



Submission to the Division of Local Government
Local Government Independent Review Panel

Revitalising Local Government

Submitted by

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1 February 2014



INTRODUCTION

The Institute of Public Works Engineering Australasia (IPWEA) is a not for profit, membership based, professional organisation representing engineers and others involved in the provision of public works and services predominantly in the local government sphere. The Institute conducts a National office and Divisions across all states and New Zealand.

This submission is authored by the NSW Division.

The IPWEA NSW Mission is *to enhance the quality of life of NSW Communities through excellence in public works and services.*

Infrastructure provided by all levels of Governments plays a critical and fundamental role in ensuring economic activity is supported and growth can occur. Delaying infrastructure improvements (or even basic maintenance) impacts on economic sustainability (often seen as confidence in a location), transport (movement of people and freight) and impacts on the cost of living for our communities (electricity, water, sewerage, transport, etc).

Engineers, as part of a broader team, play key roles in infrastructure development, design, construction, operation and maintenance. These engineering roles underpin nearly every aspect of life nowadays (as the disciplines in engineering are broad and cover a very wide range of industries)

Engineers develop an understanding of systems, safety and performance requirements, and optimising delivery to meet service requirements. Without the safeguards inherent in an engineered solution, infrastructure performance would be haphazard, dangerous and much more costly.

To maintain the communities lifestyle's and sustain our standard of living, sufficient engineering skills need to be brought to bear - sufficient engineering knowledge is required to be part of decision making processes, so at least, the results of decision-making are understood and the ramifications planned for.

TERMS OF REFERENCE

The local Government Review Panel primary task was to formulate options to

- Improve the strength and effectiveness of local government
- Help drive the key strategic directions set out in the Destination 2036 Action Plan and to further the objectives of NSW 2021

This submission addresses several but not all key Terms of Reference including:

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



- ability to deliver services and infrastructure efficiently effectively and in a timely manner
- the financial sustainability of each local government area
- barriers and incentives to encourage voluntary boundary changes

SUMMARY AND RECOMMENDATIONS

IPWEA NSW seeks to enhance the quality of life of NSW Communities through excellence in public works and services. In preparing this submission in conjunction with a detailed response to the Local Governments Ask Taskforce.

IPWEA NSW has restricted its response to the service delivery functionality of local government, a need to fund and address the infrastructure back log in NSW, meet future community expectations for public infrastructure public works and services, manage risk and financial sustainability.

IPWEA NSW:

- Supports efforts to ensure the long-term sustainability and effectiveness of NSW local government
- Recognises the need for sustainable revenue streams to meet both community expectations and public infrastructure needs, taking into account the documented 2013 NSW Local Government Infrastructure Audit Report¹
- Appreciates the different nature and needs of regional, rural and metropolitan communities, in particular the issues and problems facing the Far West of NSW requiring special arrangements
- Supports the development of policy ensuring that local government has the right structures, governance models, skills and resources to discharge its responsibilities and realise its potential
- Acknowledges the need for major new initiatives are required to tackle the underlying problems of financial weakness and infrastructure backlogs. Including changes to the rating system and rate-pegging are essential to generate the revenues needed to fund infrastructure and services, and – equally as important – to make the system more equitable.
- Accepts given limited funds, the distribution of grants must change to direct more assistance to areas of greatest need
- Understands stronger regional organisations are vital to ensure increased resource sharing and joint planning, and to support vulnerable rural-remote councils, however is concerned that invaluable “local” technical knowledge may be lost



- Acknowledges structural reform – including council amalgamations – is another essential component of reform, notably in metropolitan Sydney that again faces the challenge of retaining localised knowledge
- Agrees reforms must be pursued as an integrated package, not one-off measures.

In addition IPWEA

- Acknowledges the need for each Local Government Council to have a suitably qualified Chief Financial Officer (CFO)
- Recommends the requirement for each Local Government Council to have a suitable qualified Chief Infrastructure (Asset Management) Officer (CIO or CAMO) with engineering qualifications
- Seeks provision for ongoing professional development requirements for elected representatives, senior and operational staff in strategic, managerial and technical matters

BACKGROUND

The need to bring sustainable local government in New South Wales has been identified through previous reports and through the current significant reform process with reports from the Local Government Review Panel and the Local Government Acts Taskforce open for public comment.

IPWEA NSW will be making a detailed submission independent of this submission to the Local Government Acts Taskforce and has recently made a submission to the *“Building a New Local Government Performance Framework Discussion Paper”*.

The Public Infrastructure backlog is real. The NSW Minister for Local Government in the 2013 NSW Local Government Infrastructure Audit Reportⁱⁱ states

“This report confirms what many have been thinking and saying – there is a large local government infrastructure backlog in NSW and some councils face real and significant challenges in terms of maintaining and renewing the infrastructure that is critical to their communities and the NSW economy. Not surprisingly, the audit has also found that many of those councils with substantial backlogs are also struggling financially.

