

# Revitalising local government.



**Improving engineering  
capacity to fix the  
infrastructure backlog.**

A submission by





## **LGEA’s response to “Methodology for Assessment of Council Fit for the Future Proposals” by the Independent Pricing and Regulatory Tribunal**

Following is the LGEA’s response to the Independent Pricing and Regulatory Tribunal’s (IPART) Consultation Paper on the methodology for Assessment of Council Fit for the Future Proposals.

The LGEA represents engineering and other technical professionals employed in councils throughout NSW on industry issues and employment related matters.

Since our foundation in 1919 our members have always been dedicated to serving their local communities through the provision of safe and reliable infrastructure of the highest possible quality and we have played an active role in the current discussions concerning the future of the industry.

Our members want to be a part of a local government where long-term thinking triumphs over short-term objectives, where projects are properly scoped, designed and managed and where councils have sufficient numbers of skilled and qualified employees to ensure that they are informed infrastructure managers.

Instead, they find themselves in an industry in which experienced engineers and technical professionals are being worked to the bone whilst younger professionals are struggling to find opportunities to even get on-the-job training in their chosen fields.

This response builds upon the position we have taken in our three submissions to the Independent Local Government Review Panel (ILGRP) and one submission to the Local Government Acts Review Taskforce.



## Introduction

The biggest challenge facing NSW local government is the asset maintenance gap and the cumulative infrastructure backlog. If we are to address this gap and meet the backlog without wasting hundreds of millions of dollars in ratepayers' and taxpayer funds, we must make sure councils throughout the State are equipped to meet this gap and redress the backlog. We must equip them with the tools to undertake the task. The most necessary of those tools are the enabling professions on which the accurate costing, delivery and maintenance of infrastructure depends. Key amongst these are engineers.

In the words of the ILGRP,

*“the sheer scale of infrastructure problems threatens to overwhelm a significant number of councils.”* (page 28)

Throughout Australia, governments have lost the necessary expertise to deliver infrastructure projects. They have become dependent on outsourcing projects to the private sector for delivery, and in many cases – including in Local Government – lack the required amount of resources or internal skills to conduct proper oversight. Local Government, with relatively low rates of pay when compared to public and private sector organisations, is at a particular disadvantage when it comes to attracting technical professionals and has become dependent on migrant engineers, who often use Local Government as a staging post to further career opportunities. There is a resultant loss of in-house capacity, expertise and local knowledge meaning that the private sector increasingly deals with an ill-equipped client (what has become known as an “uninformed purchaser”) which drives project delays, cost over-runs, contract variations and waste.

The Australian National Engineering Taskforce (ANET)<sup>1</sup> explains: “A lack of engineering capacity within agencies necessarily results in the outsourcing of scope and design work to the private sector. It means that the agency becomes an uninformed purchaser and drives inadequate scope and design, which can have severe consequences”<sup>2</sup>. 52 per cent of respondents (drawn from across sectors, public and private) to Blake Dawson in 2008, “felt their project was not sufficiently and accurately scoped prior to going to market”<sup>3</sup>, an increase of ten per cent from the same survey in 2006<sup>4</sup>. This caused “cost overruns (61%), delayed

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<sup>1</sup> ANET is a taskforce formed by the Association of Professional Engineers, Scientists and Managers Australia (APESMA), Engineers Australia, The Association of Consulting Engineers Australia (ACEA), The Australian Council of Engineering Deans (ACED) and the Australian Academy of Technological Sciences and Engineering (ATSE) with the purpose of creating a national strategy for the development of Australia’s current and future engineering workforce.

<sup>2</sup> ANET (2012), p51. *Realising an Innovation Economy*. ANET, Sydney.

<sup>3</sup> Blake Dawson in ANET (2012), p21-22. *Realising an Innovation Economy*.

<sup>4</sup> Ibid.



completion (58%) and disputes (30%)”, with “26% of the \$1 billion+ projects surveyed being more than \$200 million over budget”<sup>5</sup>.

The LGEA believes that in order to tackle the infrastructure backlog it is necessary to not only invest in infrastructure, but to also invest in the technical professionals which can enable a more efficient and effective delivery of that infrastructure.

In our view it is critical that any methodology for the assessment of whether a council is *‘Fit for the Future’* needs to take into account whether it is actually *‘Fit for Purpose’*. That is, whether the existing council (or proposed merged entity) actually has the technical and engineering capacity to manage its infrastructure in an effective way today and into the future.

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<sup>5</sup> Ibid.



