.

By contrast, the amalgamations that took place in South Australia in the 1990s were semi-voluntary: the State government commissioned a review that set out an agenda for reform, and councils then negotiated mergers within that framework. There have also been examples of completely voluntary amalgamations, such as those between Concord and Drummoyne in Sydney to form Canada Bay Council, and more recently a successful merger in Western Australia between the City of Geraldton and the Shires of Greenough and Mullewa.

Recent research by the Australian Centre of Excellence examined the rationale for different forms of 'consolidation' in local government: boundary changes, shared services and mergers. It found that 'form must follow function' – the type of consolidation that will work best depends on the circumstances of the case and precisely what governments are trying to achieve. All options need to be given careful consideration.

One of the main reasons put forward for amalgamations is that larger councils will be more efficient, generate substantial economies of scale and make it possible to cut rates. However, those arguments have been hotly contested, and where economies can be achieved they usually need to be ploughed back into tackling infrastructure backlogs rather than used to reduce rates. An alternative argument is that larger councils are more likely to have greater 'strategic capacity' – the ability to deliver more and better services, to plan effectively for the future of their communities, to advocate and negotiate on behalf of their residents and stakeholders, and to play a stronger role in the wider system of government.



More than a decade ago the NSW Local Government and Shires Associations issued a discussion paper on voluntary structural reform (including mergers, boundary changes and shared services). The discussion paper 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, although there has been a considerable increase in shared services and regional collaboration over the past decade, other types of voluntary structural reform continue to meet firm resistance. Clearly councils and many in their communities do not see sufficient benefits in change, and remain concerned about loss of local identity, loss of funding and loss of jobs. This is despite protections that have been put in place to safeguard grant funding and jobs when mergers take place.

The Panel will need to:

- **Identify factors which should drive the shape and size of local government areas.**
- **Review the successes and failures of previous rounds of structural reform in NSW and elsewhere.**
- **Consider the extent to which increased regional collaboration and shared services can bring about necessary strengthening of local government without the need for extensive boundary changes.**
- **Explore the underlying factors and concerns in continued opposition to boundary changes.**
- **Determine whether and how barriers to voluntary change can be overcome.**

Perth Metropolitan Review

A current independent review of local government in the Perth metropolitan region has suggested the number of councils be reduced by more than half. Like the NSW Panel, the Perth review was given terms of reference that covered not only boundaries but also broader governance structures.

Some of the key findings of the Perth review are:

- 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.

Next steps in the review

The Panel will be consulting widely throughout the review process. We want to hear the views of communities, councils, businesses, unions and anyone else with an interest in stronger, more effective local government for NSW.

Consultation will take place in stages and in different ways as the review progresses.

There will be numerous opportunities to get involved and contribute your views. These will include regional meetings with councils and community organisations; written submissions; focus groups; and roundtables on key issues.

The Panel intends to structure the review in four stages.

Stage 1: Identifying key issues and exploring ideas **(July-September 2012)**

The first stage of consultation, which starts with the launch of this Consultation Paper, will look at the issues facing local communities and the councils that serve them now and over the next 25 years.

During the next two months the Panel will hold a series of meetings in regions around the State and in the metropolitan area, to discuss the issues in this paper and learn more about the challenges faced by different communities.

Details of meetings will be made available on the Panel's website.

Stage 2: Options for change **(October 2012- January 2013)**

This stage will commence with the release of a 'case for change' paper based on the first round of consultations and background research carried out for the Panel. It will seek to generate debate on a range of potential models for governance, structures and boundaries to meet future challenges.

Consultation will focus on key issues and ideas, and will mainly take the form of roundtables and focus groups.

Stage 3: Future directions **(February-May 2013)**

This final stage of consultation will be based on a third paper that will set out the Panel's emerging views on what sort of changes may need to be made to governance, structures and boundaries in different parts of NSW. It will include the Panel's ideas on barriers and incentives for voluntary boundary changes.

Consultation in Stage 3 will include a further round of regional meetings across NSW, and a call for written responses to the 'future directions' paper.

Stage 4: Final report **(June- July 2013)**

The Panel will submit its final report and recommendations to Government by mid-July 2013.

Call for written submissions

To start the review process the Panel would like to hear your views on the following questions:

- 1. What are the best aspects of NSW local government in its current form?**
- 2. What challenges will your community have to meet over the next 25 years?**
- 3. What 'top 5' changes should be made to local government to help meet your community's future challenges?**

To provide your views you can complete the online feedback form or download and complete a form and send it to us.

Visit: www.localgovernmentreview.nsw.gov.au

Email: info@localgovernmentreview.nsw.gov.au

Post: Independent Local Government Review Panel,
C/- Locked Bag 3015, Nowra NSW 2541

Remember the Panel is looking for sound evidence on which to base its findings and recommendations. So please make sure your submission is backed-up by accurate information. You can attach additional material if you wish.

Stage 1 - Submissions close on 14th September 2012

If you have questions about the submission process or the review please call us on (02) 4428 4140.

Disclaimer

All submissions may be made publicly available. If you do not want any part of the submission or your personal details released, because of copyright or other reasons, please indicate this clearly in your submission together with an explanation.

However, you should be aware that even if you state that you do not wish certain information to be published, there may be circumstances in which the Government is required by law to release that information (for example, in accordance with the requirements of the Government Information (Public Access) Act 2009).

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