Clearly, the status quo is not an option. Rather, the NSW Government, together with councils, the Federal Government and other key stakeholders will need to continue to work together to address the challenges identified in this report.

The results of this audit, together with the NSW Treasury Corporation’s Report on the Financial Sustainability of NSW Local Government Sector and the work of the Independent Local Government Review Panel and the Local Government Acts Taskforce, will provide direction for all councils in NSW to establish strong communities through these partnerships.”

IPWEA NSW through its membership and representation is at the front line in delivering public infrastructure and services to communities in New South Wales. Promoting excellence in public works, providing leadership in education and solutions in Asset Management, equipping local government with technical expertise through professional development opportunities, technical



publications and seeking to address economic development across NSW through areas such as funding for public infrastructure and addressing skills shortage.

A DETAILED RESPONSE

Part A: THE NEED FOR STRUCTURAL CHANGE

There is extreme diversity in local government NSW IPWEA NSW is reassured that the Panel has recognised that here cannot and should not be a one size fits all approach to reform - but change must happen.

The reality is and the is little debate that the time has come to tackle the underlying issues. Central to the impetus for reform and the Local Government Review Panel acknowledges and supports that there is a significant Infrastructure Backlog. Both Tcorp and the Division of Local Government now estimate the backlog as over \$7 billion.

There is no doubt that the sheer scale of infrastructure problems threatens to overwhelm a significant number of councils.

IPWEA (NSW) supports the panels' position on the essential elements of fiscal responsibility in local government;

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

Part B: FINANCE and GOVERNANCE

In addressing the fiscal responsibility issue in local government the Panel acknowledges the need for access to a qualified Chief Financial Officer for councils but does not pursue the theme for access to a qualified Chief Infrastructure (Asset Management) Officer (CIO or CAMO) with engineering qualifications in regard to the Asset Management issues related to financial sustainability. This is of major concern to IPWEA NSW.

With the need to address the Public infrastructure backlog and to recognise community expectations, IPWEA NSW is supportive of a Capital Expenditure Framework that provides for a capital expenditure and monitoring guidelines. Such a framework needs be developed that integrates with a consistent IPR framework and enables the appropriate management of risk by councils. This guideline should be tailored to risk levels, including significance of the project, materiality and whole of life costs, and not based on arbitrary monetary thresholds or procurement vehicle.

By ensuring that it is a requirement for each Local Government Council to have a suitable qualified Chief Infrastructure (Asset Management) Officer (CIO or CAMO)with engineering qualifications, the ability of local government to meet and manage this risk is enhanced.

The Panel acknowledges the requirement for improved performance measures to properly develop appropriate benchmarking data to monitor council performance and sustainability. The Division of



Local Government is currently working on new performance measures with one of the four pillars being Asset Management.

IPWEA NSW has submitted a detailed response to the discussion paper and seeks to be an active participant in this process.

The Panel recommends a strengthening of the IP&R Framework so that the councils Delivery Program accurately and fully reflects the provision of its Asset & Financial Plans

IPWEA NSW along with the NSW Roads and Transport Directorate have been strong proponents of an Asset Management and the Integrated Planning and Reporting regime.

The role of Local Government should be to work in cooperative arrangements with the community, other councils, State and Commonwealth Governments to achieve and report outcomes based on community priority as established through integrated planning and reporting and to provide or procure effective, efficient and financially affordable economic assets, services and regulation.

Initiatives developed by IPWEA which will assist councils in developing their community strategic plans:

- The International Infrastructure Management Manual (IIMM) which is a comprehensive guide covering planning for assets
- The NAMS.PLUS training programme which provides councils with the knowledge and framework necessary to develop asset management plans.
- The development of the NAMS Australian Infrastructure Financial Management Guidelines that will provide a national standard for financial reporting on infrastructure assets
- The Roads & Transport Directorate Fair Value Valuation Guide will assist councils in meeting the Department of Local Government requirements for revaluation of road and drainage assets.

IPWEA NSW notes current IPR systems within local governments do vary and the Destination 2036 process identified a desire to streamline the process with a consistent set of measures across the state, that are relevant to the wider community, are easily collected and applicable across all councils.

IPWEA NSW is fully supportive of this approach and to some extent is already providing integrated and consistent reporting through encouragement of regional networks for asset managers and the Biannual Roads and Transport Road Asset Benchmarking Reports and development of a uniform Road Condition Assessment tool.

