

PROPOSAL FOR THE CREATION OF A NEW ENGLAND REGIONAL COUNCIL

May 2010

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ABBREVIATIONS

ADC	Armidale Dumaresq Council
DLG	Division of Local Government, Department of Premier and Cabinet (formerly the Department of Local Government).
GSC	Guyra Shire Council
LG&SA	NSW Local Government and Shires Associations
NESAC	New England Strategic Alliance of Councils
NEWA	New England Weeds Authority
PBP	Promoting Better Practice (review process undertaken by the DLG)
PWC	PriceWaterhouseCoopers
USC	Uralla Shire Council

DESCRIPTION OF THE PROPOSAL

This proposal has been developed in consideration of the findings and recommendations of the Review of Local Government Service Delivery in the New England Area completed in May 2010 by Mrs Gabrielle Kibble AO. The review report forms the basis of this proposal.

It is proposed that the existing local government areas of Armidale Dumaresq, Guyra Shire and Uralla Shire Council be amalgamated. A clear community of interest exists between the Councils, which also face significant threats to their long term viability if a coordinated approach to regional strategic planning and service delivery is not implemented urgently.

For the purposes of this proposal, the proposed new council is referred to as the New England Regional Council.

The recommended amalgamation would result in a local government area covering approximately 11,850 square kilometres, serving a population of approximately 36,455 people (based on ABS Estimated Resident Population by Local Government Area, May 2010).

The New England Regional Council would be in the top 15 in the State in terms of geographical area, but would be 63rd in the State in terms of population.

Councils with similar sized geographical areas generally serve much smaller populations. Examples include Warrumbungle Shire Council which, at 12,380 square kilometres, serves a population of 10,197 and Narrabri Shire Council which, at 13,031 square kilometres, serves a population of 13,507.

The proposed new council would be categorised as an Urban Regional Medium (URM) council under the Australian Classification of Local Government system.

It is proposed that the New England Regional Council area be divided into 6 wards of 2 councillors each, resulting in a governing body of 12 councillors. This is outlined in further detail in section 9.4.4. This structure has been developed to ensure that all communities within the existing Armidale Dumaresq, Guyra Shire and Uralla Shire local government areas are fully represented on the proposed new council.

1 EXECUTIVE SUMMARY

1.1 Background

In January 2010, the Minister for Local Government, the Hon Barbara Perry MP announced a review of the delivery of local government services in the New England area, following the collapse of the New England Strategic Alliance of Councils (NESAC). The Minister appointed an independent Facilitator, Mrs Gabrielle Kibble AO to examine the current and possible arrangements for improving local government service delivery in the area.

1.2 Findings

1.2.1 Breakdown of NESAC

The major driving force for the formation of NESAC was the desire of the member councils to avoid amalgamation. The review found that this contributed significantly to the breakdown of NESAC as the councils failed to agree on the nature and extent of reform required at the outset of the Alliance. This continued throughout the NESAC period and beyond. It is clear that NESAC has broken down beyond repair and that the prospect of a future Alliance is untenable.

The other primary factor contributing to the breakdown of NESAC was the Alliance's governance structure, which failed to provide sufficient mechanisms to ensure the survival of the model. Specifically, the lack of an overarching "board of governance" to control NESAC led to the convoluted decision making processes and culture of blame shifting which came to plague the Alliance.

1.2.2 Financial sustainability of the New England area councils

Section 5 of this report contains an analysis of the financial sustainability of the former NESAC Councils. It found that substantial revenue or expenditure adjustments appear inevitable for Armidale Dumaresq, Guyra Shire and Uralla Shire Councils in the long term, which may impact the level of services those councils can provide to their communities.

In contrast, Walcha Council appears to be in a reasonably sound long term financial position. However, Walcha Council faces significant pressures in relation to the management of its assets, which it needs to address as a matter of priority.

1.2.3 Community attitudes

The strongest community support for the retention of individual councils came from Uralla and Walcha Councils. Their communities expressed concerns about the implications of an amalgamation of the New England area councils, particularly with regard to the loss of local representation and jobs in rural communities.

1.2.4 Council reform proposals

Armidale Dumaresq, Guyra Shire, Uralla Shire and Walcha Councils provided the review with varying proposals for reform, which are examined in detail in section 7. However, none are considered to adequately address the deep seated divisions between the councils or the ongoing absence of long term strategic planning in the New England area.

1.3 The need for reform in local government service delivery in the New England area

The review identified several key drivers for reform in the New England area. Foremost being the clear and distinct community of interest between Armidale Dumaresq, Guyra Shire and Uralla Shire due primarily to their close geographic proximity. The long term viability of Guyra and Uralla as local centres is also intrinsically linked to the sustainability of Armidale as a regional centre.

However, unlike Guyra and Uralla Shire Councils, Walcha Council has no distinct community of interest with Armidale. Walcha Council also provides services to some areas within Tamworth Regional Council, to which it has strong links. Furthermore, Walcha Council appears to have long term viability as a stand alone entity.

Other key drivers for reform in the New England area include a lack of strong leadership and an ongoing lack of trust between the councils. It is also observed that relationships between the councils have become largely dysfunctional.

Additionally, there is a need for coordinated and consistent strategic planning in the region and a need to reduce existing inefficiencies in the areas of operations, administration and governance. Also acknowledged is the significant investment of the councils in shared resources under NESAC, and the capacity which exists for the councils to continue to utilise them.

1.4 Recommendations

In view of the findings of the review, it is recommended that the existing areas of Armidale Dumaresq, Guyra Shire and Uralla Shire Councils be amalgamated. The amalgamation should take place along the current external boundaries of the three councils. It is suggested that the new entity be called the New England Regional Council.

Given its unique community of interest factors and apparent long term viability, it is considered that Walcha Council is best placed to continue to deliver services to its community as a stand alone entity.

It is imperative that the New England Regional Council gains the trust of the community. Care will need to be taken to ensure the needs of all of its residents are met and that rural interests continue to be strongly represented. It is particularly important to implement a structure which guarantees that local representation is put in place in the early days of the new Council, given the degree public concern expressed on this issue.

It is therefore recommended that the new council area be divided into 6 wards of 2 councillors each, resulting in a governing body of 12 councillors. This structure is outlined in further detail in section 9.4.

2 THE REVIEW PROCESS

2.1 Development of the Consultation Strategy

Key stakeholders were identified in the early stages of the review process. These included the general public, ratepayers, the elected representatives and staff of the effected councils, unions, relevant community groups, local government agencies and local members of parliament.

The affected councils and county council were notified of the review in a letter from the Minister for Local Government, the Hon Barbara Perry MP. The Minister also wrote to the elected members in the State electorates of New England and Oxley and the Commonwealth Electoral Division of the New England to advise of the review.

A number of key documents relating to the delivery of local government services in the New England have been reviewed in detail:

- Submissions from Councils regarding proposals for local government structural reform (2003)
- *Proposal for the Creation of a New England Regional Council* (the Vardon report) (2003)
- *Examination of the Proposal for creation of a new New England Regional local government area* (the Boundaries Commission report) (2004)
- *NESAC Restructure Review report* – Forsyths Chartered Accountants (2009)
- *NESAC Promoting Better Practice review report* - Division of Local Government, NSW Department of Premier and Cabinet (2009)
- Submissions from Councils regarding proposals in response to the draft NESAC Promoting Better Practice review Report (2009).

2.2 Creating Public Awareness of the Review Process

Formal notification of the review process was undertaken by placement of advertisements in regional publications with significant readership in the localities covered by the review. The publications included:

- The Armidale Express
- The Armidale Independent
- The Guyra Argus
- The Northern Daily Leader
- The Walcha News.

An initial round of public notices, announcing the review and calling for public submissions appeared in the abovementioned publications between 27 January and 4 February 2010. A copy of this notice is attached at Appendix 1.

Notices regarding public meetings and subsequent reminder notices appeared in the abovementioned publications between 24 March and 10 April 2010. A copy of this notice is attached at Appendix 2.

Additionally, the four councils promoted the review process, including the call for submissions and details of public meetings in relevant council publications (eg: newsletters and mail-outs to ratepayers) and through the local press in letters to the editor and Mayoral columns.

2.3 Review of submissions and representations from councils

Each of the four councils and the NEWA were invited to make a submission to the review. Each provided a formal response, which are examined in detail in section 7 of this report.

The Mayor and General Manager of each council and the Chairperson and General Manager of the NEWA were invited to meet formally with the Facilitator at the outset of the review. These meetings took place on 10 February (Guyra Shire and Uralla Shire Councils) and 11 February 2010 (Walcha Council, NEWA and Armidale Dumaresq Council).

At these meetings, the Facilitator provided an overview of the planned review process and invited the council representatives to comment on their expectations for the review as well as their council's proposed position. The Facilitator also requested advice on appropriate community consultation strategies.

2.4 Review of public submissions

The initial round of public notices which announced the review also called for written submissions from interested parties, with a closing date of Friday 26 February 2010. However, late submissions received by the Review Office up until close of business on Friday 19 March 2010 were also accepted and considered.

Table 1: Details of written submissions

Council area of origin	Number¹
Armidale Dumaresq	24
Guyra Shire	4
Uralla Shire	108
Walcha	192
New England Weeds Authority (NEWA)	3
Outside of New England area	7
Unspecified	1
Total	339

¹ Includes formal council and NEWA submissions.

Written submissions are summarised in section 6.1.

A further 26 submissions were handed to the Facilitator at the Uralla public meeting and 3 at the Walcha public meetings. These were reviewed but are not included in Table 1 above. All reiterated points raised in earlier submissions.

A total of 80 submissions were received after 19 March 2010.

2.5 Public Consultation

Public meetings were held throughout the New England area to enable community members to participate in the most convenient and localised way possible, within the time constraints imposed on the review process. Early in the review process, each council assisted the Facilitator in identifying suitable times and venues for public consultations. The Mayor of the relevant council chaired each meeting.

Table 2 below lists the approximate attendance figures at each of the public meetings.

Table 2: Details of public meetings

Location	Meeting Date	No of attendees¹
Armidale	12/04/10	50
Guyra	12/04/10	50
Walcha	13/04/10	620
Uralla	20/04/10	900

¹ Numbers are based on meeting attendance sheets and/or head-counts conducted by the councils.

2.6 Consultation with other stakeholders

The Facilitator attended meetings with a number of other community groups, government agencies and organisations including:

- The United Services Union
- Northern Regional Land Council and local indigenous elders
- NSW Farmers Association
- Department of Premier and Cabinet (Armidale)
- Representatives of the indigenous community of Tingha.

The Facilitator briefed the Presidents of the Local Government and Shires Associations, Councillors Genia McCaffrey and Bruce Miller, and the Member for Northern Tablelands, the Hon Richard Torbay MP on the review process. The Facilitator also met with the former Mayor of Armidale Dumaresq Council, Mr Brian Chetwynd.

Other community groups were invited to address the Facilitator at the various public meetings held throughout the area in April 2010.

3 HISTORY OF LOCAL GOVERNMENT SERVICE DELIVERY IN THE NEW ENGLAND AREA

3.1 Background

3.1.1 The New England area

The New England region of New South Wales is broadly recognised as extending from the local government areas of Tamworth Regional Council and Walcha Council in the south to Tenterfield Shire, Glen Innes Severn and Inverell Shire Councils in the north. However, for the purposes of this review, the “New England area” refers specifically to the local government areas of the former New England Strategic Alliance of Councils: Armidale Dumaresq, Guyra Shire, Uralla Shire and Walcha Councils.

The New England area lies on the Northern Tablelands, a plateau which sits atop the Great Dividing Range in mid-northern NSW, the majority of which is elevated above 1000m. The area has a strong primary industry based economy and is renowned for the production of fine wool and beef cattle. Other important industries include dairy, produce and grain production as well as mining activities, timber production, viticulture and aquaculture. The University of New England, which is based in Armidale, is central to the area’s significant tertiary education industry. Additionally, there has been increasing growth in the tourism industry in recent times.

The New England Highway, which is the major inland road transport route between Sydney and Brisbane, roughly bisects the area between east and west. Other key roads such as the Gwydir Highway, the Oxley Highway and Thunderbolts Way connect the area with the surrounding Glen Innes Severn, Inverell Shire and Tamworth Regional Council areas, and council areas on the eastern seaboard such as Gloucester Shire, Clarence Valley and Port Macquarie-Hastings.

The New England area is within the State electoral district of the Northern Tablelands and the Commonwealth electoral division of New England.

3.1.2 Armidale Dumaresq Council

Armidale Dumaresq Council was proclaimed in 2000, following the amalgamation of the Armidale City and Dumaresq Shire Councils. There were estimated to be 25,696 people residing in the Armidale Dumaresq area as at 30 June 2009 (ABS Estimated Resident Population by Local Government Area, May 2010).

The Armidale Dumaresq area is centred around the town of Armidale, which had an approximate population of 19,485 at the time of the 2006 census (ABS National Regional Profile, 2006) and is regarded as the administrative centre of the New England area. The Armidale Dumaresq area extends into the surrounding rural districts, incorporating towns and villages such as Wollomombi and Hillgrove, covering an area of approximately 4,235 square kilometres.

Armidale Dumaresq Council is classified as a Level 6 (small regional urban) council under the Australian Classification of Local Governments (ACLG) system. This system classifies councils into 22 categories according to their socioeconomic characteristics and their capacity to deliver a range of services to the community.

Armidale Dumaresq Council is comprised of 10 councillors, including the Mayor who is elected by the council. The Armidale Dumaresq area is not divided into wards.

3.1.3 Guyra Shire Council

There were estimated to be 4,521 people residing in the Guyra Shire as at 30 June 2009 (ABS Estimated Resident Population by Local Government Area, May 2010). Guyra Shire is centred around the town of Guyra, which had a population of approximately 1,758 at the time of the 2006 census (ABS National Regional Profile, 2006) and is located on the New England Highway approximately 40km north of Armidale. Guyra Shire extends into the surrounding rural districts and incorporates towns and villages such as Ben Lomond, Ebor and Tingha, covering an area of approximately 4,385 square kilometres.

Guyra Shire Council is classified as a Level 16 (medium agricultural rural) council under the ACLG system. Guyra Shire Council is comprised of 6 councillors, including the Mayor who is elected by the council. Guyra Shire is divided into 3 wards.

3.1.4 Uralla Shire Council

There were estimated to be 6,238 people residing in Uralla Shire as at 30 June 2009 (ABS Estimated Resident Population by Local Government Area, May 2010). Uralla Shire is centred around the town of Uralla, which had a population of approximately 2,267 at the time of the 2006 census (ABS National Regional Profile, 2006) and is located on the New England Highway approximately 25kms south-west of Armidale. Uralla Shire extends into the surrounding rural districts and incorporates towns and villages such as Bundarra, Invergowrie, Kentucky and Wollun, covering an area of approximately 3,230 square kilometres.

Uralla Shire Council is classified as a Level 17 (large agricultural rural) council under the ACLG system. USC is comprised of 9 councillors, including the Mayor who is elected by the Council. Uralla Shire is divided into 3 wards.

3.1.5 Walcha Council

There were estimated to be 3,386 people residing in the Walcha Council area as at 30 June 2009 (ABS Estimated Resident Population by Local Government Area, May 2010). The Walcha Council area is centred around the town of Walcha, which had a population of approximately 1,623 at the time of the 2006 census (ABS National Regional Profile, 2006).

Walcha is located on the Thunderbolts Way, approximately 75km south of Armidale and 100km north-west of Tamworth. Walcha Council extends into the surrounding rural districts and incorporates towns and villages including Nowendoc, Woolbrook and Yarrowitch, covering an area of approximately 7,520 square kilometres.

Walcha is classified as a Level 16 (medium agricultural rural) council under the ACLG system. Walcha Council is comprised of 8 councillors, including the Mayor who is elected by the Council. The Walcha Council area is divided into 4 wards.

3.1.6 New England Weeds Authority (NEWA)

The New England Tablelands Noxious Weeds County Council, which trades as the NEWA, was established in 1947. The NEWA delivers noxious weed management services to the four New England area councils, across an area of approximately 18,325 square kilometres.

The NEWA is funded by contributions from its constituent councils and grants from the NSW Department of Industry and Investment. The County Council governing body consists of one elected representative from each of the constituent councils and a Chairperson. NEWA's operations are managed by a General Manager.

3.2 **Minister for Local Government's call for reform proposals from councils**

In 2003, the then Minister for Local Government, the Hon Tony Kelly MLC called on all NSW councils to consider the need for structural reform in their areas and to develop reform proposals for the consideration of the NSW Local Government Boundaries Commission. Many councils submitted proposals for amalgamations or boundary alterations.

There was little consensus between the New England area councils on the need for reform at a regional level. Uralla Shire Council submitted a proposal, arguing for a two stage reform process which would result in:

1. the amalgamation of the whole Uralla and Walcha Shire Councils into a Southern New England Shire Council, and
2. alterations to the boundaries of the new Council over the course of the Council's first term, to incorporate geographically close localities within the Parry, Manilla, Barraba, Walcha and Bingara council areas.

Uralla argued that the new Council should retain a rural focus and not include any city based areas, as an urban centred council would find it more difficult to satisfy the needs of remote villages and rural properties.

In contrast to Uralla Shire's position, Walcha Council's proposal argued for the expansion of its existing boundaries into the areas of Woolbrook, Niangala, Bendemeer and some southern areas in Uralla Shire. Walcha Council argued that these areas shared a significant community of interest with the town of Walcha and that it already provided many services to these communities.

Armidale Dumaresq Council rejected Uralla Shire's proposal but expressed willingness to be involved in a regional review process, which was also announced by Minister Kelly concurrently to his call for reform proposals.

Guyra Shire Council opposed any proposal for amalgamation but recognised that minor boundary alterations to its Shire may be appropriate. At this time Inverell made a submission proposing to acquire the areas surrounding Bundarra (in Uralla Shire) and Tingha (in Guyra Shire). However, this was not supported by the two affected councils.

3.3 The Vardon Report

In 2003, Minister Kelly also appointed Mr Chris Vardon to undertake a review of the structure of local government in the Peel Region. Mr Vardon was asked to consider local needs and the provision of local government services on a regional or natural resource catchment basis.

Mr Vardon put forward five proposals for the Peel Region, which eventually resulted in the establishment of the Upper Hunter, Tamworth Regional, Gwydir and Liverpool Plains council areas. Mr Vardon also recommended the amalgamation of Armidale Dumaresq, Guyra, Uralla and Walcha Councils into a New England Regional Council, with the new council's headquarters to be based in Armidale. Mr Vardon concluded that these areas had strong functional links to the City of Armidale, particularly in the case of the towns of Guyra and Uralla and their surrounding areas.

However, Mr Vardon also concluded that sections of Guyra Shire and Uralla Shire shared distinct communities of interest outside of the proposed New England Regional Council area. Accordingly, Mr Vardon proposed that the towns of Bundarra and Tingha and surrounds be incorporated into Inverell Shire Council.

In early 2004, in response to the findings of the Vardon report, Armidale Dumaresq, Guyra Shire, Uralla Shire and Walcha councils reached an agreement to pursue the formation of a strategic alliance as an alternative to amalgamation. The Alliance, which came to be known as the New England Strategic Alliance of Councils (NESAC) is discussed in section 4 below.

3.4 Boundaries Commission report

After considering Mr Vardon's report, Minister Kelly referred the New England Regional Council proposal to the NSW Local Government Boundaries Commission for examination. The Boundaries Commission released its findings in March 2004, recommending the amalgamation of the four councils and the boundary alterations as proposed by Mr Vardon.

The Commission also expressed concerns about the NESAC proposal and did not support it as a means of achieving reform. The Commission further recommended that, in the event that the New England Regional Council proposal did not go ahead as a result of the implementation of NESAC, the Minister review the Regional Council proposal within 12 months, particularly with regard to the success of otherwise of the proposed NESAC.

4 NEW ENGLAND STRATEGIC ALLIANCE OF COUNCILS (NESAC)

4.1 The history of NESAC

4.1.1 Establishment

Armidale Dumaresq, Guyra Shire, Uralla Shire and Walcha Councils proposed NESAC as an alternative reform model based on a shared services Alliance where each member council maintained its own autonomy. Under the proposal each Council would set its own budget, its own schedule of works, its own revenue policy and its own local operating policies. Communities would also continue to have access to local representation.

The proposed Alliance would cover council areas with a combined population of around 39,000 people and an annual budget in excess of \$55 million.