## What's missing from the assessment process?

Throughout the industry reform process our members have said that whilst the status quo is not workable, council mergers and money alone will not fix the problems. Yes, more funds are required and financial management needs to be sound, however, infrastructure works don't just require money in order for them to be undertaken. Councils also require appropriately qualified and experienced technical professionals to undertake the work and/or manage its external delivery.

For a long time now Local Government has struggled to attract and retain sufficient numbers of appropriately qualified staff and to engage them at senior levels within organisation structures, particularly in the area of asset management. This is preventing councils from staying on top of their infrastructure needs which, in turn, affects their ability to provide infrastructure and other services to their communities in an effective and sustainable way.

So far the Government, through the ILGRP, has failed to identify any solutions to these capacity problems. And it is our great fear that while there is a reasonably heavy focus on infrastructure and service management in the Government's proposed assessment of council performance, there is very little consideration as to whether councils actually have the technical and engineering capacity to manage assets in an effective way. This raises a very real risk that new organisations will be recommended and emerge within the industry that will be no better able to meet community infrastructure needs than the current organisations.

We recognise that IPART is required to make its assessments in accordance with the Terms of Reference which have been set by the Government. Therefore, the LGEA has decided to conduct its own *Fit for Purpose* audit of councils based upon a series of criteria which we believe are better able to determine whether an organisation, existing or proposed, has or is likely to have the required capacity to meet its infrastructure needs now and into the future.

Designed to complement the Fit for the Future process, the information gathered through our audit will enable us to identify the following:

- the councils/regional areas that are lacking in engineering and technical professional capacity;
- the infrastructure that local communities are missing out on due to a lack of engineering resources;
- the savings that aren't being realised by ensuring that projects are properly scoped, designed and managed;



- the waste, delay and cost blowouts that arise when councils aren't informed purchasers of infrastructure and have to resort to more expensive options to provide infrastructure services;
- the councils that are investing in the next generation of engineers and technical professionals through cadetship, traineeship and graduate programmes.

A comparison of the criteria used in each of the assessment processes is set out in the table below.

<b>Government's Fit for the Future Assessment Criteria</b>	<b>LGEA Fit for Purpose Assessment Criteria</b>
<p><b>Scale and Capacity</b> To be considered in conjunction with the structural changes recommended by the LG Independent Reform Panel, which are to be used as a guide.</p>	<p><b>Engineering/Technical professionals positions within your Council</b> How many require tertiary qualifications? How many are currently filled with an unqualified person, or vacant. At what level is the HIGHEST ranked position that requires a tertiary qualification in engineering?</p>
<p><b>Financial Sustainability</b></p> <ol style="list-style-type: none"> <li>1. Operating Performance Ratio <ul style="list-style-type: none"> <li>- Can Council meet ongoing operating expenditure requirements?</li> </ul> </li> <li>2. Own Source Revenue <ul style="list-style-type: none"> <li>- Can Council control its operating performance and financial sustainability?</li> </ul> </li> <li>3. Building and Infrastructure Asset Renewal Ratio <ul style="list-style-type: none"> <li>- Are Council's assets deteriorating faster than they are being renewed?</li> </ul> </li> </ol>	<p><b>Future Engineering/Technical capacity</b> Does your Council employ any cadet, trainee or graduate engineers? How many? Is their employment shared with other councils/organisations? How is their study/employment structured?</p>
<p><b>Infrastructure Management</b></p> <ol style="list-style-type: none"> <li>1. Infrastructure Backlog Ratio</li> <li>2. Asset Maintenance Ratio</li> <li>3. Debt Service Ratio</li> </ol>	<p><b>Infrastructure Management</b> What is Council's reported total infrastructure backlog? Is this backlog exacerbated by insufficient numbers of qualified engineering and technical staff? What additional qualified engineering and technical resources does your Council require to enable it to reduce its infrastructure backlog? How does that compare to the current resourcing levels of the engineering/technical departments of your Council?</p>
<p><b>Efficiency</b> Real Operating Expenditure per capita - measures productivity savings achieved over time</p>	<p><b>Contractors &amp; Consultants</b> What work is performed by contractors/consultants at your Council? What is the cost of this work? What would the cost of the same work be if it had been done by "in-house" staff? What savings have been achieved by engineering/technical professionals employed by Council?</p>



## Comments on IPART's proposed assessment methodology

IPART has developed a series of questions for stakeholders to consider when submitting comments to the consultation paper. Our responses to the *most relevant questions for our members* are set out below:

**1. How should the key elements of strategic capacity influence our assessment of scale and capacity? Are there any improvements we can make to how we propose to assess the scale and capacity criterion, consistent with OLG guidance material?**

As set out earlier in our submission we believe the current concept of what constitutes “capacity” is deficient. We also strongly believe that the concepts of “scale” and “capacity” are distinct. That is, it is very possible that a small council could have great “capacity” to deliver infrastructure and other services to its community, whereas a large council may not. It is therefore important that IPART assesses the elements of capacity separately, and in addition, to the ILGRP’s recommendations with respect to scale.