IPWEA NSW believes the local government A Delivery Program should:

- Give effect to long-term financial and asset management plans prepared fully in accordance with IPR guidelines
- Establish a 4-8 year 'revenue path' for all categories of rates linked to specific expenditure proposals for infrastructure and services
- Apply increased borrowing to meet infrastructure needs wherever appropriate and financially responsible

The Panel concludes that strengthening the revenue base of council is critical and IPWEA NSW would also join in this conclusion. The Panel strongly recommends a review of the future distribution of financial assistance grants with the view that the grants should be focused on the councils needing the additional support. Whilst politically challenging IPWEA would support any move to address infrastructure funding on a consistent, transparent approach to asset and risk management.

Further to this, IPWEA NSW would support the Local Government Acts Taskforce's Guiding Principles of Local Government to include

- encourage stewardship and facilitate sustainable, responsible management of resources, infrastructure and development
- optimise technology, and foster innovation and continuous improvement

MEETING INFRASTRUCTURE NEEDS

The Local Government Acts taskforce identifies public private partnerships as a viable option in addressing and funding infrastructure projects.

The Taskforce recommends

- that PPP projects continue to be subject to regulation due to the significance of the risks involved
- aspects that could be streamlined or simplified be identified and mechanisms for ensuring PPPs be considered for inclusion in the IPR framework.

IPWEA NSW appreciates the potential for risk involved with PPP's and would seek a further investigation on the applicability to Local Government and potential development of an education program with case studies and findings communicated with Local Government and Private Industry.

The report focuses on meeting infrastructure needs in part b, section 7 of the report.

The panel is critical of the diversity in reporting methods of councils on infrastructure and recommends a process where community consultation sets the affordable level of service for assets. IPWEA NSW acknowledges the importance of input from the community in setting the level of service required to be delivered to meet the communities expectations. The specific Community Demographic will have a significant impact on the level of service identified through consultation. Ideally the consultation process should be developed through a guideline prepared by the DLG which allows for the diversity of local government in NSW. Underpinning the guidelines should be a standard level of service for the range of operational assets that councils cannot go below. This would be based on sound Asset Management Principles. Obviously IPWEA NSW, given its technical strength in this area, would be able to offer considerable assistance in the development of the guidelines.

Set aside a portion of the roads component of fags for 'strategic projects', aimed in the first instance at addressing the most severe backlogs in roads and bridges. IPWEA NSW agrees that a new



approach to addressing the infrastructure backlog is critical to ensuring the long term viability of roads and bridges along with the future of local government in NSW.

IPWEA NSW and the NSW Roads and Transport Directorate have been key players in identifying the size of the problem and support the principle in approaching the problem on a regional basis and identifying Strategic Projects based on risk. IPWEA NSW would be interested in participating in this process.

Councils receiving special assistance should be subject to mandatory financial reviews and external guidance in the preparation of new financial and asset management plans

The panel acknowledged that section 94 contributions from developers was an important revenue base for councils and noted that the NSW government's objective of promoting economic development should not exacerbate the financial position of local government.

IPWEA NSW believes that Section 94 Contribution Plans should be reviewed to identify the true financial burden associated with development proposals and the burden distributed appropriately between the 3 spheres of government and the developer.

The panel recommends the creation of regional joint organisations and that regional roads & transport groups and regional water alliances be linked to the joint organisation. IPWEA NSW supports the principle of a regional approach to strategic planning in the water Industry as well as Roads and Transport, however the retention of local knowledge is critical to the optimum operation of these assets. It is viewed that the successful development of Regional Joint Organisation will support the retention of local knowledge.

INNOVATION AND BEST PRACTICE

The Panel identifies the need for innovation and best practice within local government and recommends the establishment of a new sector wide program to capture and disseminate innovation and best practice

Whilst DLG now has a group of staff focused on sector development, there needs to be a more concerted approach driven jointly by the Division, Local Government NSW, professional bodies and unions.

IPWEA NSW continues to inform, connect lead and represent public works professionals in NSW and would seek to be an active participant in this process.

WORKFORCE AND LEADERSHIP SKILLS

An important and innovative element of IPR is the requirement for councils to prepare 4 year workforce strategies. Skills shortages are of growing concern, and IPWEA NSW is providing considerable leadership in this regard. The recognition of integrated planning and reporting as a strategic planning framework tool seeks to provide improved management of actual or potential risk to outcomes, supported by an appropriate assurance framework. IPWEA NSW believes this identification and reporting of risk will need to encompass more than a purely accounting function



but recognise the engineering and public safety attributes of risk management to best serve the community.

IPWEA supports

- Improved Strategic Planning and Resource Management with a focus on Asset Management Planning
- Performance Measures consistent across Local Government with mandatory mid-term reporting

It is IPWEA NSW's recommendation that a requirement for each Local Government Council to have a suitable qualified Chief Infrastructure (Asset Management) Officer (CIO or CAMO) with engineering qualifications be included.