Despite the reluctance of the Boundaries Commission to support the model, the then Minister for Local Government, the Hon Tony Kelly MLC approved a trial of the Alliance in 2004, after apparent strong lobbying from the affected councils. At the time, the Minister and Department of Local Government (DLG) championed the trial as a new and potentially innovative model of local government reform which could possibly be used by other councils if successful. Expectations for the Alliance were high from the outset.

The Minister's approval stipulated a 12 month trial period followed by a review of the Alliance, in line with the recommendations of the Boundaries Commission. There is evidence to suggest that the Minister and Department took an active approach to the monitoring of NESAC in the first 12 months of its life. However, the proposed 12 month review did not eventuate and no review of NESAC was conducted by the DLG until 2009.

It is unclear why this occurred. However, it would be reasonable to conclude that the DLG was not entirely proactive in its approach to NESAC in its middle stages, particularly in light of the various complications and developments that arose in subsequent years.

4.1.2 Implementation

The NESAC Charter

A formal Charter was established to serve as a "working agreement setting out arrangements for the conduct and management of shared services provided by one or more member organisations" (NESAC Charter, p3). The original Charter was agreed to by the member councils in February 2004 but was reviewed and updated over the life of the Alliance.

The Charter established a wide range of governance arrangements including: the goals of the Alliance, a constitution, the establishment of an Advisory Committee, organisational structure, lines of responsibility/accountability, arrangements for the payment of Alliance staff and for the billing and charging of shared services, processes for dispute resolution and quality assurance. The Charter also established policies on communications, occupational health and safety, code of conduct and delegations of authority.

Advisory Committee

The Advisory Committee membership consisted of the Mayor, Deputy Mayor and General Manager of each member council and the Chairperson and General Manager of the NEWA. A chairperson was appointed on an annual basis, with the role rotated amongst members.

The Advisory Committee initially met on a bi-monthly basis. However, the frequency of meetings decreased over the course of the Alliance, culminating in a period in 2008 where the Advisory Committee did not meet for over 6 months.

The Charter set out that the role of the Advisory Committee was to deal with Alliance business and to provide a forum for discussion between the member organisations. The Advisory Committee was also charged with identifying areas of potential savings within the Alliance and to develop a strategic plan for its implementation.

However, the Advisory Committee did not serve as a governing “board” for NESAC and had no powers to make binding decisions. Rather, the Advisory Committee voted on recommendations to be taken back to the individual councils for endorsement.

Structure of the Alliance

NESAC was never established as a legal entity but rather as a non-binding shared services charter between the four member councils and the NEWA, the latter of which was a non-voting member.

In the early stages of the Alliance, a cost-benefit mapping exercise was undertaken. This led to the development of business cases which identified opportunities for the operation of shared services in 14 areas: community services, customer service, finance and budgets, human resources, information technology, land information and GIS, loans and investments, internal audit and risk management, plant and fleet operations, records, regulatory and planning functions, review, supply and procurement, and works operations.

The business cases indicated that, on a conservative estimate, \$22 million worth of benefits would be delivered to the member Councils over an eight year period. However, when “intangible” benefits such as the efficiencies gained from shared records and asset management systems were taken into consideration, it was estimated that the total benefit would be closer to \$40 million.

Delivery of shared services

The business cases outlined a shared services organisational structure to deliver services to member Councils. The General Managers of each council and the NEWA were given portfolio responsibilities for the delivery of specific shared services. Each General Manager was to be accountable to their own council for the delivery of local services, as well as to the Advisory Committee and each other for the delivery of shared services across the shared services teams.

Shared services teams were established comprised of staff members from all of the councils. Initially it was envisaged that approximately 90 of the total staff of over 400 in the four Councils would fill positions in these teams.

4.1.3 Evolution and performance of the Alliance

Abandonment of some shared services

In the course of negotiating the final structure of the Alliance, the member councils agreed to abandon shared services in several areas including planning and engineering works. A “cooperative delivery model” was agreed to, under which these services would continue to be delivered locally by individual councils while some higher level technical planning and engineering services would be delivered as a shared service by the Alliance. In effect, this created a duplicate delivery structure.

Furthermore, the sharing of community services was abandoned altogether, apparently due to a fear from some councils that the delivery of such services by external councils would not be looked upon favourably by their local communities.

Common information and communication technology platform

The Alliance developed a common information technology software platform for all of its operations and a wide band telecommunications network between the councils. This was collectively known as the information and communication technology (ICT) system. Its implementation was coordinated by Armidale Dumaresq Council.

Several significant teething problems were experienced in the implementation of the ICT system, which took much longer than originally anticipated and at a much higher cost. Issues also arose with regard to the quality of data conversion from previous systems. As a result, all councils experienced significant delays in submitting their annual financial reports. Changes to the financial reporting system were subsequently implemented to address these issues.

Other developments

A common salary system was implemented across the councils in 2006. Between 2006 and 2009, the Alliance managed a major process of structural and organisational change. A senior staff member was appointed to project manage the process and a group of team leaders from across the councils were appointed to interim positions to implement new systems and procedures. However, staffing issues appeared to have had some impact on service delivery during this period, with a number of vacancies remaining unfilled across the Alliance as late as mid 2008.

Review of the Alliance

Despite a requirement in the Alliance Charter for the outgoing chairperson and secretary of the Advisory Committee to undertake annual reviews of the Alliance’s operations, none were conducted until 2008. This review, authored by the General Manager of Armidale Dumaresq Council, identified significant progress in the implementation of 11 of the original business cases. However, the review also highlighted a lack of progress in other areas, particularly in a number where significant potential for future gains were originally predicted.

The internal review highlighted the abovementioned problems with the integration of the ICT system as being integral to the delay in the delivery of original benefits of the Alliance. The review also argued that the delays were further compounded by difficulty in filling positions and resistance to change from individual councils.

4.1.4 Breakdown of the Alliance

In 2009, the DLG undertook a review of NESAC as part of its Promoting Better Practice (PBP) program. The review aimed to identify what could be learnt from the approach adopted by the Alliance and to provide feedback to NESAC and its members, so they could identify and take advantage of improvement opportunities.

During the course of the review two significant events occurred. In February 2009, Walcha Council resolved to withdraw from NESAC and in August 2009, Uralla Shire Council resolved to not renew its membership of NESAC, effectively withdrawing from the Alliance. This effectively signalled the end of NESAC as an entity, although both Armidale Dumaresq and Guyra Shire Councils continued to express their support for a shared services approach.

The review identified a number of problems with NESAC, particularly with regard to its governance structure. Ultimately the DLG review concluded that the councils appeared to be unable to agree to a workable and effective way forward, be it in the form of a revised version of the Alliance or a new cooperative model. The DLG review recommended that an independent Facilitator be appointed by the Minister to review local government services in the New England area and to identify options for reform.

4.2 **Why NESAC failed**

An examination of the failure of NESAC falls outside of the terms of reference of this review. However, the following information is provided as a means of setting the context for later findings.

During this review, the Mayor of Walcha Council expressed the view that the Alliance broke down because it failed to strike a balance between local services, shared services and cooperative services. This hints at the more complex reasons for the breakdown of the Alliance, which have been examined in detail in the Division of Local Government, Department of Premier and Cabinet (DLG) *Promoting Better Practice Review report* (January 2010) and the Forsyths Chartered Accountants' *"NESAC restructure review"* (July 2009).

These reports reach a large degree of consensus on why the breakdown occurred, and require closer examination.

Lack of commitment to the Alliance model

It is apparent that a lack of genuine commitment to the Alliance model contributed to the breakdown of NESAC. All of the former NESAC councils have acknowledged that the desire to avoid an amalgamation was a significant reason for their entering the Alliance.

The DLG report highlighted the NESAC Advisory Committee's 2008 decision to alter the Charter to require the Committee to meet on an "as needs basis or at least four times a year" (as opposed to the previous requirement to meet bi-monthly) as a further example of the lack of commitment to the Alliance model.

The lack of robust governance arrangements

The governance structure of NESAC failed to provide sufficient mechanisms to ensure the survival of the model. The lack of an overarching “board of governance” structure to control NESAC contributed significantly to its breakdown. This led to the convoluted decision making processes and culture of blame shifting which came to plague the Alliance.

NESAC failed to address important governance issues including legal liability, ownership and control of assets, and arrangements upon the termination of the agreement at the end of its term or the withdrawal of a member. The Alliance lacked formal, well-structured service level agreements to provide accountability and ensure parties were not exposed to legal, financial and reputational risks.

This lack of accountability was compounded by a complex governance model. The DLG report found that the NESAC Charter did not deal with key aspects of governance and the Alliance’s governance framework proved to be too complex and difficult to understand and administer.

Furthermore, performance management arrangements for General Managers were largely ineffective and did not promote accountability for their portfolios. This flowed down to the staff level as General Managers were unable to hold staff within their portfolio areas accountable for their performance (if they were in a different council area).

NESAC was also hindered by a complex and confusing organisational structure which did not encourage decision making and delegation. For example, situations arose where staff in the same shared services team were employed by different councils, or the managers of those teams were employed by one council but had staff reporting to them from one or more other councils.

The DLG report also notes confusion at the staff level arising from a lack of published or easily accessible policies, which resulted in confusion on behalf of some staff and lead to the inconsistent application of policies by others. The Alliance was also typified by a lack of standardisation of forms and reporting practices, including those of the NESAC Advisory Committee.

Lack of adequate planning

The initial decision to form NESAC was not informed by a robust strategic planning process and as a result there was no consensus between the councils on what form the reforms should take. While it is acknowledged that the initial development of high-level business cases did constitute a useful goal setting exercise, there is a concern that they did not provide an adequate foundation on which the Alliance could be developed.

The DLG report found that there was no master plan for the implementation or management of the Alliance. The DLG report apportioned some blame in this regard to the nature of the NESAC Charter which documented the strategic intent of the Alliance but was not a strategic plan. Project and operational plans were also not developed to guide the implementation of business cases.

There is also evidence to suggest a lack of subsequent planning compromised the original intention of the Alliance and led to a lack of clarity for members with regard to the nature of its structure.

The DLG report also highlighted that in some cases it appears that original business cases were modified to facilitate agreement between the member councils, thus further compromising their ability to deliver intended results.

Lack of trust between members

A significant lack of trust at both a senior management and political level was another key factor in the breakdown of the Alliance. This appears to have increased as the Alliance continued.

This distrust was directed for the most part at Armidale Dumaresq Council, which has been largely discredited in the eyes of the smaller councils on a number of issues including the lack of political harmony in elected council and the influence this had on management. Additionally, there was significant resistance from the smaller councils to the comprehensive shared services model championed by Armidale Dumaresq Council, largely arising from the fear of a loss of control and autonomy.

However, the influence of interpersonal issues at a senior management and political level on the functioning of NESAC must also be recognised, particularly in the later stages of the Alliance.

Shared information and communication technology (ICT) platform

The Forsyths report highlights the significant problems associated with the implementation of a common information and communication technology (ICT) platform as being a key factor in the breakdown of NESAC. During the Alliance, both Uralla Shire and Walcha Councils expressed concerns that the ICT system was in many ways surplus to their needs and rallied against the financial contributions which they were required to make towards the system. Both councils have since identified increasing costs associated with managing the ICT platform as a significant factor in their decision to leave the Alliance.

The DLG conducted a review of the ICT system in 2009, finding significant problems with regard to project management, governance and risk management aspects of the system's implementation. However, the DLG report also acknowledges the subsequent progress made by NESAC in implementing information technology infrastructure. Additionally, the Forsyths report concluded that the ICT system has since overcome these issues and now represents a quality system on which further efficiencies in service delivery can be developed.

This review has been unable to determine a reliable estimate of the overall cost of the implementation of the ICT system to the former NESAC councils. However, it would appear that the Alliance's original cost estimate of approximately \$1.5 million has been far exceeded, largely as a result of the difficulties experienced in implementing of the system.

Other factors

The Forsyths report also outlines a number of other factors as contributing to the breakdown of NESAC including delays in filling key positions in the revised structure, and limited resources for the implementation of an ambitious reform.

4.3 What NESAC did achieve

While the New England area councils have agreed that NESAC was unable to deliver many of its goals, and as a structure is most definitely beyond salvage, all acknowledge that NESAC did result in a number of successes.

The initial business planning process undertaken for the Alliance appears to have been relatively comprehensive. However, while this was useful for identifying the potential benefits of a shared services approach, at best it can only be viewed as one key step in a more thorough planning process which did not eventuate.

Since the breakdown of NESAC the four member councils have largely reverted to the autonomous delivery of services to their communities. However, individual councils have also signified their desire to continue with shared service delivery in several areas seen to have resulted in greater efficiencies under NESAC.

These have primarily focussed on the sharing of planning functions as well as some cross boundary works functions. However, Uralla and Walcha Councils have also outlined a number of other shared services which they wish to continue to pursue with Armidale Dumaresq Council including asset management services, plant and fleet management services, and preconstruction work.

The DLG report has also noted that, despite initial teething problems, the implementation of the NESAC ICT system appears to have been successful and has set the foundation for future efficiencies in human resource management, records management, planning and financial reporting. However, the dissenting views of Uralla Shire and Walcha Councils with regard to the appropriateness of the ICT system to their needs are also noted.

The NESAC experience has also provided member councils with important lessons about collaborative arrangements between councils particularly with regard to the detrimental impact of complex governance arrangements, and the motivation of the councils for entering into such arrangements.

Uralla Shire Council has argued that the successes and lessons learnt from NESAC should not be abandoned altogether as this would not only penalise the community but also send a negative message to other councils pursuing innovative models. This view point is acknowledged. However, the prolonged nature of the reform process in the New England area and the ongoing inability of the four NESAC councils to achieve consensus on the nature of reform required renders this argument invalid.

Furthermore, the breakdown of NESAC should provide the DLG with sufficient information to update the guidance it provides to councils proposing to undertake innovative reform.

5 FINANCIAL SUSTAINABILITY OF THE NEW ENGLAND COUNCILS

5.1 Background

The financial sustainability of local councils is the source of much ongoing debate. A number of studies have assessed the long term viability of local government in Australia. The more recent studies include the 2006 PriceWaterhouseCoopers (PWC) *National Financial Sustainability Study of Local Government* report and the 2006 *Independent Inquiry into the Financial Sustainability of NSW Local Government* conducted by Percy Allen.

The PWC report was commissioned by the Australian Local Government Association. It concluded that, without reforms, up to 30% of Australian councils might not be sustainable. The report identified a growing backlog in infrastructure renewal work resulting from a growing gap between the revenue base of councils and the increased costs they face in renewing and maintaining infrastructure and in delivering an ever increasing range of services to their communities.

Crucially, the PWC report found that more financially viable councils generally have a more reasonable scale of operations with “stronger rates income and economic bases with more sophisticated asset management and financial governance systems”. Less financially viable councils are often smaller, usually have constrained revenue streams, are less able to take advantage of economies of scale, and have weaker asset management and financial capabilities (all above references from PWC report overview).

The Allen report, commissioned by the Local Government and Shires Associations of NSW (LG&SA) also identified a significant backlog in infrastructure renewal in NSW councils.

5.2 Assessment of the financial sustainability of the New England councils

Following the withdrawal of Walcha Council from NESAC, Armidale Dumaresq Council commissioned Forsyths Chartered Accountants to conduct a review of the structure of NESAC. Forsyths are the auditors used by all of the New England area councils in their annual financial reporting.

Forsyths' *NESAC Restructure Review 2009* assessed the financial sustainability of Armidale Dumaresq, Guyra Shire and Uralla Shire councils using a rating system which considered factors including: the quality and age of each council's property, plant and equipment, the quality of their organisational resources, whether the councils had historically run operating surpluses (before including revenues of a capital nature), whether the councils had adequate liquidity and revenue flexibility, and the quality of the key decision makers including the elected representatives, the chief executive and senior management (Forsyths report, p8).

The review found that “the three councils will continue to struggle to maintain and replace assets and build reserves to an acceptable level and at the same time provide an appropriate and cost effective level of service to their communities”. Forsyths concluded that “the councils are not financially sustainable without significant reform or improved revenue generation capacity” (Forsyths report, p14).

An overview of the current financial positions and sustainability of the New England area councils is presented below. However, a more detailed assessment of the financial sustainability of the New England councils is contained in Appendix 3. The information is based on information provided by the DLG and the findings of the Forsyths review.

5.2.1 Armidale Dumaresq Council (ADC)

ADC has recorded operating deficits after capital grants in three of the last five financial years with a cumulative loss of \$10.134 million. In 2008/09, ADC recorded an operating deficiency of \$1.223 million, including the early payment of the first instalment of the Federal Government financial assistance grant (FAG) for the 2010 year of \$0.956 million.

If ADC continues to record operating deficits, the continued losses will erode Council's cash position meaning the Council will not be able to provide for the replacement of its assets as they are being used. The Forsyths report found that ADC's long term asset renewal proposals are positive but that their implementation would result in an unacceptable reduction in liquidity levels and cash reserves (Forsyths report, p9).

ADC derived 39% of its income from rates and annual charges in 2008/09, which is above the industry standard of sustainable income of 30%. This reflects the long term trend for the council, which has on average derived 44% percent of its income from rates and annual charges since 2000/01. However, there has been a steady drop off in ADC's rating and annual charges income over the period, which fell by approximately \$600,000 between 2007/08 and 2008/09.

ADC is considered to have manageable grant income ratios. Its proportion of income derived from grants has averaged 21% since 2000/01, reaching a low of 17% in that year. Councils who derive more than 30% of their income from grants are seen to be reliant on grant income, which can be problematic as that type of income is much more susceptible to fluctuations in government policy and economic circumstances.

With regard to expenditure, like all of the New England area councils ADC has incurred increased employee costs over the NESAC period and beyond. However, at an average of 36% of income since 2000/01 these are considered to be manageable.

However, the level of debt currently carried by ADC is relatively high in comparison to the other New England area councils. Forsyths has cautioned the council to carefully address the issue of long term debt, warning in its review of NESAC that ADC has limited capacity to borrow in the short term (Forsyths Review, p12).

ADC's borrowing costs have averaged 3% of annual expenditure since 2000/01, peaking at 5% in 2006/07. This is higher than the 1% average of the other New England area councils. ADC's outstanding rates and annual charges over the last three financial years also highlight a poor record of debt control. However, it is noted that ADC incurred significant costs associated with the establishment and management of NESAC, particularly in the case of the shared information and communication technology system.

In 2008/09, ADC's liquidity and cash flow indicator, the unrestricted current ratio was 2.18:1, marginally above the industry benchmark of 2:1. This indicates that, after excluding all restricted assets and liabilities, ADC's working capital is adequate. However, there is a concern that, in recognising its Collateralised Debt Obligations investments as current assets, ADC may be overstating the liquidity and health of its finances to some degree.

5.2.2 Guyra Shire Council (GSC)

GSC has achieved operating surpluses after capital grants in four of the past five financial years. In 2008/09, GSC recorded an operating surplus of \$1.005 million, including the early payment of the first Federal Government FAG instalment for 2010 of \$0.473 million.

Despite these short term surpluses, GSC is considered to be highly reliant on grant funding, having derived an average of 49% of its income from grants since 2000/01. GSC's rates and annual charges income is considered only marginally sustainable, having remained relatively steady at close to the long term average of 31% since 2000/01. GSC also derives a very small proportion of its income from user charges and fees, on average of only 9% since 2000/01.

The Forsyths' review concluded that the size of Guyra Shire's surplus is likely to be insufficient to fund both infrastructure renewal and build reserves (Forsyths report, p11). It also concluded that GSC's asset renewal proposals are unsustainable over the longer term, particularly when the existing backlog is taken into account (ibid, p9). GSC's actual asset maintenance spending is also not matching the required estimated funding.

However, GSC's employee related costs are the lowest of all the New England area councils, averaging 32% of total expenditure since 2000/01. Similarly, less than 1% of GSC's total annual expenditure has gone to servicing borrowing costs. GSC carries a reasonably large debt burden relative to its level of income (\$1,030 million in 2008/09). However, its 2008/09 debt service ratio of 3.41% shows that it can comfortably meet existing debt obligations.

In 2008/09, GSC's liquidity and cash flow indicator was good at 3.39:1. However, Forsyths has expressed concerns about the Council's lack of significant reserves will limit its capacity absorb financial shock in the long term. There is also a concern that, in recognising its Collateralised Debt Obligations investments as current assets, GSC may be overstating the liquidity and health of its finances to some degree.

5.2.3 Uralla Shire Council

USC has recorded an operating surplus after capital grants for the past five financial years, albeit only small ones in 2006/07 and 2007/08. In 2008/09, USC recorded an operating surplus of \$3.028 million, including the early payment of the first Federal Government FAG instalment for 2010 of \$0.484 million. Despite these surpluses, questions remain about USC's long term sustainability, particularly with regard to income self sufficiency.