Despite the deficiencies, the “Key elements of Strategic Capacity” set out in Box 3.1 of IPART’s Consultation Paper provide some scope to properly assess a council’s capacity to meet its infrastructure objectives. The following elements in particular could provide useful information to enable assessment of councils if the right questions are asked:

- *Scope to undertake new functions and major projects;*

Does the council/proposed merged entity employ sufficient numbers of qualified engineering and other technical professionals to enable the organisation to undertake major projects in an informed and cost effective way?

- *Ability to employ wider range of skilled staff;*

Does the council/proposed merged entity make the necessary investments in training, career path development and have terms and conditions of employment to attract and retain skilled staff?

Does the council/proposed merged entity have a cadetship/traineeship programme and engage graduate engineers to develop the engineering and technical staff of tomorrow?



- *Knowledge, creativity and innovation;*

Engineers are professional problem solvers. Does the council/proposed merged entity employ sufficient numbers of qualified engineering and other technical professionals to encourage knowledge transfer, and provide time to be creative and innovative? And, is there sufficient investment in training, mentoring of staff and professional development to ensure that staff are aware of best practice techniques and approaches?

- *Resources to cope with complex and unexpected change;*

Does the council/proposed merged entity employ sufficient numbers of qualified engineering and other technical professionals to enable it to cope with complex and unexpected change?

- *High quality political and managerial leadership.*

One of our key recommendations to the Government during the reform process has been the introduction of a requirement that all councils have a qualified Chief Engineer. We see this as a critical reform as it will raise the engineering competence of the industry and ensure that value-for-money is delivered, optimal solutions found and timetables met when clearing the maintenance and infrastructure backlog.

The ILGRP's final report is replete with examples of how improved financial performance and improved asset management planning are considered inseparable. One without the other is not sufficient to ensure effective asset management planning. In its final report the Panel stated that asset management planning must be prioritised, and that long-term asset and financial plans are the essential foundations of sustainability for the industry (pages 34-5).





While the task of assessing whether a council has high quality *political* leadership will no doubt attract significant debate, we submit that assessing councils on the quality of their *managerial* leadership is much more straight forward. The key consideration for IPART should be whether the position with principle oversight of asset management within the council requires professional engineering qualifications and experience supported by post graduate education in management.

The creation of a requirement for a position of Chief Engineer would also help to elevate the profession within the industry, and provide an enhanced career path for engineering professionals. This could only improve the industry's attraction and retention rates of engineering and technical professionals; a goal that the Panel has said deserves a high priority (page 57).

#### **Our Key Recommendations on the Scale & Capacity Criterion**

- The concepts of “scale” and “capacity” are distinct. It is important that IPART assesses the elements of capacity as set out in Box 3.1 separately and in addition to the ILGRP's recommendations with respect to scale;
- When assessing capacity IPART should ensure that councils:
  - employ a Chief Engineer with professional engineering qualifications and experience to oversight infrastructure management and delivery;
  - have an organisation structure that includes sufficient numbers of qualified engineering and other technical professionals to ensure the council has the expertise and knowledge required for the efficient delivery of safe and effective infrastructure to its community;
  - are investing in the next generation of engineers and technical professionals through cadetship, traineeship and graduate programmes.



**2. Are there any improvements we can make to how we propose to assess the sustainability, infrastructure management and efficiency criteria, consistent with OLG guidance? Are there issues that we need to consider when assessing councils' proposals using the measures and benchmarks for these criteria?**

The ILGRP confirmed that the biggest challenge facing NSW local government is the asset maintenance gap and the cumulative infrastructure backlog. If we are to address this gap and meet the backlog without wasting hundreds of millions of dollars in ratepayers' and taxpayer funds, we must make sure councils throughout the state are equipped with the required tools and resources and are structured in the best possible way.

It is also critical that the key infrastructure benchmarks (Building and Asset Renewal Ratio, Infrastructure Backlog Ratio, Asset Maintenance Ratio and Debt Service Ratio) are appropriate, well understood and consistently applied and assessed. That is not currently the case and there are concerns within the industry that a number of the benchmarks should be modified to ensure a more realistic and consistent assessment of infrastructure needs and funding and capacity requirements.

