



25 May 2015

Dr Peter Boxall
Chairman
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop 1240

Via online portal

Dear Dr Boxall,

Methodology for Assessment of Council Fit for the Future Proposals

The Sydney Business Chamber (SBC) is a division of the NSW Business Chamber and represents Sydney's leading corporations. The SBC advocates for Sydney to be a competitive and sustainable global city. The SBC welcomes the opportunity to comment on the *Methodology for Assessment of Council Fit for the Future Proposals* ("the Methodology").

The SBC strives to identify, develop and promote the major issues that contribute to economic activity and growth in Australia's only global city, Sydney. We do this by representing and engaging with government on behalf of business at the local, state and federal level.

The SBC has been a consistent and vocal advocate of the need for local government reform within Sydney. Simply put, the current governance structure of 41 local councils within metropolitan Sydney is failing to support the needs and aspirations of a modern and growing city. Change is both inevitable and long overdue for local government. A failure to embrace change can only result in a reduction in the quality of services and delivery of infrastructure to the community.

As identified by the Independent Local Government Review Panel (ILGRP), with changes in demographics, increasing demands on local infrastructure and a much tighter fiscal environment for governments generally, maintaining 152 local councils in this state is simply not feasible.

While the SBC appreciates that under the terms of reference for this review the capacity for IPART to go beyond developing a methodology and assessing whether a council is *Fit for the Future* (FFTF) is limited, the SBC believes that where FFTF status is not achieved or where a FFTF proposal could be improved, through further council or boundary consolidation, those improvements should form part of IPART's recommendations to Government. Not doing so would be a missed opportunity and would leave councils 'muddling through' as the challenges identified by the ILGRP mount even further.

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 identified in our 2009 report, prepared by KPMG, *Sydney First – Governance Arrangements for Sydney's Local Authorities*, while efficiency gains can be achieved through the merging of councils, it is merged councils' increased strategic capacity and scope that provide the greatest benefit from structural reform. To demonstrate strategic capacity, councils need to be able to show that they are financially sustainable, have access to a strong skills base and that they are an effective partner with other councils, state and federal governments and government agencies.

We are in broad agreement with the assessment criterion to assess scale and capacity provided by the IPART. We would however suggest that a target number of councils for Sydney of between 6-10 be used in the assessment to ensure that scale, capacity and equitable balance is achieved across the metropolitan area. Six to ten councils in Sydney would align generally with the Metropolitan Strategy's sub-regions and allow for a higher level of co-operation and co-ordination on strategic planning priorities between state and local governments.

Sydney Business Chamber
Office address
Level 12, 83 Clarence Street
Sydney, 2000
Postal address
GPO Box 4280
Sydney NSW 2001
DX 10109
☎ (02) 9350 8119
☎ (02) 9350 8199
✉ enquiries@
thechamber.com.au

The SBC emphasises however that even if a merged grouping of councils achieves FFTF status, further analysis should be undertaken to see whether additional councils might be beneficially merged with the group. If the target of reform of local government is scale and capacity, it simply can't be left to the political imaginations of councils themselves to achieve it. IPART must provide clear guidance to Government on where additional opportunities for mergers exist despite councils' alternative proposals.

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?

IPART's proposals for assessment of council sustainability are appropriate. As stated in the SBC's 2009 report, some of the key benefits we identified (in addition to improved infrastructure management) from reforming local government in Sydney included:

- Streamlining back office administrative functions, such as IT systems and payroll functions;
- Reducing governance and administration costs due to a reduction in the number of senior management and councillors; and
- Reducing charges for businesses and consumers due to more efficient processing of services.

We would suggest that measurements of these specific benefits be developed for FFTF councils over the next five years of the councils' operation to ensure value is being maximised back to the community and that councils remain sustainable over the longer term.

The FFTF Criteria and Measures included on page five of the methodology provide a good basis to assess councils. However, the efficiency measure captures operating expenditure only, and not capital. The 2012 Property Asset Utilisation Taskforce¹ found that public assets are chronically underused in NSW and there is a lack of positive incentives to improve performance. We suggest the inclusion of an additional measure to capture the utilisation of councils' current capital stock and provide an incentive for improvement.

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?

Even if a council meets all criteria under FFTF, ongoing monitoring of councils' performance is essential to ensure that it improves and that the community benefits from reform.

As the SBC noted in its submission to the ILGRP, although the underlying findings of the TCorp's analysis of council sustainability are correct, the quality of the data provided by local government on which the report was based is variable and inconsistent. Accordingly proposals such as those set out by IPART to develop more robust sustainability benchmarks to ensure that local government sustainability can be consistently and accurately measured are supported.

Self-reporting of FFTF performance in councils' annual reports is a vital first step to ensure reforms are implemented and the benefits passed on to residents and ratepayers.

The proposal to follow the lead of Victoria and Queensland in placing local government audits under the oversight of the Auditor General is sensible and we welcome its anticipated implementation by Government by the end of 2015-16.

We do however note that improving the performance of local government will require co-ordinated oversight and support. As was identified by the NSW Auditor General in his 2012 report *Monitoring Local Government*, the current provisions of the *Local Government Act 1993* limits the Office of Local Government (OLG) from playing more of a lead role in ensuring that councils deliver effective and efficient services for their community:

¹ <https://www.procurepoint.nsw.gov.au/sites/default/files/documents/paut-report-final-nov12.pdf>

*"Of greater concern is that the Act does not require the DLG to monitor councils' service delivery or their compliance with the Act or other NSW legislation. DLG has decided to monitor some areas of compliance, such as the level of rates charged. However it does not monitor whether councils deliver services efficiently and effectively"*²

Co-ordinated monitoring and support for councils from the Auditor General, OLG, Department of Planning and IPART should therefore be a key focus in driving councils' scale, capacity and sustainability over the long term.

Please feel free to contact Mr Luke Aitken, Senior Manager Policy, New South Wales Business Chamber on [REDACTED] or via [REDACTED] if you wish to discuss these matters further.

Yours sincerely

[REDACTED]
The Hon. Patricia Forsythe
Executive Director

² *New South Wales Auditor's Report: Monitoring Local Government, 26 September 2012, p.3*