USC is considered to be highly reliant on grant funding, having derived an average of 54% of its income from grants since 2000/01. This reflects increasing moves by USC towards the delivery of "non-core" services funded by specific grants, particularly community services such as aged care and community transport. The ability of USC to continue to deliver such services would be severely compromised in the absence of such funding.

Additionally, USC's rates and annual charges income is considered only marginally sustainable, having remained relatively steady at close to the long term average of 31% since 2000/01. USC also derives a very small proportion of its income from user charges and fees, averaging only 11% since 2000/01.

USC's auditor Forsyths has also raised concerns about the Council's ability to continue to deliver services to the community in view of its limited cash reserves. Forsyths noted in its 30 June 2008 audit report that "Council's 2009 budget provides for a cash surplus for the General Fund. However, this surplus will only be achieved by Council continuing to limit its capital expenditure and also reviewing some of its services and community support activities" (Forsyths 30 June 2008 Audit report of Uralla Shire Council, p6).

It is noted that USC's actual asset maintenance spending has been marginally greater than the estimated funding in four of the past five financial years. However, the Forsyth's review concluded that the size of USC's surplus is likely to be insufficient to fund both infrastructure renewal and build reserves and that USC's projected asset renewal ratios are positive but will come at the expense of poor liquidity and low reserves.

USC has consistently incurred the highest employee related costs of all of the New England area councils, at an average of 46% since 2000/01. There are concerns about the Council's ability to maintain these costs as it would appear that a number of positions may have been incorporated into the council's permanent staffing structure despite being funded by grant income. Such positions would therefore be particularly vulnerable to changes in grant income.

However, less than 1% of USC's total annual expenditure has gone to servicing borrowing costs. USC carries a reasonable level of debt relative to its level of income (\$2.025 million in 2008/09). However, USC's 2008/09 debt service ratio of 2.90% shows that it can comfortably meet existing debt obligations.

In 2008/09, USC's liquidity and cash flow indicator was acceptable at 3.62:1. However, in previous years this indicator has fallen well below the 2:1 threshold of the industry standard. The 2008/09 result may reflect deferred debt servicing costs arising from the refinancing of loans during that period. There is also a concern that, in recognising its Collateralised Debt Obligations investments as current assets, USC may be overstating the liquidity and health of its finances to some degree.

Forsyths have concluded that in the long term USC will have relatively poor working capital, will be unable to fund any significant reserves and will therefore not have the capacity to absorb financial shocks.

5.2.4 Walcha Council

Walcha Council has recorded relatively small operating deficits after capital grants for the previous two financial years. In the three previous financial years it achieved operating surpluses after capital grants. In 2008/09, Walcha Council recorded an operating deficit of \$0.468 million, including the early payment of the first Federal Government FAG instalment for 2010 of \$0.484 million.

Walcha Council is considered to be borderline reliant on grant funding, having derived an average of 32% of its income from grants since 2000/01. However, Walcha Council has derived an average of 34% of its income from rates and annual charges and 31% from user charges and fees since 2000/01. This indicates a relatively sound level of long term income stability for the council.

Walcha Council has not met its estimated required asset maintenance spending for the past five years, often experiencing significant shortfalls. Similarly, Walcha Council's estimates regarding the cost of bringing its assets to a satisfactory standard remain high, indicating significant ongoing cost pressures in this area.

Like its other former Alliance partners, Walcha Council incurred increased employee costs over the NESAC period and beyond. However, at an average of 33% of income since 2000/01 these are considered to be manageable. Walcha Council also carries a very small amount of debt (\$142,000 in 2008/09) as it has done throughout the NESAC period. Its 2008/09 debt service ratio of 0.65% shows that it can very easily meet existing debt obligations.

In 2008/09, Walcha Council's liquidity and cash flow indicator, the unrestricted current ratio was good at 4.02:1. This indicates that Walcha Council's working capital remains adequate. However, there is also a concern that, in recognising its Collateralised Debt Obligations investments as current assets, Walcha Council may be overstating the liquidity and health of its finances to some degree.

5.3 Conclusions

Armidale Dumaresq's current financial position is of concern. Despite a reasonably stable revenue base of \$41 million for 2008/09, the Council still carried \$24 million in debt as at 30 June 2009 which will need to be serviced in future years. This will have an impact on ADC's ability to deliver services to the community in the medium term. Additionally, if Council continues to record operating deficits, the losses will erode its cash position, which will lead to significant pressures on the renewal of assets.

Guyra Shire's financial position appears to be relatively sound in the short term. However, it faces significant pressures in the longer term with regard to income stability and its ability to maintain deteriorating assets, particularly in the event of unforeseen economic instability.

Similarly, Uralla Shire's current financial results and benchmarks indicate that the Council is in reasonable financial shape in the short term. However, Uralla faces similar long term pressures as Guyra Council, with regard to income stability and asset management. Uralla also faces high ongoing employee costs, some of which appear to be met from grant income and may therefore be vulnerable to changes in grant funding.

Urgent measures to improve the income base of Guyra and Uralla Councils appear warranted. However, the options for the councils to do so are limited, given their small size. Furthermore, as the 2009 Forsyths review concluded "even significant increase in rates and charges will not necessarily have a substantial impact on the operating result [of Guyra and Uralla Councils], particularly if Government's claw back grants funds over the coming years" (Forsyths review, p13).

In the long term, substantial revenue or expenditure adjustments appear inevitable for Armidale Dumaresq, Guyra Shire and Uralla Shire Councils. If the finances of these councils are not put onto a sustainable footing the level of services they can provide to their communities may be impacted. It is in the best interests of their communities to ensure that urgent measures are taken to address this.

In contrast, Walcha Council appears to be in a reasonably sound long term financial position. This is underpinned by a sustainable income base comprising rates and annual charges as well as user charges and fees. Together, these sources have consistently accounted for more than 50% of the Council's income since 2000/01. Additionally, Walcha has small and manageable debt levels and relatively low employee costs.

However, Walcha Council also faces significant pressures in relation to the management of its assets and should prioritise urgent asset management planning to address this.

6 COMMUNITY ATTITUDES

6.1 Summary of public submissions

6.1.1 Armidale Dumaresq Council (ADC)

A total of 23 submissions were received from the members of the public in the ADC area. A number of the submissions were critical of the Council's decision making processes, particularly a perceived lack of transparency and community involvement. A number of submissions also raised concerns about the Council's financial position, especially with regard to its exposure to losses arising from investments and debt.

Other submissions highlighted problems faced by ADC during the NESAC period. These primarily related to the Alliance's complex and expensive management structure and the implementation of the NESAC information and communication technology (ICT) system. However, two submissions commended the NESAC ICT system as a key component of effective service delivery in the region.

One submission contained a petition signed by 28 residents of Wollomombi, supporting Council's public position of voluntary amalgamation and recommending that a system of local area committees be established to ensure representation for rural communities. This position was supported in two other submissions. However, another submission argued for a ward based system to achieve an appropriate balance of rural and urban representation.

Another submission supported amalgamation as a means to overcome parochialism and to put an end to the current waste and duplication of high end administration and management which comes at the expense of frontline services.

Several other submissions supported voluntary amalgamation but offered differing opinions on the nature of such an arrangement. A number called for the appointment of an Administrator during the implementation of a new council. One submission called for the establishment of an implementation committee comprising a number of existing New England area councillors to oversee a phase-in of administration leading up to the 2012 council elections.

One submission proposed a "sustainable amalgamation", which would see the traditional amalgamation model adapted to ensure the protection of local employment and revenue in the smaller shires. The submission recommended that local representation be ensured by way of a ward system and that a central Chief Executive Officer be appointed to run the new council, supported by four General Managers. These positions would be based in the existing council chambers of each of the four councils, which would be retained as service centres in the towns. The submission also proposed that revenue derived from each council be held in a Community Trust and be allocated back to expenditure in the community from which it was drawn.

One submission opposed amalgamation on the grounds that purported financial savings have rarely eventuated in past council mergers.

6.1.2 Guyra Shire Council

Only three public submissions were received from the Guyra Shire Council area. One was from a former councillor who expressed a long standing opposition to amalgamation. Another submission opposed amalgamation due to fears of loss of representation for small communities. However, the latter submission stated that if amalgamation was to be recommended, a ward system would be best placed to ensure local representation.

This submission also supported Guyra Shire's proposal for a shared executive model and stated a belief that the NESAC ICT system is working well and can now provide the efficiencies it promised, despite its initial teething problems.

Another submission opposed amalgamation on the basis of fears that rural rates would be channelled into regional initiatives centred largely on Armidale. The submission also highlighted issues to be considered by an amalgamated council, including ensuring local representation and the ongoing maintenance of rural roads and bridges.

A submission was received from Inverell Shire Council expressing a desire for the area surrounding the town of Tingha to be transferred to its control. Inverell Shire Council cited existing community of interest factors as being the driver for this suggestion. No submissions were received from Tingha residents.

6.1.3 Uralla Shire Council

A total of 107 submissions were received from the Uralla Shire Council area. The majority of these expressed support for the Council to remain a stand alone entity. A small number also expressed support for the Council's proposal to continue to outsource selected services from surrounding councils and the private sector.

The majority of submissions expressed fears about the loss of local services, representation and jobs. Another common fear was that the Shire's rural areas would be largely neglected if Uralla is forced to become part of a large, urban based council.

A number of submissions praised Uralla Shire Council's current community consultation practices, particularly with regard to environmental and sustainability issues. However, one submission expressed concerns that the elected council was not diverse enough to be truly representative of the community and that existing meeting practices discouraged community participation.

A recurring theme of Uralla Shire Council submissions was a suspicion that Armidale Dumaresq Council is engineering a takeover of surrounding rural councils in order to seize their revenue and assets, which would then be used to pay off debts. Many submissions expressed a belief that Uralla Shire Council's financial position is strong and viable in the long term. A number of submissions expressed the view that the Council's financial standing had improved since it left NESAC.

Two submissions supported the inclusion of Uralla Shire in an amalgamated regional council. One submission supported the amalgamation of the rural areas of Uralla Shire with Walcha Council and the town of Uralla with Armidale Dumaresq Council. A small number of other submissions supported amalgamation with Walcha Council as a non-preferred fall-back option.

One submission proposed the break-up and re-distribution of the whole of Uralla Shire Council into Armidale Dumaresq, Guyra Shire, Inverell Shire and Walcha Councils based on geographical commonalities. Another submission called for the establishment of a separate corporate entity to manage the operations of the NESAC, with decision making remaining with the individual member councils.

Another Uralla Shire submission suggested that Armidale and Dumaresq be de-merged and that rural areas within Dumaresq be re-allocated to Guyra, Uralla and Walcha, leaving Armidale with an urban focused council.

A submission was received from Inverell Shire Council expressing a desire for the area in and around the town of Bundarra to be transferred to its control. Inverell Shire Council cited existing community of interest factors as being the driver for this suggestion. A number of submissions from Bundarra residents also supported this position. One submission expressed concern about the lack of services and facilities provided to the Bundarra by Uralla Shire Council.

Submissions from other Bundarra residents, including a petition signed by 67 residents, expressed a desire to remain part of Uralla Shire Council, with a move to Inverell Shire being seen as preferable in the case of a forced amalgamation with Armidale.

6.1.4 Walcha Council

A total of 191 submissions were received from the Walcha Council area. The submissions were virtually unanimous in their support for Walcha Council to remain a stand alone entity with only one dissenting voice expressing dissatisfaction with the Council and calling for the appointment an administrator. One submission included a petition signed by over 500 local residents calling for the Minister for Local Government to confirm Walcha Council as a stand alone entity.

The submissions were very consistent, praising Council for the high level of services and support it provides to the local community, including those in towns in neighbouring council areas such as Niangala and parts of Woolbrook.

The submissions also highlighted the geographical isolation of the Walcha Council area from the other three councils and a lack of a distinct community of interest with Armidale. Submissions variously described Tamworth and coastal towns such as Port Macquarie as being significant centres of community interest for Walcha residents. However, many submissions stressed the point that the Walcha Council area was largely self-reliant and the town of Walcha itself provided the most significant centre for the local community.

The majority of submissions supported Walcha Council's argument that it has a long standing position of financial security, is financially viable in the long term and has a long term strategic vision for the community. Various examples were routinely highlighted in support of the latter claim, including the long term strategic planning undertaken by council with regard to the local timber industry and various council driven initiatives to promote tourism in the region such as the Open Air Gallery and extensive street scaping in the Walcha central business district.

The majority of submissions expressed fears of a loss of local services and representation in an amalgamated council. These centred on the belief that the needs of rural areas would be largely neglected if they were forced to be part of a large an urban based council.

Many submissions also expressed fears that local jobs would be lost, to the detriment of the area. A number of submissions cited a perceived lack of success of amalgamations in other council areas and other sectors.

Submissions were also received from the Namoi Regional Organisation of Councils and the Federal Member for the New England, the Hon Tony Windsor MP, supporting the continuation of Walcha Council in its current form.

6.1.5 New England Weeds Authority (NEWA)

Submissions were received from the Mayor of Gunnedah Shire Council and the Executive Officer of Southern New England Landcare Ltd supporting the retention of the NEWA as a stand alone entity. The immediate former General Manager of the NEWA also made a submission recommending that the Authority's structure and role be maintained.

6.1.6 Submissions originating from outside of the New England area

Seven submissions originated from outside of the New England area and one submission did not specify which council area it related to. One such submission criticised NESAC as being compromised from its outset due to it being primarily established to avoid amalgamation. The submission proposed a merger of the four councils as the only viable solution. This submission was also critical of the lack of oversight given by the DLG, to which some blame was apportioned for the failure of NESAC.

One submission cited Inverell Shire Council as being an example of a successful previous amalgamation. This submission commended Inverell Shire's precinct management model which, it argued, ensures representation of rural communities.

Another submission recommended the amalgamation of Uralla Shire and Walcha Councils, and the separate amalgamation of Armidale Dumaresq and Guyra Shire Councils as a means to reduce duplication but to ensure that the interests of smaller rural councils are not neglected.

6.2 Key issues raised at public meetings

6.2.1 Armidale

A public meeting, held at Armidale Town Hall at 7pm on Monday 12 April 2010 was attended by approximately 50 people. 15 people addressed the meeting, expressing a broad range of views which largely reflected those expressed in written submissions from the Armidale Dumaresq Council area.

Four serving councillors of Armidale Dumaresq Council addressed the meeting, expressing broad support for the Council's formal reform position of seeking a voluntary amalgamation with the other New England area councils. However, two councillors expressed concerns about the possible deterioration of local representation under an amalgamated council.

Additionally, one councillor stated a belief that the community was yet to be convinced of the success of amalgamation as a reform strategy and another councillor emphasised that amalgamation should not be implemented at the expense of social, cultural and environmental factors.

One speaker supported amalgamation as a reform option for the New England area, and cited Tamworth Regional Council as an example of a successful merger. Another speaker suggested that Armidale Dumaresq Council be redistributed to Guyra and Uralla Shire Councils due to their higher level of service delivery.

Five speakers opposed the concept of amalgamation as a suitable reform, citing various factors including fear of a loss of local representation and of a reduction in local government services at the expense of perceived economic efficiency. One speaker raised concerns about the level of publicity provided for the meeting. Another requested that submissions to the review be made public.

6.2.2 Guyra

A public meeting, held at Guyra Bowling and Recreation Club at 2.30pm on Monday 12 April 2010 was attended by approximately 50 people. 10 people addressed the meeting, all of whom stated their opposition to the amalgamation of Guyra Shire with the other New England area councils.

Two serving Guyra Shire councillors spoke in support of the Council's shared executive proposal. One Council staff member expressed opposition to this proposal in favour of retaining local senior staff on the basis of the level of expertise and knowledge they bring to local service delivery.

A number of speakers, including former councillors, expressed concerns about the loss of local services in an amalgamation, particularly as a result of resources being shifting away from rural areas to urban areas. Another common theme was the fear of a loss of local representation.

One speaker expressed a view that Council would be viable into the future if it was able to streamline its structure. However, one serving councillor disputed this, on the basis that Council had already rationalised as much as possible.

A number of speakers raised concerns about the funding of local government services by the State and Federal Governments. However, the Facilitator advised the meeting that such issues fell outside of the review's terms of reference.

6.2.3 Uralla

A public meeting, held at Uralla Bowling Club at 7pm on Tuesday 20 April 2010 was attended by approximately 900 people. 31 people addressed the meeting, expressing unequivocal support for the retention of Uralla Shire Council as a stand alone entity.

Many speakers espoused the sound financial position and long term viability of Uralla Shire Council. A large number of speakers spoke of Armidale Dumaresq Council's allegedly parlous financial position.

A number of speakers also commented on the perceived dysfunctional nature of Armidale Dumaresq Council and expressed a fear of being “taken over” by a poorly managed council.

Several speakers expressed fears that an amalgamation would lead to the centralisation of jobs in Armidale, which would in turn have a flow on effect resulting in the loss of other jobs within the community. Other speakers expressed a fear that local services would be lost as a result of the centralisation of services under an amalgamation.

Various speakers highlighted the wide variety and high quality of services provided by Uralla Shire Council, particularly in the case of community services such as funding of preschools and aged care centres. Other speakers praised the inclusive nature of the Council and the transparency of its communications with ratepayers. Some speakers expressed a fear that the Council’s current strong community consultation practices would be diminished or abandoned under an amalgamated council.

Finally, a pervasive theme was the fear of loss of local representation under an amalgamated council, particularly with regard to the benefits that come with the community having easy access to councillors. One speaker proposed the adoption of a ward system to ensure the representation of local communities if an amalgamation was to eventuate.

6.2.4 Walcha

A public meeting, held at the Walcha Multipurpose Centre at 9.30am on Tuesday 13 April 2010 was attended by approximately 620 people. 24 people addressed the meeting, unequivocally supporting the retention of Walcha Council as a stand alone entity.

A number of common themes were expressed by the majority of speakers. These included the strength and unity of the Walcha community and the Council’s critical role in supporting this. The majority of speakers also highlighted the unique community of interest of the Walcha Council area, particularly with regard to its independence and its lack of strong social ties to either Armidale or Tamworth. The lack of a strong link to the other New England area councils arising from Walcha’s geographical isolation was also expressed by a number of speakers.

The majority of speakers were critical of amalgamation as a reform option. A number of speakers cited the perceived failure of amalgamations in other council areas.

6.3 Other community consultation

6.3.1 United Services Union

The Facilitator met with representatives of the United Services Union (USU) in Armidale on 20 April 2010. The USU also made a submission on behalf of its members in the effected councils, which included the results of a survey it conducted of these members, of which 96 out of over 400 responded. The survey showed that, of the respondents: 52% wanted their council to remain autonomous, 49% agreed to amalgamation and 11% wanted their council to form a new strategic alliance (a number of respondents chose more than one option, hence the percentages adding up to more than 100%).

The USU's submission argued that any amalgamation should only be voluntary in nature, and requested that certain specific employment protections be put in place in the event of an amalgamation. The USU also requested that specific employment provisions be mandated if a continued or reviewed alliance model is recommended.

In any scenario, the USU argued that State Government should establish a local government reform fund to assist councils who are the subject of boundary adjustments or amalgamation.

6.3.2 NSW Farmers Association

The Facilitator met with representatives of the NSW Farmers Association in Armidale on Tuesday 20 April 2010. The Association stated their opposition to the amalgamation of the former NESAC councils arguing that each should be responsible for reform of its own services. The Association also argued that greater funding from State and Commonwealth Government's should support the restructuring of local government services.

The Association also raised concerns that no comprehensive cost/benefit analysis of amalgamation had been undertaken and cited perceived failures of previous amalgamations between Armidale City and Dumaresq Shire, and in other council areas.

6.3.3 Indigenous representatives

The Facilitator met with representatives of the New England area indigenous community on Tuesday 20 April 2010 and held an additional meeting with representatives of the indigenous community of Tingha on Monday 3 May 2010.

The representatives did not express a clear preference with regard to the structure of local government services in the New England area. However, the Tingha representatives advised that the majority of Tingha's indigenous residents would prefer for the town to be in the Inverell Shire Council area due to the geographical proximity of the two towns and their shared community of interest.

All of the indigenous representatives emphasised the importance of indigenous representation in any structure of local government service delivery. They also praised Armidale Dumaresq Council for the initiatives it currently has in place to promote indigenous employment and representation, including an Aboriginal Liaison Officer, an Indigenous Consultative Committee and an Aboriginal mentoring program. The indigenous representatives expressed their strong support for the expansion of these arrangements, in the event of an amalgamated regional council.