A fair and accurate assessment of whether an existing council (or a proposed merged entity) is able to deliver infrastructure to their communities efficiently and effectively, or has a clear plan that will enable it to do so within a certain timeframe, is fundamental to the *Fit for the Future* process. Therefore, we submit that it is necessary for IPART to attend to the issues that are associated with the proposed benchmarks upfront in the assessment process.

In that regard the LGEA supports the submissions made by the Institute of Public Works Engineering Australasia (IPWEA) and calls on IPART to carefully consider the IPWEA's proposals for modification, clarification and assessment of the various ratios and benchmarks.



**3. Should council performance against FFTF proposals be monitored? If so, are there any improvements we can make on the approach outlined for councils to monitor and report progress on their performance relative to their proposals?**

We believe that the capacity of a council to deliver infrastructure services to its community effectively and efficiently is directly linked to the organisation's engineering and technical capacity.

Therefore, it is our submission that councils should be required to include within its Asset Management Plan the number of positions and the levels at which they are engaged within its organisation structure which require professional engineering and other technical professional qualifications. This will confirm whether each council has a Chief Engineer, a structure that provides suitable depth of qualified staff and is making the necessary investment in future engineering capacity by engaging cadet, trainee and graduate engineers.

The LGEA has offered to work with the Government and other relevant industry parties to develop appropriate Workforce Development plans for engineering and technical professionals to build the capacity of the industry.



## Additional comments to IPART

### Amalgamation

Council amalgamations may help bridge the infrastructure backlog by building organisations of a scale and capacity that are better able to deliver engineering services and manage infrastructure programmes. Our policy on amalgamations is that we will be guided by members at the councils involved as to whether a particular merger proposal has merit. We will only support an amalgamation where our members will not be disadvantaged and where the proposed amalgamation will lead to better resourced councils that are better placed to resolve infrastructure issues in the communities involved.

The LGEA Committee of Management has resolved the following policy in relation to council amalgamations:

*Council amalgamations are not automatically beneficial for local government communities. Nor are all council amalgamations necessarily to be opposed. Each amalgamation proposal must be assessed on its merits.*

*The LGEA will support amalgamations which:*

- 1. Result in a better resourced Council that can sustainably manage the community's infrastructure,*
- 2. Improve the strategic capacity of the Council, particularly the ability to undertake long term planning for the community,*
- 3. Protect the job security of LGEA members by retaining current employees who want to stay with the new Council,*
- 4. Lead to better jobs for LGEA members eg by improving career paths and opportunities for advancement and ensuring manageable workloads,*
- 5. Provide just compensation for members made redundant as a result of the amalgamation.*

*The LGEA will not support amalgamations that do not have these essential features, unless the majority of members affected by any particular amalgamation proposal advise the Committee that there are special local factors which would justify our support for such an amalgamation.*



## Regional 'Joint Organisations' of Councils

We note the ILGRP's recommendation that additional options for local government structures be considered, such as the proposed regional 'Joint Organisations'. In principle, the LGEA is not opposed to these additional structures, and can see the value in increased resource-sharing and joint planning, particularly in regional areas. However, from our perspective it is vitally important that the creation of such entities is not undertaken in an effort to, amongst other things, avoid obligations arising from either the *Local Government Act*, or the *Local Government Award*. As such we support the Panel's recommendation that these organisations be formally established under new provisions of the Local Government Act as well as its recommendation that they should be subject to coverage by the Award.

The proposed new structures throw up a host of other issues that will need to be carefully considered prior to their implementation. Therefore, we suggest that if IPART decides to in any way recommend adoption of this particular recommendation of the Panel then it should also recommend that an Industry Working Party first be established to identify the various matters that would be associated with the formation of such organisations. Given that these organisations are likely to have a focus on regional infrastructure assets we would have a particular interest in being involved on such a working party.



## Conclusion

The LGEA is grateful for the opportunity to provide our comments on the proposed methodology for the assessment of council *Fit for the Future* proposals. We recognise the need for industry reform and encourage reforms that seek to help resolve the industry's cumulative infrastructure backlog. We believe that it is vital that skills and qualifications are recognised and that steps are taken to ensure that the industry has the expertise and knowledge required for the efficient delivery of safe and effective infrastructure to our communities now and into the future.

We are keen to continue to play an active role in the reform process and would welcome the opportunity to further address the issues we have outlined or to provide any further assistance as required.

## LGEA

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