POLITICAL LEADERSHIP AND GOOD GOVERNANCE

The Panel was required to review the political framework of council and further clarify the role of councillors, the Mayor and the General Manager. Of significance are the recommendations

- The General Manager to be responsible for the day to day management of the council and to certify together with the Mayor that the IPR requirements have been met in full
- The adopted structure may only specify the role and relationships of the General Manager, designated senior staff and other staff reporting directly to the General Manager

IPWEA NSW supports the Taskforce recommendation that the Act must clearly define the roles of elected councillors, the mayor and the general manager. Further

- The strategic responsibilities of the council be clearly separated from the operational responsibilities and be aligned to IP&R
- Council to determine the organisational structure to the level that directly reports to the general manager including the identified Local Government Review Panel recommendation for a suitably qualified CFO. IPWEA NSW's recommendation is that a requirement for each Local Government Council to have a suitable qualified Chief Infrastructure (Asset Management) Officer (CIO or CAMO) with engineering qualifications be included in the Act
- The general manager be responsible for determining the balance of the organisations structure and for recruiting all staff with appropriate qualifications to fulfil each role within the structure
- That the maximum term allowable for temporary staff appointments be extended from 1 year to 2 years

IPWEA NSW again acknowledges the imperative for consistent performance measures to build a picture of the financial and governance health of a council and how it delivers functions and services using readily obtainable data. IPWEA offers considerable assistance to local government practitioners through the provision of technical manuals and ongoing professional development.



IPWEA NSW would encourage any recommendation promoting ongoing professional development, and utilisation of consistent industry developed technical resources.

Part C: STRUCTURES AND BOUNDARIES

The Panel sees stronger regional cooperation as a central plank of local government reform

The report highlights the valuable role played by a number of ROCs over many years, but notes also that their performance has been patchy and uneven, especially in the delivery of shared services.

Not every council will be happy with the proposed region

To develop business cases and operating plans for the new RJOs a working party should be established to explore all the issues involved. This could be convened by the ministerial advisory group and should include representatives of the DLG, LG NSW, LGMA and Unions.

IPWEA NSW represents public works professionals in NSW and would seek to be an active participant in this process.

IPWEA would support the requirements for RJO's

- Manageable geographic area and suitable scale for strategic planning
- Alignment as far as possible with key State and federal agencies for strategic planning purposes

Proposed core functions

- Activities of existing County Councils
- Regional alliances of local government water utilities
- Road network planning and major projects (through Regional Roads Groups as discussed in section 7.4)

SOURCE OF FUNDS FOR RJOs

- Current operating budgets of ROCs and County Councils
- General-purpose financial contributions by member councils
- Special-purpose contributions by member councils towards the cost of Regional Water Alliances and Regional Roads Groups (either cash or in-kind eg secondment of expert professional staff)
- General-purpose Federal Financial Assistance Grants

IPWEA NSW notes the process in developing RJOs will be by negotiation between member councils and the Minister so it is assumed roles and funding will be sorted out prior to proclamation.

IPWEA NSW would also recommend that resources be allocated to ensure the retention of “local knowledge” in all operational and service delivery functions of local government. It is this local knowledge by operational and technical staff that can have significant risk minimisation and cost savings at the immense benefit to local communities.

Part D: IMPLEMENTATION

A PRIORITY IMPLEMENTATION PACKAGE

- Further upgrade asset and financial management requirements in IPR, including Delivery Programs (among other things, to provide a basis for proposed changes to rate-pegging).
- Initiate improvements to the rating system e.g. exemptions, equitable system for rating apartments, and steps to ensure a more equitable distribution of federal Financial Assistance Grants and State grants.

DRIVING AND MONITORING REFORM

To oversee the early stages of implementation, as well as monitor progress, the Panel proposes establishment of a temporary Ministerial Advisory Group (MAG) to work alongside the Division of Local Government (DLG), other key agencies and Local Government NSW (LGNSW) during the next 3 years.

IPWEA NSW would seek and request to be represented in the Ministerial Advisory Group.

CONCLUSION

IPWEA NSW encourages reform that should

- Be comparable across like councils
- Be supported by benchmarks and targets where achievable
- Align with integrated planning and reporting
- Provide sustainable infrastructure funding
- Recognise skills and qualifications
- Have strong industry support through professional development

IPWEA NSW is keen to play an active role in assisting the Division with the scoping and implementation of change would welcome the opportunity to further address the Division on these issues.



Yours faithfully

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ⁱ Division of Local Govt Local Government Infrastructure Audit June 2013 Page 3
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