6.3.4 Other consultation undertaken by councils

In September 2009, Guyra Shire Council conducted a survey in an effort to consult the community on the various options for local government reform. The survey put forward four broad options: retain Guyra as a stand alone council, introduce a shared General Manager with Armidale Dumaresq Council, retain Guyra Council with a consolidated workforce (with Armidale Dumaresq Council) and voluntary amalgamation. The survey provided a clear and succinct explanation of the advantages and disadvantages of each option.

The survey was distributed to 1900 households in the Shire. Of these, 339 (or 17%) were returned. Council advises that this contrasts with a general return rate of around 80% for most other council surveys.

60% of respondents favoured a stand alone council option, 12.5% favoured retaining Guyra with a shared General Manager, 12% favoured retaining Guyra Shire Council with a consolidated workforce and 14% favoured amalgamation.

In August 2009, Uralla Council commissioned a phone survey of residents by the independent research organisation IRIS Research Ltd. IRIS completed surveys from 539 residents, finding that 66.5% of residents surveyed opposed a voluntary amalgamation with Armidale Dumaresq Council, with 19.9% supporting such an amalgamation.

6.4 Conclusions

The overwhelming majority of submissions came from Walcha Council and Uralla Shire Council residents. There was virtually unanimous support for the retention of Walcha Council as a stand alone entity. The retention of Uralla Shire Council also received a very high level of support. However, unlike Walcha, a number of divergent views were expressed in submissions from Uralla, with a small number supporting other options for reform, including the amalgamation of Uralla in various forms.

The public meetings held at Uralla Shire and Walcha Councils largely reiterated the views expressed in submissions. However, the retention of Uralla Shire Council was expressed unanimously at the Uralla meeting.

The concerns expressed by those communities in submissions and meetings largely centred on the implications of an amalgamation, particularly with regard to a loss of local representation and jobs in rural communities. Animosity and distrust of Armidale Dumaresq Council was also a common recurring theme, particularly with regard to submissions from Uralla.

The latter view was also expressed in submissions from Armidale and Guyra and at their respective meetings. Those who attended the Guyra meeting unanimously opposed amalgamation. However, support for Guyra Council's shared executive model was limited.

The residents of Armidale Dumaresq who made submissions and attended the Armidale meeting were not unanimous in their opposition to amalgamation, although this view was expressed by a number of people. Where the need for reform was acknowledged, there was a divergence of views on the nature of the reform. However, calls for amalgamation were dominant.

A number of submissions received from Armidale Dumaresq highlighted a feeling of antipathy towards the former NESAC members in some parts of the communities, largely as a result of the turmoil affecting the councils in recent years. A certain degree of community disengagement was also apparent, particularly in the case of Guyra Shire. This was reflected in Guyra's very low submission rate, the relatively low numbers of attendees at the Guyra public meeting and the low response rate to the Council's survey of September 2009 on the issue.

This factor was also observed in the relatively low number of submissions and public meeting attendees in Armidale. The large number of submissions from the Uralla Shire and Walcha Councils areas may also be indicative of the efforts made by each council to engage their respective communities in the review process.

7 EXAMINATION OF COUNCIL PROPOSALS

7.1 Background

All four councils and the New England Weeds Authority (NEWA) provided a formal submission to the review. Consideration was also given to the submissions provided by the councils during the DLG's Promoting Better Practice review in 2009. However, with the exception of Armidale Dumaresq Council the stated positions of the councils have changed little, if at all.

The Mayors and General Managers of the councils also provided clarifying comments on the positions of their respective councils in meetings with the Facilitator in February 2010. These have been taken into consideration and are referred to where appropriate.

7.2 Armidale Dumaresq Council (ADC)

7.2.1 The proposal – Voluntary amalgamation

In its submission of 25 February 2010, ADC's expresses that its preferred approach to reform is the voluntary amalgamation of the former NESAC councils. In justifying this position, ADC comments that the other three councils no longer appear willing to commit to reform and a return to an Alliance model would be highly problematic. However, ADC advises that it would consider other approaches to reform provided they deliver significant structural changes that both eliminate duplication and provide a smooth and efficient management regime.

ADC states that it would expect and encourage representation from the other three councils under an amalgamated council model. ADC believes a revised version of the system of Local Area Committees it currently utilises is the most effective way to achieve local representation.

ADC argues that the introduction of wards can lead to parochialism and the loss of good candidates. Additionally, ADC argues that wards are difficult to undo, do not suit urban areas and need to be continually reviewed and altered to reflect growth. However, ADC has stated that it would accept wards if recommended by the review.

The ADC proposal would see the introduction of Local Area Committees for smaller villages and remote areas, and consultative/advisory committees with greater responsibilities for the towns of Guyra, Uralla and Walcha. At least one councillor would be required to represent each committee. However, an additional one or two councillors may also be appointed.

ADC believes the new Council should comprise 12 councillors, an increase from the 10 who currently represent the ADC area. This reflects the size of the proposed new council area and also the increasingly complex workload of councillors.

ADC proposes that the Mayor of the new Council be elected by councillors. Council meetings would be rotated around towns with at least one meeting per year in Uralla, Walcha and Guyra. Operationally, smaller towns would retain their offices and base services. Outdoor staff would remain on the ground to deliver services, with the main changes being to back office staff.

In the case that agreement cannot be obtained from the other councils to enter into a voluntary amalgamation but where the Facilitator recommends amalgamation, ADC argues that all four councils should be allowed to continue as separate entities until the 2012 elections, when the new amalgamated council would commence. Under this approach a joint implementation committee would be adopted to manage the transition period, comprising all councillors from each council. ADC advises that this approach is similar to the one utilised during the merger of Armidale and Dumaresq Councils, to considerable success.

In this scenario, ADC suggests appointing an administrator to any of the councils who are unwilling to voluntarily amalgamate, for the remainder of the existing term. This would provide an incentive for all councils to support the initiative.

7.2.2 Contrast with earlier proposal

ADC's October 2009 submission proposed the sharing of a General Manager and executive structure with Guyra Shire Council. Council's current position therefore heralds a marked shift from its earlier proposal. The shared executive proposal remains the current position of Guyra Shire Council and is examined in detail in the relevant section below.

ADC's earlier submission also made observations relevant to the proposals of Uralla Shire and Walcha Councils. ADC indicated a willingness to continue to provide some services to other councils on a fee for services basis. However, the range of services to be offered would be limited to back office facilities and service to the New England Weeds Authority, strategic planning, engineering design and audit services.

In its February 2010 submission ADC does not indicate whether it is willing to continue to provide such services.

7.2.3 Comment on the Armidale Dumaresq Council proposal

Strong arguments supporting the suitability of an amalgamation model to the New England area have been highlighted in a continuum of advice to the Minister for Local Government. The recommendations of the Vardon and Boundaries Commission reports must be recognised, as the circumstances supporting their arguments largely continue to this day and have to some extent been strengthened by the failure of NESAC.

The overriding argument for amalgamation in this instance is the need for a long term regional strategic vision, the lack of which is currently restricting local government service delivery in the New England area. An amalgamation model would also deliver significant savings in terms of reduced duplication of services.

ADC's proposal to phase-in an amalgamated council up until the 2012 elections does not take into account the urgent need for reform. Ultimately, NESAC has only delayed meaningful reform in the New England area and this situation cannot be allowed to continue.

It would be unreasonable to assume that a new council and management structure could commence operations immediately. A managed transition period would therefore be essential to ensuring that all operational and strategic issues are adequately addressed in the establishment of a new council. The continuation of current elected representatives under a transitional body is considered untenable and the immediate appointment of an Administrator would be appropriate in this circumstance.

Despite the strong argument for an amalgamation model, the prospect of achieving an agreement between the former NESAC councils for voluntary amalgamation is considered highly unlikely, particularly as the other three councils have expressed their opposition to amalgamation.

Additionally, the NESAC period was marred by the inability of the member councils to agree on matters relating to the strategic and operational direction of the Alliance. This has continued in the post-NESAC period.

7.3 Guyra Shire Council (GSC)

7.3.1 The proposal – Shared executive

GSC's submission of 1 March, 2010 advises that it remains committed to reform with a view to achieving improved service delivery for its community. However, GSC also highlights the critical role that local decision making plays in protecting the interests of small communities.

GSC acknowledges that it faces sustainability problems and needs to exploit additional opportunities for greater efficiency in the face of limited resources. These efficiencies could be gained through improved internal quality controls, reduced compliance obligations, lower administrative overheads, revenue sharing and efficient plant and human resource management.

With these factors in mind, GSC developed a shared executive model with Armidale Dumaresq Council in 2009, which aims to reduce duplication and increase efficiency whilst also ensuring that local decision making and autonomy remains. Under the proposal, a single General Manager would be appointed to manage the strategic and operational activities of both councils. Apart from the associated salary savings, further efficiencies would be realised through the rationalisation of senior staff and a reduction in the duplication in administrative processes.

A legally-binding agreement between the General Manager and the individual councils would address issues such as proportionate funding, reporting and performance management arrangements for the General Manager as well as those relating to selection and recruitment, remuneration, dispute resolution and governance. Accountability would be encouraged through the introduction of clear lines of reporting. GSC argues that this addresses a major shortcoming of the NESAC model's complex governance structure.

GSC also provides a transition proposal which sets out a process of incremental change to a shared executive structure. This process includes: the adoption of the model, the appointment of the General Manager, a period of workforce planning and restructure, the establishment of governance and resourcing priorities, and finally review and continual improvement.

Additionally, GSC highlights its commitment to developing shared administrative and IT services with Armidale Dumaresq in future. It claims that many of the costs and problems inherent in the establishment of these systems have now been resolved and they are now in a position to deliver efficiencies. GSC has also identified possible efficiencies in shared engineering services.

GSC states that it hopes that the other New England area councils might join the shared executive proposal. However, GSC proposes to pursue the arrangement only with Armidale Dumaresq in the absence of support from Uralla and Walcha.

7.3.2 Comment on the GSC proposal

While GSC's proposal is innovative and clearly articulated, there are a number of concerns about the complex nature of such an arrangement in practice.

A shared executive structure would result in two or more complex contractual agreements between the elected bodies of each council and the General Manager. The management of such an arrangement would likely be complicated and may result in unforeseen costs which could potentially erode the perceived benefits.

Given the history of governance during the NESAC period, it is likely that the demands placed upon a shared General Manager by the individual councils to which he or she is answerable may be contradictory at times, and at worst, irreconcilable. The existing performance management framework for General Managers under the *Local Government Act 1993* (standard contract for General Managers and senior staff) may be tested by such an arrangement. In the very least, the DLG would need to review its guidance to make provision for the unique nature of such an arrangement.

If this proposal was to be pursued independent legal advice would need to be obtained with respect to various other contractual matters. For example, conflict may potentially arise with regard to General Manager's duty to act in the interests of their employer, especially if the multiple employers in question have conflicting priorities. Similarly, there may be a lack of clarity relating to the engagement of the General Manager in "outside employment" resulting from the shared contractual arrangements. The resolution of such matters may result in further unforeseen costs for councils party to the arrangement.

GSC's submission also includes a copy of *Shared Chief Executives (the lessons)* by Stephen Fletcher, Regional Associate of the Improvement and Development Agency (IDeA) in the UK, which assesses a number of risks associated with such arrangements in the UK context. This research analyses nine shared executive officer arrangements in the UK, which related to one and in some cases several shared senior staff positions.

While the research is supportive of shared service arrangements, including shared executive officers, it makes clear that real savings and increased capacity are achieved through shared services and administration. The value of a shared executive officer appears to be in driving consistent change.

GSC has expressed a desire for this model to be extended to the other New England area councils. However, the UK research is inconclusive with regard to whether a shared executive is workable outside of the confines of a two-council arrangement, stating that inefficiencies can emerge in such scenarios. Issues relating to increased workload, contractual complexity and performance management would also be exacerbated.

The UK research also identifies that the success of this approach is contingent upon all member councils “wanting” the shared executive and each council being clear about why they are entering into such an arrangement. There is little evidence to suggest that these pre-requisites would be able to be met by the existing management and elected representatives of the New England area councils given their conflicting views on the need for reform.

There is also a risk that, in managing several complex relationships with two or more councils and their staff, a single General Manager would become overloaded and unable to effectively manage the strategic and operational components of this position. This risk is identified in the UK research as being a key barrier to the success of such proposals.

The Mayor and General Manager of GSC have suggested a governance manager could be appointed in each council to manage operational issues, leaving the General Manager with more time to devote to strategic issues. However, an additional layer of governance would be undesirable and would potentially undermine cost savings arising from the rationalisation of senior staff positions.

If the proposal does not produce the desired results, or proves to be unworkable it is questionable whether the councils involved would be able to revert to initial management arrangements without complications. While the proposed agreement outlines a process to be adopted in the event that the partnership is terminated, it must be acknowledged that such an eventuality may have significant legal impacts and associated costs for the councils involved.

Ultimately, the apparent withdrawal of support for this proposal by ADC proves to be the greatest area of concern about the viability of this proposal. While ADC’s later submission is silent on the matter, its Mayor and General Manager have advised the Facilitator that the shared services proposal with Guyra is now on hold. Despite this being crucial to the continuation of the proposal, this fact has not been referred to in Guyra’s later submission or acknowledged by Guyra during the review process.

7.4 Uralla Shire Council (USC)

7.4.1 The proposal – An autonomous council utilising contract based collaborative arrangements

In its submission of 19 March, 2010 USC provides a detailed document supporting its position to remain an autonomous entity, which also set out its preferences about the manner in which the review is conducted. USC also presents other key documents to support its argument: *Management Plan 2009*, *Annual Report 2007/08* and *Uralla Financial Plan 2010 – 2020*.

USC argues that, despite its close geographical proximity, the Uralla Shire does not have a clear community of interest with Armidale Dumaresq Council. It strongly contends that the Uralla Shire is rural in nature and the needs of its residents are inherently incompatible with those of an urban council. USC is also concerned that the needs of the rural community would be lost in an amalgamated council.

USC also argues that it is sustainable, financially viable and able to meet its financial obligations. It claims to have saved \$100,000 in recent times and has put in place many efficiency measures, which have placed it in a strong position to continue to sustainably deliver services to the local community in the long term.

USC advises that it will not participate in shared IT and financial management initiatives with other former NESAC councils. USC argues that costs associated with these initiatives were prohibitive and that they delivered little benefit over the course of the Alliance or, in some cases, negated the benefits derived from other aspects of the Alliance. Since the breakdown of NESAC, USC has commenced in a new IT services contract which it argues will be much more cost effective in the long term, after initial set up fees are taken into account.

USC highlights a number of high level strategies for the achievement of future efficiency gains through: leaner operational management, identifying waste, sharing infrastructure and resources where appropriate, increasing the proportion of customers using more efficient delivery systems, understanding the service delivery needs of rural residents, providing rural residents with greater choice in service delivery methods, and working with surrounding councils and regional State and Commonwealth agencies in a more collaborative manner to improve coordination.

USC argues that the footprint of services (ie: the area of need for the service) differs depending on the nature of the service and that not all New England area councils should be required to collaborate on all services. USC concludes that a regional council model would therefore not result in improved service delivery to the region.

USC advises that it is committed to encouraging greater collaboration with its neighbouring councils whilst at the same observing the mandate given to it by ratepayers to ensure local decision making continues. USC advises that it provides some services to neighbouring councils including rubbish collection (to Walcha Council) and some community transport.

USC intends to continue to participate in a number of collaborative arrangements which were in place under NESAC, including the use of a regional animal shelter, a number of joint social and community strategic planning initiatives, as well as regional internal audit initiatives and specific regional biodiversity and cultural asset mapping projects. USC also proposes to pursue arrangements with ADC with regard to the provision of asset management and occupational health and safety services on a contractual basis, and plant and fleet services on a fee for service basis.

USC acknowledges that there were structural problems with NESAC and highlights a desire to further develop the successful collaborative arrangements implemented under the Alliance, supported by formally structured contractual arrangements. USC believes that participation in such arrangements should be voluntary and not restricted to the former NESAC councils but rather open to any council within the New England region and also to the private sector.

7.4.2 USC “fallback option”

On 9 March, 2010 USC submitted a “draft fallback option” to its formal position. However, the fallback option was largely identical to USC’s original position, proposing that the New England area councils remain autonomous but participate in voluntary collaborative arrangements based on formal contracts. As in USC’s original position, such collaborative arrangements would not be limited to New England area councils but would also be available to other councils and private sector operators.

USC attempted to garner support for the proposal from the other New England area councils but was unable to do so.

7.4.3 Comment on Uralla Shire Council’s proposal

USC’s argument that it does not share a distinct community of interest with ADC is problematic. The geographic proximity of the town of Uralla to Armidale alone presents a clear convergence of interests for a significant proportion of the USC community, particularly in the areas of employment, shopping and sport and recreation.

The geographic proximity also indicates strong functional links to Armidale for rural residents in the central and southern areas of the USC local government area. This is particularly true for the residents in and around the town of Uralla and those on small holdings in the rural area of USC between Uralla and Armidale. Together these areas account for approximately 53% of the USC population.

While a divergence between the interests of rural and urban ratepayers is acknowledged, these are clearly not irreconcilable as has been shown in a great many council areas across NSW. USC itself is a case in point, utilising a ward system to ensure that the needs of the various communities within its area are given equal consideration. A similarly configured regional council model would largely mitigate local representation concerns in rural communities.

While USC has outlined valid arguments about the causes of the breakdown of NESAC, it has not demonstrated that it has a credible, strategic plan to address these issues. USC acknowledges a need for collaboration to achieve efficiencies in many of its areas of operation. However, in lieu of a strategic approach to planning these services, USC appears to favour a continued ad-hoc approach where collaborative services are selected on an as-needs basis. Few details are provided as to how USC aims to prioritise such collaborative arrangements in future.

Council’s contention that no specific regional affiliations with other councils exist due to the varying need for services is also problematic as many of the future collaborative services USC nominates involve only former NESAC councils. USC’s shared library, regional waste and community transport are the only services nominated by USC which involve councils outside of the New England area. Additionally, it is noted that the majority of the services nominated by USC involve Armidale Dumaresq Council.

The future formation of collaborative arrangements between USC and the other former NESAC councils is likely to be highly problematic as the significant lack of trust between the councils that was apparent throughout the NESAC period clearly still exists. This has been highlighted in many of the public statements made by USC during the review, which have portrayed their former NESAC partners, in particular ADC and GSC, in a negative light. The acrimonies and tensions that existed within NESAC at a senior staff and elected representative level run too deep to foster any hope for future productive collaborative approaches involving these councils.

Many of the collaborative arrangements nominated by USC involve services provided by ADC. However, USC has provided no evidence as to whether ADC is prepared, or able to continue to provide the additional services nominated by USC. This is particularly significant given that Uralla is not proposing to offer anything to collaborative partnerships other than the payment of a fee. Should ADC decide not offer these proposed services it is not clear how Uralla would meet the resultant service gaps.

In such an event, it appears that USC proposes to investigate outsourcing such services from the private sector. However, the costs of doing so have not been examined in any detail by USC and it is therefore unclear what impact such arrangements would have on the Council's bottom line.

A lack of strategic thinking is also borne out in the USC submission, which provides much in the way of high level goals but little in the way of detail as to how the Council plans to achieve them. It appears that USC's commitment is largely limited to short term issues where there is clear and immediate value to the local community.

The documents supporting USC's submission also reiterate this concern. USC's *Strategic Review of Council Activities 2008 – 2017* sets out the Council's high level aspirations and goals for the short and long term. However, the document provides little in the way of tangible strategies to achieve these goals. Similarly, USC's *Financial Plan Projection for Ten Years 2010/11 to 2019/20* contains a large amount of detailed technical data but very little in the way of contextual or explanatory information on which to draw conclusions.

Finally, USC's claims regarding its financial sustainability are open to question, particularly as an increasing number of the services provided by the Council are largely reliant on grant funding. USC's financial sustainability is explored in further detail in section 5.

7.5 Walcha Council

7.5.1 The proposal - Autonomous council with contract based collaborative arrangements

In its submission of 26 February, 2010 Walcha Council has expressed its strong desire to remain an autonomous entity. Council argues that Walcha is a distinct community of interest in its own right, satisfying the majority of its social, cultural, educational, recreational and economic needs from within the Shire area. Its distance from Armidale, historical ties with Tamworth and large geographical size mean that Walcha has been required to sustain itself.

Council claims that, while Armidale, Guyra and Uralla do have a shared community of interest, Walcha sits outside of their sphere of influence. Walcha has no distinct community of interest with Armidale, although ties with that community are acknowledged. Council also highlights that Walcha has many key service links to Tamworth including library, hospital and police services.

Additionally, Council advises that Walcha has strong ties to smaller communities in the surrounding districts. Walcha Council co-services Woolbrook and Niangala with Tamworth Regional Council, the latter of which is in the Tamworth Council area. The residents of these communities largely gravitate to Walcha for schooling, sport and shopping.

Walcha Council advises that it has long term strategic plans for the economic sustainability of the area and has undertaken initiatives to ensure the community's economic viability. These include an open air gallery and street-scaping to attract tourism, the implementation of a softwood plantation development strategy to attract investment and construction of a new industrial subdivision to attract business investment.

Walcha Council argues that it is financially viable with good financial indicators, low debt levels and a substantial capital works program which accounts for 23% of income. Historically, audited financial reports have shown the council's financial position to be sound.

Council advises that it withdrew from NESAC because it could not accept the service delivery model being dictated by Armidale. However, Walcha Council has recognised many benefits to shared services and proposes to continue to participate in the majority of established former NESAC shared service initiatives. These include preconstruction work, asset management, plant and fleet management, procurement of goods and services, strategic planning services, road safety, emergency management and weeds control. The majority of these services would be delivered in conjunction with Armidale Dumaresq Council.

Like Uralla Shire Council, Walcha Council has advised that it will not participate in shared IT and financial management initiatives with other former NESAC councils. Walcha Council has also commenced in a new IT services contract which it argues will be much more cost effective in the long term, after initial set up fees are taken into account.

Walcha Council is no longer seeking to be involved in the direct management of shared services. Council is instead seeking to establish four-year negotiated mutually beneficial contracts supported by service level agreements. Council believes that this will ensure autonomy and simplify management arrangements. Council argues that this approach will help to overcome the inherent problems of the less structured shared service approach under NESAC.

Finally, Walcha Council takes exception to claims in the DLG report that council has not undertaken a comprehensive study of the impacts of the services it intends to outsource. Walcha Council insists that it does not intend to drastically increase the number of services it outsources to other councils, but instead better manage them through service level agreements and contracts. Council also expresses a commitment to liaise with the LG&SA and DLG to work out the best way to formalise its arrangements.

7.5.2 Comment on the Walcha Council proposal

Walcha Council's claims of a unique community of interest are supported. This issue is examined in further detail in section 8.1.1.

Walcha Council has also been able to articulate a plausible, long term vision for the area. This is based largely on the further development of local tourism, which appears to have grown significantly in recent years, and the further development of softwood plantations and a hardwood industry for the area.

The Boundaries Commission's comments with regard to the impressive nature of Walcha Council's plan for the local timber industry in 2003 are recognised (Boundaries Commission report p23 and p25). However, it is also noted that Council has not since produced any long term strategic and financial planning documents to support its goals in these areas. The DLG has also identified a need for Council to urgently improve its asset management processes.

While Walcha Council's comments about the planning it has undertaken with regard to its proposed pursuit of additional shared services with neighbouring councils are noted, a number of concerns remain. It is not known whether Armidale Dumaresq Council, which may host many of the services identified, is willing or able to continue with such a collaborative approach on "a fee for service basis", although it appears that this is a possibility.

Finally, Walcha Council's financial position is considered to be sound and sustainable in the long term. This issue is examined in more detail in section 5.

7.6 **New England Weeds Authority (NEWA)**

7.6.1 The proposal – to remain a stand alone entity

The NEWA advises that it exists to reduce the economic and environmental impact of weeds in the New England. It is considered a lead organisation for weed management at a State level.

The NEWA argues that a county council structure is the most efficient method for achieving this as no other structure provides for stable, long term funding and adequate political representation. The NEWA also argues that a county council model offers a more strategic approach to weeds management with better utilisation of available resources.

7.6.2 Comment on the NEWA proposal

The important work of the NEWA with regard to the protection of the New England economy from the impact of noxious weeds is noted. The existing county council model of weeds management has clearly delivered results in the New England area. The NEWA is highly regarded amongst all of the former NESAC councils and has also received the support of surrounding councils for which it performs contracted works.

7.7 Conclusions

The need for reform in local government service delivery in the New England area has been acknowledged by all member councils. However, all have demonstrated an ongoing inability to agree on the nature and extent of the reform required.

Attempts to gain efficiencies from strategic collaboration have been compromised by the failed implementation of a potentially innovative service delivery model, and exacerbated by a lack of commitment from many of the member councils to long term reform.

The proposals put forward to this review by the councils do not adequately address the deep seated divisions between the former NESAC councils or the general absence of long term strategic and business planning in the New England area. A detailed examination of the need for reform and recommended actions are set out in the following section.

8 THE NEED FOR REFORM IN THE NEW ENGLAND AREA

The major driving force for the formation of NESAC was the desire of the member councils to avoid amalgamation. However, the former NESAC councils have also acknowledged the genuine need for reform in local government service delivery in the New England area.

NESAC attempted to develop an innovative model to better allocate resources to services across the region. While the model broke down as a result of a multitude of flaws, the factors underpinning its formation remain pertinent.

8.1 Shared community of interest

There is a clear and distinct community of interest between Armidale Dumaresq, Guyra Shire and Uralla Shire due primarily to their close geographic proximity and the nature of Armidale as a regional centre.

The long term viability of Guyra and Uralla as local centres is also intrinsically linked to the sustainability of Armidale as a regional centre. The following observations of the Vardon report with regard to the role Armidale plays in providing a service base for the New England area remain true:

Armidale provides many medical services to the surrounding population. It provides the great bulk of tertiary education services, and is the place of choice for many families for schooling of children resident in the surrounding region. It is, by a long way, the major source and supplier of cultural activities in the region...Armidale has the largest and most diversified array of retailing and services in the region, and its shops and service outlets are patronised by the residents of the region. (Vardon report, p27).

While there are clearly significant demographic distinctions between the rural areas of the New England area councils and the Armidale urban area, the council areas do share a number of common characteristics. These include a reliance on primary industries, tourism and education as well as shared infrastructure such as roads, rail, power and water.

While the unique local characteristics of each of the rural areas of Armidale Dumaresq, Guyra and Uralla are acknowledged, a significant commonality of need in terms of local government service delivery must also be recognised. For example, many residents in the rural areas of all three councils appear to be concerned with the maintenance of roads and waste collection services.

This review agrees with the views of Vardon with regard to the functional role of the town of Uralla as a suburb of Armidale (Vardon report, p28). While Uralla Shire Council objects to this assertion, the reality is that many residents of the urban area of Uralla Shire and in the rural areas to the north and north-east of Uralla are employed in the Armidale urban area and/or use the town as their main base for shopping and recreation.

It is acknowledged that this does not apply to all residents in those areas. However, for the vast majority of residents in this part of the Uralla Shire, Armidale is the clear community centre.

A strong regional approach to local government service delivery would benefit the communities of Armidale Dumaresq, Guyra and Uralla Shires. As Vardon has stated, a regional council with a stronger resource base and integrated strategic planning practices would strengthen the region in the long term, and by extension improve the viability of the towns of Armidale, Guyra and Uralla (Vardon report, p27).

8.1.1 Why is Walcha Different?

Walcha Council does not share a distinct community of interest with Armidale. Walcha is geographically isolated at the south eastern end of the New England area and the town of Walcha is virtually equidistant from Armidale and Tamworth.

It is evident that Tamworth, as the larger regional centre, provides a significant community of interest for Walcha especially with regard to medical and policing services. However, the strength of ties between the Walcha community and Tamworth do not clearly outweigh those it has with Armidale. It is acknowledged that both Armidale and Tamworth serve as important regional centres for many in the area.

As a result of its location, the town of Walcha has developed into an important service centre for the greater council area, to a much greater degree than Guyra or Uralla do in their respective shires. Apart from the local government services delivered by Walcha Council, the town provides a centre for shopping, sport and recreation as well as primary and secondary schooling.

Walcha Council also provides significant services to towns in the adjoining Tamworth Regional Council area. For example, public submissions received from residents in Niangala and Woolbrook have argued that they should be in the Walcha Council area due to their reliance on such services. While these views are acknowledged, the need for a realignment of Walcha Council's boundaries is not considered necessary at this time.

Walcha also has significant ties to the coast, upper Hunter and northern tablelands through its involvement in regional planning and service delivery bodies such as Namoi ROC and the Shires Association's D division of councils. By contrast, Guyra and Uralla are members of the B division of councils.

The long distances to traverse between small localities in the Walcha Council area may impinge on the ability to deliver services from a centralised location far to the north. For example, the towns of Nowendoc and Yarrowitch, which sit at the south and southeast extremities of the Walcha Council area, are each over 120km from Armidale.

Additionally, Walcha Council's sound financial position places it in a relatively strong position to be able to sustainably deliver services in the long term. This is explored in further detail in section 5 of this report.

Walcha Council has, by and large, been successful in meeting the strategic goals it set out in its original reform proposal to Minister Kelly in 2003. These include fully exploiting tourism opportunities, developing timber plantations, and supporting existing businesses with a central business district upgrade and a new industrial subdivision.

Walcha Council's achievements have included initiatives such as the open air gallery, a revitalised town streetscape, a tourist information centre, and the development and implementation of the Softwood Plantation Development Strategy. These achievements have come in the face of significant pressures on the local economy, including a prolonged drought period and the closure of the Boral timber mill in August 2008, which resulted in the loss of over 20 jobs.

A strong, cohesive culture has evolved in the Walcha Council area. Walcha Council is therefore not considered to be a natural match for inclusion in a regional approach to local government service delivery in the New England area. However, this is not to say that the Council would not benefit from further long term strategic planning, particularly in the area of asset management.

In working closely with a New England Regional Council on specific shared services and with further assistance from the DLG, Walcha Council would be able to better plan and deliver services to its local community in the long term.

8.2 Lack of strong leadership and ongoing lack of trust

A significant contributing factor to the failure of NESAC was the ongoing inability of the existing elected representatives and management teams of the individual councils to agree on the best way to implement reform. This review concurs with the observation of the Forsyths report, that "the problems that have beset NESAC suggest that leadership skills may have been lacking at both the senior management and political level" (Forsyths, p13).

The insistence of some of the councils to maintain the status quo in service delivery has resulted in the further breakdown of relationships between senior management and the elected representatives. Longstanding and deeply felt divisions have led to fraught interpersonal relationships between certain elected representatives and management of the former NESAC Councils. It would be fair to conclude that their inability to transcend these differences has led to a further deterioration of public trust in the ability of the councils to govern.

An ongoing lack of trust between member councils was also evident during the NESAC period and appears to have worsened as the Alliance went on. This has continued throughout the current review process. The cause of this distrust has been largely the result of fears from the smaller councils, particularly Uralla and Walcha that Armidale Dumaresq Council was attempting to dominate the priorities and outcomes of the Alliance. These fears have apparently been exacerbated by what appears to have been a high degree of disharmony within Armidale Dumaresq Council throughout the NESAC period.

The Forsyths report highlighted that the positive achievements of Armidale Dumaresq Council have been overshadowed by conflict amongst the elected representatives in recent years (Forsyths, p10). Many residents in the smaller council areas have expressed concerns about a council in such a state of political and organisational turmoil making decisions with regard to their local areas.

It is clear that there is a need to transcend the vested interests of the existing New England area leadership group, which operates largely at the expense of a strategic, regional focus. Under the existing management and elected representative structure any future Alliance model is considered unworkable.

8.3 Need for coordinated and consistent regional strategic planning

Another driver for reform in the New England area is the lack of a regional focus in strategic planning. The need for a regional strategic plan has been recognised as far back as the Vardon report. As the DLG report notes, a systematic regional strategic planning process would assist councils to identify and prioritise the competing imperatives of cost and demand pressures and countervailing operational and political imperatives (DLG report, p10).

Also supported is Vardon's view that a regional council would be better placed to negotiate agreements with State and Federal agencies to ensure the social, cultural, economic, infrastructure and emergency and security interests of the region are safeguarded and developed (Vardon report, p8). The need for strong regional representation is highlighted by the likelihood of increased fiscal austerity. Of particular concern in the short term is the looming end to large scale infrastructure grants and the likelihood of reduced spending on grants in the medium term.

Under new State Government legislation the New England area councils are required to have developed improved integrated planning and reporting systems by 1 July 2012. A regional planning approach would assist the councils to capitalise on the existing work that has been done under NESAC in this area, counter-acting the inefficiencies which may arise if each council instead reverts back to individual strategic planning processes.

8.3.1 Environmental planning

Early in the NESAC period, the four councils agreed to pursue the development of a Regional Local Environmental Plan. The first step in this process was the completion of a draft regional development strategy, which was only finalised in early 2010.

It appears that this process was impacted upon to some extent by the systematic inability of the NESAC councils to work together and agree on key elements of regional policy. However, strong regional environmental planning processes, implemented under a governance system which is underpinned by genuine local representation mechanisms remain essential to achieving the acceptance of planning decisions throughout the whole area.

8.4 Efficiencies and Economies of Scale

There is a need to reduce existing inefficiencies in the areas of operations, administration and governance. Operational efficiencies could be realised by reducing costs in areas such as records management, information technology, purchasing, financial management and costing, through a combination of scale economies and an improved technological base.

The rationalisation of administrative and governance policies, organisational and financial reporting, environmental monitoring and reporting, and strategic and operational planning would also result in cost savings by way of reduced duplication. Additional savings could be achieved in the area of governance through reduced senior staff and councillor numbers.

8.5 Significant investment in shared resources

Since the breakdown of NESAC, resources and systems developed under the Alliance have been effectively sidelined as the member councils have reverted to their pre-Alliance service delivery models or to new systems. Similarly, this has led to a loss of shared expertise where shared services staff have reverted back to their “home” councils.

A prime example of this issue is the NESAC information and communication technology (ICT) system, described in section 4.1.3 of this report. Uralla and Walcha Councils have argued that the ICT system was overly costly and largely surplus to their needs. Both councils have engaged a new information technology contractor since their withdrawal from NESAC. Armidale Dumaresq and Guyra Shire continue to use the ICT system.

While the concerns of Uralla and Walcha are acknowledged, it must also be recognised that in withdrawing, those councils have removed themselves from a system in which they had heavily invested significant community resources.

The Forsyths report found that, despite its initial teething problems, the ICT system now provides a sound foundation for the development of further efficiencies across a wide range of services (Forsyths report, p6). Furthermore, the ongoing costs associated with Uralla and Walcha’s new arrangements are yet to become fully apparent and it is unclear what the overall financial impact of this decision will be for these councils.

This example highlights concerns about the broader investment of council funds in NESAC. It is impossible to calculate the true cost of the overall investment by the member councils in NESAC due to the Alliance’s complicated financial governance structure and the variations in accounting methods utilised by the councils. However, in figures provided to this review, the councils have estimated that the total cost of their investment in shared services under NESAC for the period 2006/07 to 2008/09 alone was in the order of \$11 million.

It is recognised that this figure does not take into account the costs which would have been incurred by the councils had they continued to deliver services to their local communities as autonomous bodies, if the Alliance had not existed. However, the investment of community funds of this size is simply too great to let fall by the wayside, particularly given that capacity exists for the councils to continue sharing resources and systems developed under NESAC.

8.6 Recommended reforms

Since 2003, there has been a continuum of advice to the NSW Government from Mr Chris Vardon, the NSW Local Government Boundaries Commission and the DLG highlighting the need for extensive reform in local government service delivery in the New England area. The need for reform has also been acknowledged by the New England area councils.

A coordinated attempt to achieve reform has failed, despite the investment of significant resources into the NESAC model by the New England area councils and the State Government. Apart from the initial agreement to form NESAC, there has been little consensus between the councils on how to implement reform, both throughout the NESAC period and beyond.

That the factors underpinning the need for reform remain clearly evident today indicates that the need for action is now urgent. Further delay in the implementation of reforms will only result further wastage of resources, which in turn will lead to a further degradation in the standard of service delivery for ratepayers in the New England area.

8.6.1 Amalgamation of Armidale Dumaresq, Guyra Shire and Uralla Shire Councils

A clear community of interest exists between Armidale Dumaresq, Guyra Shire and Uralla Shire Councils. Furthermore, those councils face significant threats to their long term viability if a coordinated approach to regional strategic planning and service delivery is not implemented.

An amalgamation of the Armidale Dumaresq, Guyra Shire and Uralla Shire Council areas is therefore considered to be the only viable option to improve local government services in the New England area in the long term. The voluntary amalgamation model proposed by Armidale Dumaresq Council, set out in section 7.2, is clearly not achievable under the elected representative and management structures currently in place. It is therefore recommended that the compulsory amalgamation of the three council areas be pursued as a matter of urgency.

However, in determining a sustainable regional approach, it is imperative that the new regional Council gains the trust of the community. Care will need to be taken to ensure the needs of all of its residents are met and that rural interests continue to be strongly represented.

Fears of the dominance of the Armidale urban area in an amalgamated council due to its size and the ongoing distrust of Armidale Dumaresq Council throughout the New England area are acknowledged. This highlights the need for mechanisms to be put in place to ensure that all communities within the existing Armidale Dumaresq, Guyra Shire and Uralla Shire Council areas are fully represented on the new regional council.

The views of the United Services Union and local indigenous communities, as set out in section 6.3 are also acknowledged. In particular, the continuation of an Indigenous Consultative Committee and Aboriginal mentoring program and the expansion of the Aboriginal Liaison Officer role would be crucial to ensuring appropriate indigenous representation in a regional council model.

Due to the complexity of the issue, the incorporation of areas around Bundarra and Tingha into Inverell Shire Council has not been considered under this review. However, this should not preclude a new regional council from considering this issue in future.

8.6.2 Walcha Council to remain a stand alone entity

Walcha Council is best placed to continue to deliver services to its community as a stand alone entity. Unlike Guyra and Uralla Shire Councils, Walcha Council has no distinct community of interest with Armidale. Walcha Council also provides services to some areas within Tamworth Regional Council, to which it has strong links. Furthermore, Walcha Council has been able to demonstrate its long term viability as a stand alone entity.

The views of the Vardon and Boundaries Commission reports with respect to the suitability of Walcha Council for inclusion in a New England Regional Council are therefore not supported. However, it is recommended that the DLG initiate discussions with Walcha Council with regard to identifying ways to assist Council strengthen its long term financial position, asset management practices and strategic planning processes. The DLG may also be able to assist Walcha Council identify ways to better manage future shared services arrangements with other councils.

8.6.3 New England Weeds Authority (NEWA) to remain a stand alone county council

The important work of the NEWA has been noted. The existing county council model is seen as the most efficient and effective way to ensure the delivery of weeds management services in the New England area. It is therefore recommended that the NEWA be maintained a stand alone entity, with membership comprising the New England Regional Council and Walcha Council.

Under of the *Local Government Act 1993* and Local Government (General) Regulation 2005, a county council must by definition be comprised of more than one member council. This recommendation is therefore consistent with this legislative requirement.

However, this revised structure may have implications on the funding arrangements for the NEWA. The introduction of other councils into the NEWA may be one way to overcome such an issue. Such matters will require contemplation by the NEWA and its member councils.

9 IMPACTS OF A NEW ENGLAND REGIONAL COUNCIL

9.1 Background

The recommended amalgamation of Armidale Dumaresq, Guyra Shire and Uralla Shire councils would result in a local government area covering approximately 11,850 square kilometres, with a population of approximately 36,455 people (based on ABS Estimated Resident Population by Local Government Area, May 2010). Its establishment would have significant impacts on local government service delivery in the New England area.

Should the Minister adopt the recommendation as a proposal, the NSW Local Government Boundaries Commission will be required to examine the following factors with respect to how they impact on the New England area, in accordance with its duties under section 263(3) of the *Local Government Act 1993*:

- (a) the financial advantages or disadvantages (including the economies or diseconomies of scale) of any relevant proposal to the residents and ratepayers of the areas concerned,
- (b) the community of interest and geographic cohesion in the existing areas and in any proposed new area,
- (c) the existing historical and traditional values in the existing areas and the impact of change on them,
- (d) the attitude of the residents and ratepayers of the areas concerned,
- (e) the requirements of the area concerned in relation to elected representation for residents and ratepayers at the local level, the desirable and appropriate relationship between elected representatives and ratepayers and residents and such other matters as it considers relevant in relation to the past and future patterns of elected representation for that area,
 - (e1) the impact of any relevant proposal on the ability of the councils of the areas concerned to provide adequate, equitable and appropriate services and facilities,
 - (e2) the impact of any relevant proposal on the employment of the staff by the councils of the areas concerned,
 - (e3) the impact of any relevant proposal on rural communities in the areas concerned,
 - (e4) in the case of a proposal for the amalgamation of two or more areas, the desirability (or otherwise) of dividing the resulting area or areas into wards,
 - (e5) in the case of a proposal for the amalgamation of two or more areas, the need to ensure that the opinions of each of the diverse communities of the resulting area or areas are effectively represented,
- (f) such other factors as it considers relevant to the provision of efficient and effective local government in the existing and proposed new areas.

A preliminary examination of issues relating to these factors is contained in this section.

9.2 Financial Impacts

The summary of the overall financial impacts of a New England Regional Council set out in the Vardon report remains relevant:

- **Larger Rate and Capital Base** - *The new regional council will have a larger rate income and capital base. This will make it more resilient to external changes and give more flexibility.*
- **Reduced Financial and Business Risks** - *The larger capital base will also help spread the risks associated with business operations of the council and allow more flexibility in operations.*
- **Reduced Costs of Operations with Other Levels of Government** - *The larger council will be able to interface its activities with those of the NSW and Federal Governments in a more cost effective fashion, and will be able to play a part in determining the nature of the interface through building partnership agreements with the other levels of government.*
- **Spreading of Overheads** - *The combined operation will spread the cost of overheads such as the costs of governance, management, financial reporting, OH&S and a range of regulatory and corporate requirements including representation on other bodies*
- **Better Use of Resources Especially Staffing** - *The combined staffing resources will be better utilised and the new council will be better placed to serve the communities. Duplicated resources can be redeployed to other areas where additional resources are required. This saving will help overcome resource pressures and the need for additional staff in future.*
- **Rationalisation of Operating Assets such as Offices, Depots etc** - *Surplus office, depot and other operating assets can be utilised for other purposes or sold to generate funds for other purposes.*
- **Loss of Grants** - *Over time the new regional council would receive much the same level of Financial Assistance Grants as the total of the existing councils...However, the existing level of grants (the amount the [three] councils receive) will be maintained for the first two years of the new council after any amalgamation, and may be maintained for a period beyond the first two years. It is recommended that, at least, the level of existing grants should be maintained for a five-year period.*
- **Costs of Integration** – *There will be costs associated with the creation of the new council. However, these are not expected to be significant compared with the savings expected from the reduction in overheads (Vardon Report, pp17-18).*

Also supported is the view of the Boundaries Commission, that a New England Regional Council would result in an organisation that “will be in a much better position to maintain its assets at a satisfactory level compared to the existing councils” (Boundaries Commission report, p22).

However, a more detailed examination of certain expected financial impacts of the new Council is set out below.

9.2.1 Impacts on revenue

Rates

Under the general Charter for councils in section 8 of the *Local Government Act 1993*, councils may raise funds for local purposes by the fair imposition of rates, charges and fees.

In the long term rate levels will be determined by the Council's growth pattern. However, it is not envisaged that the current rate charges in the different parts of the region will be substantially altered in the initial period of the new Council. This is partly because rate capping will limit the amount by which the pool of rates can grow.

Additionally, the different rate charges in the existing council areas may be continued by the adoption of a differential rating system by the new Council. However, the new Council should not adopt a rating system that results in the imposition of an additional rating burden on residents.

Financial Assistance Grants

Untied general purpose financial assistance grants are provided by the Federal Government to local government under the provisions of the *Local Government (Financial Assistance) Act 1995*. The funding is distributed on the basis of recommendations by the NSW State Grants Commission. For 2009/10 the estimated grant entitlement for NSW amounts to \$608 million.

There are two components to the grant:

- a general purpose component of \$435.67 million, which is determined according to a fiscal equalisation model that attempts to equalise the financial capacity of councils by assessing their relative cost and revenue needs; and
- a local roads component of \$172.39 million, which is determined on the basis of population, local road and bridge length.

Both components are paid as untied grants, which can be used by local authorities according to their own local priorities. A minimum grant "safety net" applies to the general purpose component.

The Grants Commission's recommendations require endorsement by the NSW Minister for Local Government prior to approval by the Federal Minister for Infrastructure, Transport, Regional Development and Local Government.

Table 3 Estimated Financial Assistance Grants 2009/10¹

Council	Estimated Resident Population 30/6/2008 (prelim)	Estimated General Purpose Entitlement (\$)	Per Capita (\$)	Estimated Local Roads Entitlement (\$)	Estimated Total Entitlement (\$)
Armidale Dumaresq	25,228	2,693,552	106.77	1,122,810	3,816,362
Guyra Shire	4,435	1,126,444	253.99	761,256	1,887,700
Uralla Shire	6,081	1,158,100	190.45	766,345	1,924,445

¹ The data in table 3 was provided by NSW Grants Commission April 2010

Clause 6 of the national distribution principles, which fall under the provisions of the Federal Act, provides for council amalgamations. It states that:

Where two or more local governing bodies are amalgamated into a single body, the general purpose grant provided to the new body for each of the four years following amalgamation should be the total of the amounts that would have been provided to the former bodies in each of those years if they had remained separate entities.

Accordingly, if the amalgamation proposal is implemented, and subject to there being no significant data changes, the effect on the level of financial assistance grants for the new council entity is expected to be minimal.

9.2.2 Impact on expenditure

It is estimated that, conservatively, the following savings may be expected:

Table 4 – Expected cost savings under a New England Regional Council¹

Remuneration of Mayors and Councillors ²	\$100,619 ³
General Manager's total package	\$248,391 ⁴
Senior staff salaries and entitlements	N/A
Total	\$349,010

¹ All figures are based on amounts reported in the 2008/09 Armidale Dumaresq Council (ADC) and Guyra Shire Council annual reports and the 2007/08 Uralla Shire annual report.

² Includes fees and other expenses provided to Mayors and councillors, such as travelling expenses. It has been assumed that the new councillors would incur the same average costs as the average councillor of the largest of the three councils, ADC. However, \$118,000 in election expenses paid to ADC councillors in 2008/09 was deducted from ADC's total reported councillor expenses prior to making the calculation as such expenses are not guaranteed to be paid to the councillors under a new Council.

³ The figure has been calculated by deducting the costs of twelve "average" councillors from the total remuneration and expenses currently paid to all 25 existing councillors.

⁴ The figure has been arrived at by deducting the ADC General Manager's salary from the total of the three existing General Manager salaries.

It is acknowledged that these figures do not take into account the short term costs associated with redundancy payments to existing General Managers. However, such savings will be realised on an ongoing basis after the implementation period.

It is expected that other savings will arise from changes to staff structures and the reduction of duplication in administrative and reporting systems. Additionally, it is expected that economies of scale will be achieved in relation to costs in areas such as insurance and advertising. However, only limited quantifiable savings are able to be identified on the available information.

9.2.3 Impact on services

The amalgamation of the councils should be implemented in such a way so as to ensure that there is no reduction in the services provided to communities in the affected area. There is nothing to suggest that this would occur under a regional Council. Indeed, with a greater resource pool and enhanced workforce capabilities, the new Council should be in a better position to deliver a greater range and higher quality of services.

9.2.4 Impact on operating assets

The main operating assets of the councils include: an airport, council chambers and offices, libraries, work depots and plant operations, plant, public halls, community centres, sports grounds, cemeteries, parks and gardens. The councils also have waste management systems, as well as water and sewer systems.

Limited, one-off savings may arise from better plant utilisation and the disposal of any surplus or reduced office/depot space. However, it is important that the new Council ensures that service levels are not diminished across the whole of the council area, especially in rural areas. Therefore much of the existing stock of offices, building and depots across the three council areas should continue to be deployed in their current locations.

It is recommended that, as a minimum, the council chambers in Guyra and Uralla be maintained as service centres. Community services such as community centres and swimming pools should also be maintained in their current locations.

9.2.5 Impact on operating systems

Ongoing savings are expected to arise from economies realised in the integration of operating systems. Much of the work undertaken during the NESAC period with regard to the integration of financial and information technology systems will be able to be built upon.

Armidale Dumaresq and Guyra Shire Councils currently utilise the information and communication technology (ICT) developed under NESAC. However, Uralla Shire Council has recently appointed a new information technology service provider.

The new Council will need to seek independent legal advice on contractual issues arising from this arrangement. However, the re-integration of Uralla Shire Council into the ICT system is not expected to incur high levels of cost, notwithstanding unforeseen issues arising from data conversion.

9.2.6 Impact on planning and regulatory systems

The new Council is expected to have a much greater capacity to attract planning and environmental services personnel than currently available to Guyra and Uralla Shire Councils. This will lead to improvements in long term planning for the region as well an increase in the level of service provided to ratepayers and residents on planning and environmental management issues.

9.3 Impact on Organisational Structure and Staffing

9.3.1 Legislative protections

The *Local Government Act 1993* provides the following employment protections for council staff affected by an amalgamation:

- Section 354C requires that the employment of no staff member (other than senior staff) be terminated during the amalgamation proposal period through forced redundancy

- Section 354D requires that the entitlements of staff members be carried over to the new Council, and
- Section 354F requires that no forced redundancy of non-senior staff members take place for 3 years after transfer.

The employment protections of sections 345C and 354F of the *Local Government Act 1993* do not apply to “senior staff”. A General Manager is considered to be a senior staff member under the Act. Additionally, section 332(2) of the Act defines a “senior staff position” as the holder of a position which meets both of the following criteria:

- (a) the responsibilities, skills and accountabilities of the position are generally equivalent to those applicable to the Executive Band of the Local Government (State) Award, and
- (b) the total remuneration package payable with respect to the position is equal to or greater than the minimum SES Level 1 (ie: currently more than \$149,150).

Additionally, the Act recognises the need to protect council jobs in rural centres affected by amalgamation:

- Section 354B(1) defines a “rural centre” as a centre of population of 5,000 people or fewer.
- Section 218CA(2) requires that the new Council entity “must ensure that the number of regular staff of the council employed at the rural centre is, as far as is reasonably practicable, maintained at not less than the same level of regular staff as were employed by the previous council at the centre immediately before the amalgamation or alteration of boundaries took effect”.

9.3.2 Current organisation structures and staffing

Armidale Dumaresq Council has three designated senior staff positions: the General Manager, the Director Planning and Environmental Services and the Director Engineering and Works. At Guyra and Uralla, the General Managers are the only senior staff members.

As at 30 June 2009, Armidale Dumaresq Council employed 262 equivalent full time staff, Guyra Shire employed 51 and Uralla Shire employed 115.

9.3.3 Expected number of staff in the new organisation

On the basis of staffing numbers of the relevant councils as at 30 June 2009, it is expected that the new council would have approximately 426 equivalent full-time staff.

Table 5 - Ratio of Staff to Population

	Staff¹	Population²	Ratio
Armidale Dumaresq	262	24,696	94:1
Guyra Shire	51	4,521	89:1
Uralla Shire	115	6,238	54:1
New England Regional Council	426³	36,455	86:1

¹ as at 30 June 2009

² as at 30 June 2009 (ABS Estimated Resident Population by Local Government Area, May 2010)

³ two General Manager positions removed from total

The expected staff to population ratio of the new organisation is slightly lower than those currently in place in Armidale Dumaresq and Guyra Shire. While the ratio of the new Council is higher than that of the existing Uralla Shire, it is not expected to have a detrimental impact on service levels, given the improved capacity for the allocation of staffing resources.

The Administrator will be required to act promptly to establish an effective organisation structure to consolidate its resources and plan for improved service delivery within the new boundaries. The Administrator should ensure that staff are consulted as part of this process, particularly with regard to the focus of the existing rural centres. Policies and procedures for the new Council will also need to be established as a matter of priority and a new single industrial agreement will also need to be negotiated.

It is expected that the new Council will realise significant savings from the rationalisation of duplicated administrative services. However, persons in these positions may be retrained and reallocated to the delivery of front line services to the community. It is also possible that staffing numbers may increase over time to meet the greater and additional services provided by the new Council to the community.

9.4 Impact on Representation

9.4.1 Encouraging local representation

Concerns regarding the effect of an amalgamation on local representation have been expressed in many submissions and at public meetings during the review. The overwhelming driver for these concerns is the fear that the population of the existing Armidale Dumaresq area would be at a statistical advantage over those in smaller rural areas and would therefore dominate decision making processes with regard to the allocation of resources in the amalgamated council area.

These concerns are acknowledged. It is considered to be of vital importance that the new Council implements a strong system of local representation to mitigate against this.

The following comments in the 2004 Boundaries Commission report with regard to local representation are strongly supported:

“...meaningful local government reform can be achieved when the integrity and character of localities are protected and residents are ensured continued access to and involvement in decision-making and the provision of effective and affordable services appropriate to their needs” (Boundaries Commission report, p35).

9.4.2 Current representation levels

The affected councils currently have the following levels of representation (see table 6 on the following page):

Table 6 – Current representation levels

Council	Population¹	Councillors	Population per councillor	Wards
Armidale Dumaresq	24,696	10	2469	0
Guyra Shire	4,521	6	753	3
Uralla Shire	6,238	9	693	3
Total	36,455	25	1458	-

¹ ABS Estimated Resident Population by Local Government Area, May 2010

9.4.3 Suggested representation arrangements

It is recommended that a ward structure be adopted by the new Council as it is most likely to best ensure the representation of communities from throughout the new council area.

It is recognised that councillors are elected to represent the interests of residents and ratepayers across the whole council area. However, wards enable councillors to be familiar with and responsive to the issues and problems of their local communities. Wards also better provide for local voices to be heard in debates about the allocation of resources across council areas and, importantly, ensure that candidates are drawn from different parts of a council area. This leads to councillors who are more familiar with the needs of those areas.

Wards may also reduce councillor workloads, enabling councillors to focus on providing better representation. They may also lead to reduced administrative costs in terms of by-elections as elections only need to be held in one part of the council area. Similarly, wards may reduce the costs of campaigning for candidates, as campaigns do not need to cover the whole council area.

Armidale Dumaresq Council currently utilises a system of local area committees under a non-ward council structure, and has advocated for its continuation under an amalgamated council model. Such systems usually involve the allocation of councillors to certain precincts within the council area and members of the community are commonly allocated a certain number of positions on the committees.

However, it is noted that while a local area committee system has been utilised to some success by Armidale Dumaresq Council, satisfaction with the system is not universal amongst the Council's ratepayers. Furthermore, while a local area committee system was proposed in the Vardon report, this recommendation was not supported by the Boundaries Commission, which favoured the introduction of wards (Boundaries Commission report, p46).

9.4.4 Suggested ward structure

Table 7 – Suggested New England Regional Council ward system

Population¹	Councillors	Population per councillor	Wards	Councillors per ward
36,455	12	3038	6	2

¹ ABS Estimated Resident Population by Local Government Area, May 2010

Table 7 (on the previous page) sets out a suggested 6 ward structure for the New England Regional Council, with 2 councillors in each ward, resulting in a total of 12 councillors.

The ward boundaries suggested below are based on the Australian Bureau of Statistics' Census Collection Districts. However, the descriptions of boundaries are approximate in nature and should not be read as binding.

Ward 1 – Guyra ward

Incorporating the whole of the existing Guyra Shire Council area plus the town of Bundarra and surrounds (in the existing Uralla Shire area), and the areas surrounding the localities of Boorolong, Duval and Donald Creek (in the existing Armidale Dumaresq area).

This ward would have approximately 3,863 electors.

Ward 2 – Armidale rural ward

Incorporating:

- Armidale urban outskirts and the areas around Dangarsleigh, Kellys Plains, South Dumaresq, Castle Doyle, Argyle, Jeogla, Wollomombi and Thalgarrah (in the existing Armidale Dumaresq Council area), and
- the areas around Saumarez Ponds (in the existing Uralla Shire area).

This ward would have approximately 3,657 electors.

Ward 3 – Uralla ward

Incorporating the remaining areas of the existing Uralla Shire not contained in Wards 1 or 2. This ward would have approximately 3,589 electors.

Ward 4 – Armidale southern urban ward

Incorporating the southern part of the Armidale urban area from the southern rural outskirts north to:

- The railway line in the west and
- Barney, Dangar and Mann Streets in the centre.

East of the railway line the boundary would approximately follow Lynches Road east to Dangarsleigh Road, then north to Galloway Street and then east as far as Bracken/Canamble Streets.

This ward would have approximately 3,898 electors.

Ward 5 – Armidale central urban ward

Incorporating the central part of the Armidale urban area:

- south from Queen Elizabeth Drive to the railway line in the west,
- south from Erskine Street to Mann St in the centre and
- south from Dumaresq Creek and Cookes Road to Barney St, Black Gully Creek and Dumaresq Creek as far as Inces Road in the east.

This ward would have approximately 3,984 electors.

Ward 6 – Armidale northern urban ward

Incorporating the northern part of the Armidale urban area from the northern rural outskirts south to:

- Queen Elizabeth Drive in the west,
- Erksine Street in the centre and
- Dumaresq Creek and Cookes Road in the east.

This ward would have approximately 3,822 electors.

9.4.5 Compliance with section 210(7) of Local Government Act 1993

The recommended council structure has been developed in consideration of the requirements of section 210(7) of the *Local Government Act 1993*, which stipulates that any division of a council's area into wards, or change to the boundaries of an existing ward must not result in a variation of more than 10 per cent between the number of electors in each ward of its area.

Under the proposed ward structure, the ward with the highest number of electors is the Armidale central urban ward with 3,984. The ward with the lowest number of electors is the Uralla ward with 3,589. This would result in a maximum variation in elector numbers between wards of 395, or just under 10 per cent, as required under section 210(7) of the Act.

9.4.6 Long term suitability of a ward based system

It is suggested that the proposed ward structure be reviewed by the new Council at the end of its first term. However, it is noted that, under section 210(5) of the *Local Government Act 1993* a council must hold a constitutional referendum if it proposes to abolish wards.

9.4.7 Election of the Mayor

Currently, the elected representatives of the three existing councils elect their Mayor, as opposed to the Mayor being elected by way of a popular vote. It is proposed that this arrangement be maintained in the new Council. This system recognises the importance of the Mayor of the day having the support of the majority of their fellow councillors.

This system would also provide more opportunities for councillors from smaller rural areas within the whole council area to be elected Mayor by mitigating the geographical and statistical challenges faced by such candidates when campaigning across large council areas.

9.5 **Impact on communities of interest & rural communities**

Section 8.1 of this report outlines the shared communities of interest between the Armidale Dumaresq, Guyra Shire and Uralla Shire Council areas. The attitudes of communities within these council areas have been canvassed by way of the comprehensive consultation process outlined in section 2 of this report. The findings of this process are set out in section 6.

The community consultation process reinforced the observations of the Vardon and Boundaries Commission reports that many of the towns and villages in the proposed new local government area are proud of their heritage, tradition and culture. Similarly, the views of Vardon with regard to the impact of an amalgamation on these factors are supported:

“None of this, however, would be endangered or disadvantaged by the establishment of a regional council, and better planning supported by a stronger resource base would protect and strengthen the local features (Vardon report, page 27).

The concerns of rural communities with respect to the potential for the loss of local jobs and local representation under an amalgamated council are acknowledged. However, as noted in section 9.3, the *Local Government Act 1993* provides strong protections for council jobs under amalgamations. Furthermore, the suggested six ward structure set out in section 9.4.4 above would provide the best mechanism to ensure that the new Council implements a strong system of local representation.

10 TRANSITIONAL ISSUES

10.1 Matters for possible inclusion in a proclamation

It is suggested that the following matters be included in the proclamation of the new Council:

- A specific charter for the Council
- A guarantee that all current services will be continued
- A guarantee that, as a minimum, the current levels of expenditure on works will be maintained in each of the existing council areas
- A guarantee that benefits arising from rationalisation will be spread across the region, and
- A statement outlining the legislative protections regarding the employment of council officers

10.2 Interim Governance Arrangements

It is recommended that an Administrator be appointed to oversee the implementation of the amalgamated Council. It is considered appropriate that new Council elections be held after a period of 12 to 15 months.

The Administrator will also need to prioritise the permanent appointment of a new General Manager, by way of an open recruitment process. However, an Acting General Manager should be appointed by the Administrator as soon as possible to assist in the implementation of the Council.

The Administrator would also need to consider the following matters after the proclamation of the new Council:

- Confirming the name of the new regional Council – it is suggested that the name “New England Regional Council” would constitute a suitable option as it would not be seen to be allied in any way to the three key existing councils
- An assessment of the asset base of the new Council and the establishment of mechanisms for the transfer of assets and liabilities to the new Council
- Ensuring that existing workplace arrangements continue in the interim period
- Arranging terms and conditions of any voluntary redundancies

10.3 Community consultative committee

The Administrator should consider immediately establishing a community consultative committee to provide advice on the implementation of the new Council, including the consideration of the matters listed in section 10.2 above. The Committee should include representation from throughout the new council area.

11 RECOMMENDATIONS

Recommendation 1

The existing areas of Armidale Dumaresq, Guyra Shire and Uralla Shire Councils should be amalgamated.

The new Council area should maintain the existing external boundaries of the three councils. It is suggested that the Council be called the New England Regional Council.

Recommendation 2

The new council area should be divided into 6 wards to ensure local representation.

It is particularly important to implement a structure which guarantees that local representation is put in place in the early days of the new Council, given the degree public concern that has been expressed on this issue.

It is recommended that the New England Regional Council be divided into 6 wards of 2 councillors each, resulting in a governing body of 12 councillors.

However, in keeping with the intentions of the *Local Government Act 1993*, it is important that the new Council review the appropriateness of this model and allow the community to voice its opinion on the matter. It is therefore proposed that the ward system be reviewed by the Council following its first full elected term.

Recommendation 3

The Mayor of the new Council should be elected by the councillors.

This recognises the importance of the Mayor of the day having the support of the majority of councillors, provides more opportunity for councillors from smaller, rural areas to be elected Mayor, and is consistent with the practices of the existing councils.

Recommendation 4

An Administrator should be appointed to oversee the implementation and establishment of the new Council.

The Administrator should be appointed for a period of 12 to 15 months to establish the processes and structures of the new Council. New elections should be held after this time.

The Administrator will also need to appoint an Acting General Manager, pending the permanent appointment of a General Manager by way of an open recruitment process.

Recommendation 5

The Administrator should immediately convene a community consultative committee to advise on the implementation of the new Council.

To ensure that the views of the community throughout the new council area are heard during implementation of the new Council it is imperative that this committee includes strong representation from across the whole of the council area.

Recommendation 6

In the event that the Minister adopts the recommendations of this report as a proposal, the Boundaries Commission should note the extensive public consultation that has been undertaken as part of this review.

However, the requirements of section 218F of the *Local Government Act 1993* with regard to community consultation processes for amalgamation proposals are acknowledged.

Recommendation 7:

The Division of Local Government, Department of Premier and Cabinet (DLG) should play a bigger role in reviewing and supporting councils who propose innovative models of reform.

The DLG should review its guidance to councils on collaborative arrangements and the manner in which it supports councils proposing innovative reform.

Additionally, the DLG should enter into early discussions with Walcha Council to determine ways it may assist the Council to strengthen its long term financial position, asset management practices and strategic planning processes and to identify ways to better manage its future shared services arrangements with other councils.

Recommendation 8

The New England Weeds Authority (NEWA) should continue as a stand alone county council with membership comprising the New England Regional Council and Walcha Council.

The important work of the NEWA is noted and the existing county council model is seen as the best way to ensure the continued delivery of effective and efficient weeds management services throughout the New England area.

12 METES AND BOUNDS DESCRIPTION AND MAP

PROPOSED NEW ENGLAND REGIONAL COUNCIL (*amalgamation of Armidale Dumaresq, Guyra Shire and Uralla Shire Councils*)

Area about 11778.45 square kilometres; commencing at the confluence of Gwydir River and Copes Creek at Lake Copeton; and bounded thence by that creek and Irwins Creek upwads to the southern prolongation of the eastern boundary of Portion 264, Parish of Swinton, County of Hardinge; by that prolongation and boundary and the eastern boundary of Portion 262 and its prolongation northerly to the generally northern boundary of the County of Hardinge; by part of that boundary generally easterly to the eastern boundary of Lot 1, D.P. 588622; by part of that boundary of northerly, the northern boundaries of Lots 1 and 2 easterly, the generally north eastern boundary of Lot 3, D.P. 588622 generally south-easterly and a line south-easterly to, again the generally northern boundary of the County of Hardinge; by part of that boundary generally south-easterly, the generally western boundaries of Portions 9 and 10, Parish of Single, and their prolongation, generally southerly to Copes Creek; by that creek upwards to the southern boundary of Portion 35; by that part of that boundary and the generally eastern boundary of that Portion, generally easterly and generally northerly, the southern and eastern boundaries of Portion 11, easterly and northerly, again the generally northern boundary of the County of Hardinge, generally southeasterly to the range forming the southern watershed of Macintyre River on the eastern boundary of Portion 37, Parish of Single; by part of that range generally easterly to the western boundary of Portion 115, Parish of Eden, County of Gough; by part of that boundary southerly, the generally southern and part of the eastern boundaries of that portion generally easterly and northerly to again, the range forming the southern watershed of Macintyre River; by part of that range generally easterly to western boundary of Lot 1, D.P. 841482; by part of that boundary northerly to the generally southern boundary of the County of Gough; by part of that boundary generally easterly to the generally south-western boundary of Lot 3, D.P. 786388; by part of that boundary and a line north-westerly, the generally south-eastern boundary of Lot 1, D.P. 786388 generally north-easterly, a line easterly, part of the generally south-western and part of the eastern boundaries of Lot 2, D.P. 786388 generally south-easterly and northerly to again the range forming the southern watershed of Macintyre River; by part of that range and Waterloo Range generally easterly and Great Dividing Range south-easterly to the northern boundary of Portion 22, Parish of Ben Lomond; by part of that boundary, the western and part of the southern boundaries of that portion westerly, southerly and easterly to again the Great Dividing Range; by that range generally south-easterly to Inn Road; by that road generally easterly to the southern prolongation of the western boundary of Lot 1, D.P. 554313; by that prolongation and boundary northerly, part of the northern boundary of that Lot easterly to the Macleay Range; by that range generally north-easterly to Ben Lomond (Mountain); by a line generally easterly to the generally south-western boundary of Lot 61, D.P. 705133; by part of that boundary and part of the generally south-eastern boundary of that lot generally south-easterly and generally north-easterly to again a line generally easterly towards Mount Mitchell; by that line to its intersection with the generally north-eastern boundary of Portion 22, Parish of Towagal, County of Clarke; by part of that boundary generally south-easterly to Sara River; by that river downwards and Guy Fawkes River and Pantons Creek upwards to the generally eastern boundary of Portion 49, Parish of Guy Fawkes; by that boundary, the generally eastern boundary of Portion 38, the eastern boundary of Portion 37 and part of the eastern boundary of Portion 35 generally southerly, the northernmost northern and part of the generally eastern boundaries of Portion 36 easterly and generally southerly, the northernmost northern and generally eastern boundaries of Portion 39 easterly and generally southerly, part of the north-

eastern boundary of Portion 43 south-easterly, the northern and eastern boundaries of Portion 47, a line, and part of the eastern boundary of Portion 24 easterly and southerly and the generally northern boundary of Portion 26 and its prolongation generally easterly, southerly and easterly to the range partly forming the generally north-eastern boundary of the Parish of Lookout, County of Clarke; by that range generally south-easterly to the western boundary of Lot 6 DP623563; by part of that boundary and part of the south-western boundary of that lot, southerly and south-easterly to again the range forming the generally north-eastern boundary of the Parish of Lookout; by that range generally south-easterly, part of the generally eastern boundaries of the Counties of Vernon and Clarke, generally southerly, the southern boundary of the Parish of Kunderang, County of Vernon and its prolongation, westerly to Trap Creek; by that creek, Fitzroy Creek and Kunderang Brook, downwards, Macleay River and Blue Mountain Creek, upwards to the north-eastern prolongation of the generally south-eastern boundary of Lot 13 DP704004; by that prolongation and boundary, the generally southern and generally south-western boundaries of that lot and its prolongation, generally south-westerly, generally westerly and generally north-westerly to again the Blue Mountain Creek; by that creek upwards to generally southern boundary of the Parish of Enmore, County of Sandon; by part of that boundary generally south-westerly, the road forming the generally south-eastern boundaries of Portions 202 and 203, Parish of Lawrence, generally south-westerly to the range forming the southern watershed of Mihi Creek; by that range, generally south-westerly and north-westerly to the north western corner of Portion 101, Parish of Eastlake; by a line north to the southern boundary of Portion 120; by part of that boundary, the southern boundaries of Portions 10 and 11, westerly, the generally south-eastern boundary of the Parish of Blacknote, generally south-westerly to the east most south-eastern corner of Portion 464, Parish of Sandon, the generally southern boundary of that lot the southern and western boundaries of Portion 465 and the western boundary of Portion 460, and its prolongation generally westerly and northerly, a line west about 61 chains, a line north about 41 chains, a line east about 15 chains to the south-eastern corner of Portion 467 Rem, part of the generally southern boundary of the Parish of Sandon, generally north-westerly to the southernmost south-western corner of Portion 56, Parish of Tara, County of Inglis, part of the generally eastern boundaries of the Parishes of Tara and Looanga, generally northerly to the northern most corner of Portion 92; by the Nandewar Range generally westerly to the eastern boundary of Portion 18, Parish of Roumalla, County of Hardinge; by part of the western, southern and eastern boundaries of that portion, southerly, westerly and northerly, the southern, north-eastern and northern boundaries of Portion 40, Parish of Winton, County of Inglis, easterly, north-westerly and westerly to the road from Bundarra to Bendemeer; by that road, north-westerly to the Nandewar Range; by that range, generally north-westerly to the south-western corner of Portion 67, Parish of Roumalla, County of Hardinge; by the road from Bundarra to Bendemeer, north-westerly to the northern boundary of Portion 14, Parish of Retreat, County of Inglis; by that boundary, westerly, the boundaries of Portion 20, northerly, westerly and again northerly, the eastern boundary of Portion 2, the eastern and northern boundaries of Portion 19, northerly and westerly to the south-eastern corner of Portion 29; the Nandewar Range, generally north-westerly to the east most corner of Portion 42; by part of the generally north-eastern boundary of the Parish of Retreat, generally north-westerly to the northern most corner of Portion 12; by the Nandewar Range, generally north-westerly to the generally western boundary of the Parish of Cooper, County of Hardinge; by part of that boundary generally northerly, the generally eastern boundaries of Portions 126, 125 and 134, generally northerly, again part of the generally western boundary of the Parish of Cooper, generally north-westerly, the southern boundaries of Portions 91, 59 and 58, easterly to the Gwydir River, aforesaid and by that river downwards to the point of commencement.

Proposal for the creation of a New England Council



APPENDIX 1 PUBLIC NOTICE ANNOUNCING REVIEW



NOTICE OF REVIEW OF LOCAL GOVERNMENT SERVICE DELIVERY IN THE NEW ENGLAND AREA

The Hon Barbara Perry MP, Minister for Local Government, has engaged Mrs Gabrielle Kibble AO as a facilitator to undertake a review of local government services currently provided by Armidale Dumaresq Council, Guyra Shire Council, Uralla Shire Council and Walcha Council.

The review is aimed at examining options for improving service delivery in the New England area, following the collapse of the New England Strategic Alliance of Councils. Extensive discussions with community groups, local government, individuals and government agencies will be undertaken as part of the review process.

The Terms of Reference for the review are as follows:

The facilitator shall:

1. Examine the current arrangements for local government in the following local government areas: Armidale Dumaresq; Guyra; Uralla; Walcha.
2. Consider whether the current arrangements in these local government areas represent the most effective and efficient way of delivering local government services to the community.
3. Identify and consider opportunities for local government to better serve the community in these areas.
4. Report to the Minister for Local Government on these matters by 31 May 2010.

Further information is available on the review website at www.dlg.nsw.gov.au/NESACreview.

Written submissions may be made by persons or organisations with an interest in putting forward points of view relating to the Terms of Reference. Submissions should be forwarded to the New England Regional Review, Locked Bag A5045, Sydney South NSW 1235 or emailed to NESACreview@dlg.nsw.gov.au by 26 February 2010.

Submissions received will be made publicly available at the discretion of the Facilitator.

APPENDIX 2 NOTICE OF PUBLIC MEETINGS



REVIEW OF LOCAL GOVERNMENT SERVICE DELIVERY IN THE NEW ENGLAND AREA

NOTICE OF PUBLIC MEETINGS

A review of local government service delivery in the New England area is currently underway. The review is examining options for improving service delivery in the New England area, following the breakdown of the New England Strategic Alliance of Councils between Armidale Dumaresq, Guyra Shire, Uralla Shire and Walcha Councils.

As part of this process, the review Facilitator, Mrs Gabrielle Kibble AO, is holding the following public meetings:

Town	Date	Venue	Time
Guyra	Monday 12 April 2010	Guyra Sport and Recreation Club 192 Bradley St, Guyra	2:30pm
Armidale	Monday 12 April 2010	Armidale Town Hall Rusden St, Armidale (adjacent to Council chambers)	7:00pm
Walcha	Tuesday 13 April 2010	Walcha Multi-purpose Centre North St, Walcha.	9:30am
Uralla	Tuesday 20 April 2010	Uralla Bowling Club Hill St, Uralla	7:00pm

All meetings are open to residents of any of the areas impacted upon by the review. These meetings are an opportunity to put a range of views directly to the Facilitator, as well as to hear the views of others.

It should be noted that written submissions to the Facilitator have now closed. However, further information is available on the review website at www.dlg.nsw.gov.au/NESACreview.

APPENDIX 3 FINANCIAL SUSTAINABILITY OF THE NEW ENGLAND AREA COUNCILS

1 Revenue

The main sources of a council's revenue are rates and annual charges, user charges and fees, interest, grants, contributions and other revenues (eg. fines, external works and business activities).

The DLG's annual comparatives publication notes that rates and annual charges are generally the most important source of revenue for councils. This source of revenue is relatively stable from year to year and allow councils to plan and use sound financial budgeting methods to achieve their objectives.

User charges are commonly levied on water usage, trade waste and domestic waste management collection. Fees are generally charged for goods or services, providing information and in connection with council's regulatory functions.

Table 1 below provides a breakdown of the revenue sources of the New England area councils for the 2008/09 financial year.

Table 1: Revenue from ordinary activities 2008/09

	Armidaale Dumaresq		Guyra Shire		Uralla Shire		Walcha	
	\$'000	%	\$'000	%	\$'000	%	\$'000	%
Rates and annual charges	15,877	39	3,041	31	3,743	23	3,070	30
User charges and fees	10,274	25	769	8	1,944	12	2,557	25
Investment revenue	Nil	0	15	1	197	1	Nil	0
Other revenues	2,521	6	518	5	276	2	108	1
Grants and contributions - operating	10,059	25	2,929	30	8,230	51	3,399	34
Grants and contributions – capital	1,532	4	2,080	21	1,256	3	690	7
Profits from disposal of assets	512	1	422	4	0	0	276	3
Total	40,775	100	9,774	100	16,103	100	10,100	100
Surplus/deficit	(1,223,000)		1,005,000		3,028,000		(468,000)	
Operating result before cap grants & contributions	(2,473,000)		(1,075,000)		1,772,000		(1,158,000)	

1.1 Rates and annual charges

Industry benchmarks indicate that councils which derive less than 30% of their income from rates and annual charges are considered to have issues with long term financial viability due to their reliance on other, less stable sources of income.

In 2008/09, Armidale Dumaresq, Guyra Shire and Walcha Councils all derived more than 30% of their income from rates and annual charges. In 2008/09, Uralla Shire Council was below the benchmark at 23%.

This reflects long term trends for all of the councils. Since 2000/01, on average 44% percent of Armidale Dumaresq's income has been derived from rates and annual charges. However, there has been a steady drop off in Armidale Dumaresq's rating and annual charges income over the period, which fell by approximately \$600,000 between 2007/08 and 2008/09.

Guyra Shire's proportion of income from rates and annual charges has remained relatively steady, at close to the long term average of 31% since 2000/01. Uralla Shire has seen a drop off in rating and annual charges income in recent years, down from a high of 36% in 2002/03. Since 2000/01, Uralla Shire has averaged 31% of income in this category.

Walcha Council has seen an average of 34% of its income derived from rates and annual charges, also steadily dropping from a high of 40% in 2000/01.

The changes in rating income are also reflected in the amount of outstanding rates owed to each council, as set out in table 2 below.

Table 2: Rates and annual charges outstanding 2004/05 to 2008/09

	2008/09 \$'000	2007/08 \$'000	2006/07 \$'000	2005/06 \$'000	2004/05 \$'000
Armidale Dumaresq	11.71%	11.23%	11.43%	7.02%	6.89%
Guyra Shire	7.84%	7.41%	10.52%	3.19%	2.87%
Uralla Shire	9.33%	11.19%	6.39%	5.67%	4.40%
Walcha	4.63%	7.59%	14.25%	6.56%	2.44%

The above percentages, known as the outstanding rates ratio, show the impact of uncollected rates and charges on liquidity and the adequacy of recovery efforts. A ratio of 10% or less is the industry benchmark.

Armidale Dumaresq Council's outstanding ratio of 11.71% is above the industry standard, and has shown little sign that it is dropping in recent years. Guyra Shire Council's ratio of 7.84%, whilst below the benchmark of 10%, is still reasonably high, compared to the 2.87% it reported in 2004/05. Uralla Shire Council's ratio of 9.33% is also reasonably high, compared to the 4.40% it reported in 2004/05.

In contrast, Walcha Council's rates and annual charges outstanding of 4.63% is considered good for a rural council, especially in the prevailing drought conditions of the time. However, it is noted that Council's ratio peaked at 14.25% in 2006/07.

1.2 Grant income

Grant income is much more susceptible to fluctuations in government policy and economic circumstances. Councils with a grant income of more than 30% of their general income are seen to be reliant on grant income.

In 2008/09, the proportion of income each council derived from grants was broadly consistent with long term averages. Armidale Dumaresq is considered to have manageable grant income ratios. Its proportion of income derived from grants has averaged 21% since 2000/01, reaching a low of 17% in that year.

Walcha Council is considered borderline, having averaged 32% of income from grants in this period, reaching a low of 27% in 2006/07.

Guyra and Uralla Shire Councils are considered to be highly reliant on grant funding. Since 2000/01, Guyra Shire has derived an average of 49% of its income from grants, with Uralla Shire averaging 54%.

The Forsyths' review noted that this was of particular concern for Uralla Shire Council, which is exposed to "community services functions which have no guarantee of continuity, particularly with recent Government trends to amalgamate or introduce competition in the delivery of such services" (Forsyths, p13).

1.3 User charges and fees

The DLG's annual comparatives publication notes that "*Council income from user charges and fees can include payments for such services as private works, payments from the Roads and Traffic Authority (RTA) for work done by rural councils on its behalf, waste management and caravan parks. Increases and decreases may also be affected by changes in a council's revenue raising policy, eg changing from an annual to a user charge for water supply*" (2007 Comparatives, p55).

In 2008/09, Armidale Dumaresq and Walcha Councils derived one quarter of their income from user charges and fees. This is consistent with long term averages, although slightly lower than average in both cases (27% for Armidale Dumaresq and 31% for Walcha).

Guyra and Uralla Shire Councils derived very low proportions of their income from user charges and fees, at 8% and 12% respectively. This also reflects the long terms averages for both councils (9% for Guyra and 11% for Uralla since 2000/01).

1.4 Profits from the disposal of assets

On average, since 2000/01, all of the councils have typically derived around 1% of their income from the sale of assets in any given year. However, all of the councils reported small but substantial increases in income in 2008/09 from the disposal of assets. For example, the income derived by Uralla Shire Council from the sale of assets increased by \$336K from 2007/08 to 2008/09.

While the sale of assets provides a one off cash injection to Council's balance sheet, it should be noted that the selling of assets cannot be relied upon as an ongoing means to prop up Council's financial position.

1.5 Conclusions

The above figures appear to indicate that Guyra and Uralla Shire Councils' revenue is reliant primarily on grant income. Furthermore, the ability of these two councils to increase income is limited as grant funding may or may not be available each year. Impacts of downturns in the broader economy can limit the ability of other levels of governments and other organisations to provide grant funding. Given the large proportion of revenue they derive from such funding, this may in turn impact on the ability of both Guyra and Uralla Shire Councils to maintain and deliver services to the community in the longer term.

Armidale Dumaresq and Walcha Councils appear to have more secure sources of income. On average, since 2000/01 more than half of their respective incomes have been derived from a combination of rates and annual charges and user charges and fees. However, Walcha Council also has had a reasonably high dependence on grant income over this period, which may result in exposure to a degree of funding uncertainty in the future.

2 Expenditure

Table 3: Expenditure on ordinary activities 2008/09

	Armidale Dumaresq		Guyra Shire		Uralla Shire		Walcha	
	\$'000	%	\$'000	%	\$'000	%	\$'000	%
Employee costs	16,385	39	3,205	37	6,219	48	3,685	35
Materials and contracts	10,291	25	2,606	30	3,979	30	3,363	32
Borrowing costs	1,442	3	51	1	153	1	87	1
Depreciation and amortisation	6,213	15	1,739	20	1,505	12	2,103	20
Other expenses	5,083	12	1,168	13	1,219	9	950	9
Interest and investment losses	2,584	6	-	0	0	0	380	4
Total	41,998	100	8,769	100	13,075	100	10,568	100

2.1 Employee costs

Employee costs form the majority of expenditure for all New England area councils. Uralla Shire has consistently incurred the highest employee related costs, at an average of 46% of total expenditure since 2000/01. Guyra Shire has incurred the lowest average employee related costs at 32% of total expenditure in that period. Armidale Dumaresq and Walcha Councils have had manageable employee costs over the period.

As noted above, employee costs are of a particular concern for Uralla Shire Council. It would appear that a number of positions in the Council's permanent staffing structure may in fact be grant funded. Such positions would be particularly vulnerable to changes in grant income. However, it is noted that detailed analysis of Uralla Shire Council's staffing arrangements has been hampered by the lack of relevant information (including an organisational chart) provided in the 2007/08 annual report. This was the only annual report submitted by Council in the past six years.

Table 4: Full time equivalent (FTE) staff 2004/05 – 2008/09

	2008/09	2007/08	2006/07	2005/06	2004/05
Armidale Dumaresq	262	237	228	219	219
Guyra Shire	51	38	54	56	49
Uralla Shire	115	101	100	103	99
Walcha	64	58	58	59	57
Total	492	434	440	437	424

Table 4 indicates a substantial increase in employee numbers across all councils between 2007/08 and 2008/09. However, increased employee related costs have not been entirely evident in 2008/09, having risen in all the councils over that period largely in accordance with long term trends (ie: Armidale Dumaresq (5%), Guyra Shire (7%), Uralla Shire (3%) and Walcha Council (4%) in 2008/09). This suggests that the efficiencies gained from the rationalisation of employees of the NESAC period were marginal at best.

Employee numbers increased in all of the councils over the NESAC period. However, the impact of restructuring arising from the breakdown of NESAC is not yet clear. Armidale Dumaresq has indicated that approximately 9 staff will be made redundant as a result of the winding down of NESAC activities. However, some of these staff may return to other councils where they were previously employed therefore impacting on each council's ongoing employee costs.

2.2 Expenditure on assets

Ageing infrastructure and assets are of significant concern to all councils. The New England area councils have reported the following annual maintenance expenditure on the management of their assets.

Table 5: Estimated annual maintenance expenses needed

	2008/09 \$'000	2007/08 \$'000	2006/07 \$'000	2005/06 \$'000	2004/05 \$'000
Armidale Dumaresq	4,689	4,501	5,009	5,014	5,082
Guyra Shire	1,655	4,562	2,806	2,807	2,855
Uralla Shire	2,354	2,366	2,055	2,003	1,698
Walcha	3,431	3,342	2,481	2,494	1,129

Table 6: Programmed maintenance works

	2008/09 \$'000	2007/08 \$'000	2006/07 \$'000	2005/06 \$'000	2004/05 \$'000
Armidale Dumaresq	4,165	3,983	4,285	4,300	4,131
Guyra Shire	1,385	1,881	1,830	1,831	1,838
Uralla Shire	2,463	2,516	2,333	2,303	446
Walcha	2,075	2,064	1,934	1,947	1,680

Tables 5 and 6 above show the difference between the estimated required maintenance required for assets in each council and the planned maintenance of assets. This indicates that in the case of Armidale Dumaresq, Guyra and Walcha Councils, programmed maintenance has fallen short of planned maintenance in each year since 2004/05. In the case of Guyra, the difference has often been significant, particularly in 2007/08. However, Uralla Shire Council has consistently exceeded its planned maintenance estimates.

The Forsyth's review found Armidale Dumaresq, Guyra and Uralla Councils all face significant pressures with regard to asset management. It found that Armidale Dumaresq's long term asset renewal proposals are very positive, but that their implementation would result in an unacceptable reduction in liquidity levels and reserves.

Guyra Shire's asset renewal proposals are unsustainable over the longer term, particularly when the existing backlog is taken into account. The DLG has supported this view, finding that Guyra Shire Council is not matching required spending for the maintenance of its assets.

Forsyths also found that Uralla Shire's projected asset renewal ratios are positive but that their implementation will come at the expense of poor liquidity and low reserves. However, Uralla Shire has relatively smaller roads and bridge infrastructure when compared to the other councils (all above quotes from Forsyths review, p9).

The DLG has advised that Walcha Council has not met its asset maintenance spending for the past five years, indicating that asset maintenance may be falling behind. Similarly, Walcha Council's estimates regarding the cost of bringing its assets to a satisfactory standard are high indicating significant ongoing cost pressures in this area. The DLG has recommended that Walcha's asset management planning practices be reviewed.

Reporting of assets

The New England area councils have reported the following asset balances in their financial statements for 2008/09. Also provided below is a comparative analysis of depreciation and asset purchases.

Table 7: Asset balances 2008/09 - Buildings

	Fair Value/ Cost	Accumulated Depreciation (Depn)	Carrying Value	Asset Purchases	Asset Purchases/ Fair Value of Assets	Depn	Depn / Fair Value
Armidale Dumaresq	40,380	5,004	35,376	312	0.77%	302	0.75%
Guyra Shire	19,060	1,269	17,791	112	0.59%	141	0.74%
Uralla Shire	15,693	759	14,934	3	0.02%	76	0.48%
Walcha	6,294	567	5,727	56	0.89%	42	0.67%
Average	20,357	1,900	18,457	121	0.57%	140	0.66%
Average - comparison councils¹	49,060	22,047	27,013	1,651	3.35%	975	1.72%
Difference					2.78%		1.06%

¹ Comparison councils comprise Albury City, Gloucester Shire, Upper Lachlan Shire and Warren Shires, which respectively fall into the same council groups as Armidale Dumaresq (group 6), Guyra Shire (9), Walcha (9) and Uralla Shire (10) Councils in the DLG's annual Comparatives publication.

Table 8: Asset balances 2008/09 – Roads, bridges and footpaths

	Fair Value/ Cost	Accumulated Depreciation (Depn)	Carrying Value	Asset Purchases	Asset Purchases/ Fair Value of Assets	Depn	Depn / Fair Value
Armidale Dumaresq	225,161	83,341	141,820	3,063	1.36%	2,716	1.21%
Guyra Shire	57,912	17,690	40,222	979	1.69%	835	1.44%
Uralla Shire	98,805	26,282	72,523	2,046	2.07%	715	0.72%
Walcha	130,724	38,014	92,710	2,109	1.61%	1,321	1.01%
Average	128,151	41,332	86,819	2,049	1.68%	1,397	1.10%
Average - comparison councils¹	197,005	85,477	111,528	4,347	2.66%	2,824	1.38%
Difference					0.98%		0.28%

¹ as per table 7.

Tables 7 and 8 highlight several apparent anomalies in respect to the recording and reporting of buildings and roads, bridges and footpaths assets within New England area council's financial statements for 2008/09.

In relation to the selected comparison councils, the total accumulated depreciation on New England area council's buildings and roads, bridges and footpaths assets is relatively small. Depreciation reflects the consumption or loss of the future economic benefits of an asset through use, wear and tear, and obsolescence. The figures in tables 7 and 8 indicate that the New England area councils' assets are of a good condition.

However, of concern is the New England area councils' average depreciation expense as a percentage of fair value or cost for the period, which is significantly below the average of the comparison councils for buildings. This suggests that the New England area councils may not be appropriately accounting for wear and tear, consequently overstating the carrying value of their assets. This is particularly true of Uralla Shire Council, whose depreciation expenses are well below the regional and comparison council averages for both buildings and roads, bridges and footpaths assets.

A comparison was also undertaken on the level of asset replacement and additions for buildings and roads, bridges and footpaths. In relation to the comparison councils, the New England area councils' asset purchases as a percentage of fair value or costs of assets were relatively low. The low level of asset purchases does not reflect New England area councils' reporting of assets in relation to accumulated depreciation. Low levels of accumulated depreciation would suggest that many of the assets have recently been replaced or purchased.

It is important to note that the analysis is only based on 2008/09 financial statements. However, the results provide an indication of concerns relating to the planning and reporting of assets by New England area councils.

Under NESAC the councils completed asset management planning in the areas of land and buildings and plant and machinery. However, detail on the implementation of these plans is scarce.

Under the State Government's new Integrated Planning and Reporting requirements each council must prepare an Asset Management Strategy and Asset Management Plan to support its Community Strategic Plan (CSP) and Delivery Program. The New England area councils must have such planning tools in place by the time of the commencement of their CSPs on 1 July, 2012.

2.3 Borrowing costs

Guyra Shire, Uralla Shire and Walcha Councils have, on average, spent less than 1% of their total annual expenditure to service debt. Armidale Dumaresq Council borrowing costs have averaged 3% of annual expenditure since 2000/01, peaking at 5% in 2006/07.

This reflects the higher level of debt incurred by Armidale Dumaresq Council during the period and, in contrast, the relatively low debt burden of the other three councils.

2.4 Conclusions

It is clear that all New England area councils carry a particularly high burden regarding employee costs, especially in the case of Uralla Shire Council. This is offset to some extent by its relatively low debt servicing costs. While Armidale Dumaresq faces higher debt servicing costs, this appears to be of less concern for Guyra and Walcha Councils.

However, all of the councils also face significant and increasing costs with regard to the maintenance of their assets. Plans to maintain these assets will need to be improved to ensure the better allocation of revenue and to ensure compliance with the State Government's new Integrated Planning and Reporting requirements. For all of the New England area councils, the improvement of assets to a satisfactory standard will likely come at the expense of poor liquidity and low reserves.

3 Debt levels

Table 7: Borrowings outstanding 2004/05 to 2008/09

	2008/09 \$'000	2007/08 \$'000	2006/07 \$'000	2005/06 \$'000	2004/05 \$'000
Armidale Dumaresq	\$24,262	\$25,397	\$23,815	\$25,405	\$18,621
Guyra Shire	\$1,030	\$1,145	\$1,618	\$1,794	\$1,960
Uralla Shire	\$2,025	\$1,892	\$2,086	\$2,273	\$2,473
Walcha	\$142	\$283	\$221	\$33	\$36

It is immediately clear that Armidale Dumaresq Council has carried a relative higher debt burden throughout the NESAC period. It may be argued that Armidale Dumaresq's high levels of debt are proportionate to the size of the organisation, in comparison with the other smaller councils. However, this ignores the fact that the Council's debt burden has increased by over 23% during the NESAC period.

This increase may reflect the significant proportion of costs associated with the establishment and management of NESAC which were incurred by Armidale Dumaresq Council, particularly in the case of the shared Information and Communication Technology system. However, the continued reliance on debt by Armidale Dumaresq Council in future years would clearly be unsustainable.

Guyra and Uralla Shire Councils both also carry significant debt liabilities. However, they are much smaller than those of Armidale Dumaresq. Walcha Council carries a very small amount of debt and has done so throughout the NESAC period.

The level of debt carried by a council only tells part of the story with regard to its ability to meet debt obligations. The debt service ratio is a tool used to assess the degree to which an organisation's revenues are committed to the repayment of debt. The industry benchmark is 10% or less.

Table 8: Debt service ratios 2004/05 to 2008/09

	2008/09	2007/08	2006/07	2005/06	2004/05
Armidale Dumaresq	8.20%	9.88%	10.39%	8.66%	7.85%
Guyra Shire	3.41%	8.53%	4.35%	4.61%	4.73%
Uralla Shire	2.90%	6.19%	6.74%	4.79%	5.15%
Walcha	0.65%	0.71%	0.23%	0.08%	0.08%

Armidale Dumaresq Council's debt service ratio of 8.20% is at the higher end of the acceptable benchmark. Guyra Shire and Uralla Shire Council's ratios of 3.41% and 2.90% respectively show that they can comfortably meet their existing debt obligations. Walcha Council's ratio of 0.65% reflects the fact that it has almost no borrowings.

Armidale Dumaresq's auditor Forsyths has cautioned the council to carefully address the issue of long term debt. In its 2009 review, Forsyths also warned that Armidale Dumaresq Council has limited capacity to borrow in the short term, whereas Guyra and Uralla have improved capacity (Forsyths report, p12).

However, Forsyths also concluded that "debt is still appropriate for funding long-life infrastructure assets projects if it can be demonstrated that revenue increase will fund increases in interest rate cover" (Forsyths report, p12).

4 Liquidity and cash flow

Table 9: Unrestricted current ratios 2004/05 – 2008/09

	2008/09	2007/08	2006/07	2005/06	2004/05
Armidale Dumaresq	2.18	2.48	2.49	2.43	3.76
Guyra Shire	3.39	2.31	2.78	3.42	5.13
Uralla Shire	3.62	1.24	0.64	0.82	1.45
Walcha	4.02	8.19	4.85	7.96	5.07

The unrestricted current ratio assesses the adequacy of working capital after excluding all restricted assets and liabilities. The ratio shows a council's ability to meet their debts when they become due and payable. The industry benchmark is 2:1 or greater.

Armidale Dumaresq Council's unrestricted current ratio of 2.18 means that it has \$2.18 available to meet every dollar of current liability. However, it has gradually declined since 2004/05 (3.76) and reflects its increasing exposure to debt servicing costs.

Guyra Shire Council's unrestricted current ratio of 3.39 is acceptable, but has declined from 5.13 in 2004/05. Uralla Shire Council's unrestricted current ratio of 3.62 has shown a marked improvement since 2007/08. However, its long term average provides some cause for concern. Walcha Council's unrestricted current ratio of 4.02 is good, but has dropped from its recent high of 8.19 in 2007/09.

Walcha Council's working capital remains adequate. However, the Forsyths' review concluded that, by 2012, Armidale Dumaresq, Guyra Shire and Uralla Shire Councils "will have relatively poor working capital and will be unable to fund any significant reserves and would thus not have the capacity to absorb a financial shock" (Forsyths, p11). This risk appears to be considerably less so for Walcha Council.

5 Cash and investments

Table 10: Cash and investments 2008/09

	Armidale Dumaresq \$'000	Guyra Shire \$'000	Uralla Shire \$'000	Walcha \$'000
Externally restricted	7,890	3,501	3,814	1,882
Internally restricted	5,174	1,888	1,604	783
Unrestricted	1,774	1,328	1,448	0
Total cash and investments	14,838	6,717	6,866	2,665

5.1. Cash reserves

In order to meet certain legislative requirements, councils are required to allocate a portion of their cash reserves to "externally restricted" services, such as water and sewer and domestic waste collection. Councils must also allocate a portion of their reserves to specific internal purposes such as employee costs or specific projects. The remaining reserves are considered "unrestricted" in that they can be allocated to specific purposes by councils as the need arises. Unrestricted reserves are important as they allow a council flexibility in responding to unforeseen costs.

Table 10 indicates that, in 2008/09, the unrestricted cash reserves of Armidale Dumaresq (at 12% of total reserves), Guyra (38%) and Uralla (38%) Councils were adequate to meet normal operational requirements. In 2007/08, the percentages of unrestricted cash reserves for the councils were significantly lower (Armidale Dumaresq 2%, Guyra 24% and Uralla 18%). However, Guyra and Uralla's cash reserves still appeared to be adequate at that time.

In contrast, Walcha Council had no unrestricted reserves in 2008/09 and only maintained low levels of unrestricted reserves in 2007/08 (8%). However, this is unusual as Walcha Council has maintained adequate levels of unrestricted reserves in many previous years.

5.2 Investments

The investments of all of the New England area councils have had varying degrees of exposure to the volatilities of global financial markets in recent years, primarily due to investments in Collateralised Debt Obligations (CDOs). It is expected that some of the "book" losses recognised by the councils will convert to actual losses in the coming years.

At 30 June 2009, Armidale Dumaresq Council's investment portfolio totalled \$10.4 million. ADC's investment write-downs and losses in interest income have amounted to \$7.8 million since 2007/08.

At 30 June 2009, Guyra Shire Council's investment portfolio totalled \$5.4 million of which \$1.1 million have been impacted by the global financial crisis. Guyra Shire's investment portfolio included CDO securities totalling \$0.9 million. Council wrote down its investment assets by \$1.409 million in 2007/08.

At 30 June 2009, Uralla Shire Council's investment portfolio totalled \$5.4 million of which \$0.8 million have been impacted by the market volatility. Uralla Shire's investments portfolio included CDO securities totalling \$0.8 million.

Walcha Council wrote down their CDOs by \$612,000 to \$34,000 as at 30 June 2009. This followed a \$1.2 million write down in 2008.

All of the New England councils have recorded their CDOs as current assets. Current assets are defined as cash and other types of assets that are expected to be realised within 12 months. While the practice of recording CDOs as current assets is acceptable under the Australian accounting standards, it does overstate the solvency of council's finances and improve ratios such as the UCR. Whether New England councils will be actually able to realise their CDOs within 12 months will be depend on the maturity dates of their CDOs and/or existence of an active market.

6 **Business activities**

The main declared business activities of the New England area councils are described below.

6.1 Water and sewerage services

All of the councils operate water supply and sewerage services for their communities. Armidale Dumaresq's water supply service recorded a deficit of \$1,675,000 in 2008/09 compared to a deficit of \$2,163,000 in 2007/08. Its sewerage operations recorded deficits of \$1,161,000 and \$3,210,000 in the corresponding years.

Guyra's water supply service recorded a surplus of \$99,000 in 2008/09 compared with a deficit of \$318,000 the previous year. Guyra's sewerage services operation recorded a surplus of \$42,000 in 2008/09 compared to a deficit of \$118,000 in 2007/08.

Uralla's water supply operation recorded a deficit of \$120,000 in 2008/09 compared to the prior year's deficit of \$337,000. Its sewerage service recorded a surplus of \$42,000 in 2008/09 compared to a deficit of \$217,000 in 2007/08.

Walcha's water supply recorded a deficit of \$213,000 in 2008/09 compared to a deficit of \$189,000 in the previous year. Its sewerage operation reported a surplus of \$35,000 in 2008/09 compared to a surplus of \$15,000 the previous year.

The provision of such services clearly comes at a significant cost to the councils. However, it is noted that the Review of Local Water utilities being undertaken by NSW Office of Water is considering the feasibility of strategic alliances as a mechanism to build capacity within the sector so that councils can meet the requirements of the *Best Practice Management of Water and Sewerage Guideline*.

6.2 Aged care services

The provision of aged care services is significant to many residents in rural communities, particularly in view of trends regarding ageing populations in those areas. Local facilities provide senior citizens with the opportunity for to remain within their area, often close to their family, whilst accessing services. However, in the case of facilities operated by local councils, the viability of these services appears to be largely dependent on grant income.

Guyra Shire Council operates the Kolora Aged Care Services facility which reported a surplus of \$103,000 in 2008/09 compared with a surplus of \$80,000 in the previous year. Kolora received increased grants in 2008/09 which contributed to its improved operating result. However, Kolora appears to have sufficient cash reserves to cover statutory obligations (especially bond payments) and fund operational needs in the short to medium term.

Uralla operates the McMaugh Gardens Aged Care Service in Uralla, which reported a surplus of \$126,000 in 2008/09 compared with a deficit of \$365,000 in the previous year. McMaugh Gardens currently only has small cash reserves to fund its operations, outside of bond payments.

Uralla also has a significant financial interest in the running of the Grace Munro Aged Care Service in Bundarra. However, this facility is not a declared business of the Council and is therefore not reported in its financial statements.

6.3 Other business activities

Armidale Dumaresq, Uralla Shire and Walcha Council undertake private works. Walcha Council also provides concrete batching services. As noted in section 1 of this Appendix, these provide additional income for the councils.

7 Annual reporting practices

The annual report is considered to be the primary mechanism by which a council communicates information about its activities to the community. Under section 428(1) of the *Local Government Act 1993*, all councils are required to publish an annual report by 30 November each year.

The failure to do so limits the ability of the community to gain a complete picture of a Council's activities and financial position. It also means that a council's external auditors are unable to cross reference annual general purpose financial statements with actual outcomes delivered.

It is noted that Uralla Shire has submitted only one annual report to the DLG in the past six years, for the 2007/08 financial year. Walcha Council has only submitted annual reports in three of the past six years (2004/05, 2007/08 and 2009/10). In contrast, Armidale Dumaresq and Guyra Shire Councils have both submitted annual reports in five out of the six years.