

## Background Paper

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# Barriers & incentives to voluntary boundary change

This Paper has been prepared in response to the Independent Review's Terms of Reference, based on available research and government information.

*The purpose of this Paper is to present background information for further review. It should not be interpreted as a statement of the Panel's views or an indication of likely recommendations*



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## Table of contents

1. Purpose of this paper	3
<ul style="list-style-type: none"><li>▶ What do we mean by boundary change?</li><li>▶ Links with other papers</li></ul>	
2. The current situation	3 - 7
<ul style="list-style-type: none"><li>▶ Framework for boundary change</li><li>▶ Process for boundary change</li><li>▶ History of boundary changes in NSW</li><li>▶ Voluntary amalgamations</li><li>▶ Current NSW Government policy</li><li>▶ Amalgamations proclaimed since 2000</li></ul>	
3. Barriers to boundary change	8 - 14
<ul style="list-style-type: none"><li>▶ Financial barriers</li><li>▶ Socio-economic and geographical barriers</li><li>▶ Infrastructure barriers</li><li>▶ Legislative barriers</li><li>▶ Local barriers</li><li>▶ Operational barriers</li><li>▶ Political barriers</li></ul>	
4. Benefits of boundary change	15 - 19
<ul style="list-style-type: none"><li>▶ Community benefits</li><li>▶ Financial benefits</li><li>▶ Governance benefits</li><li>▶ Operational benefits</li><li>▶ Service benefits</li></ul>	
5. Incentives for boundary change	20 - 23
<ul style="list-style-type: none"><li>▶ Financial incentives</li><li>▶ Governance incentives</li><li>▶ Legislative incentives</li><li>▶ Political incentives</li></ul>	
6. Appendices	24 - 26
<ul style="list-style-type: none"><li>▶ Appendix 1. Functions of the Local Government Boundaries Commission</li><li>▶ Appendix 2. References</li></ul>	

# Background to boundary change



## 1. Purpose of this paper

This paper has been prepared to support the work of the Independent Local Government Review Panel. Its focus is *Barriers and incentives to voluntary boundary change* in NSW local government. This topic is one of the five terms of reference being considered by the Panel.

The Paper has been prepared as a general background briefing and does not purport to address all the issues regarding boundary change. It provides information about:

- ▶ The framework under which boundary changes are determined
- ▶ The process of boundary change
- ▶ History of boundary changes and amalgamations across NSW
- ▶ Current government policy
- ▶ Barriers to change
- ▶ Benefits of change
- ▶ Incentives for voluntary boundary change

### What do we mean by boundary change?

Boundary change in the context of local government refers to changes to council ward or boundary lines, which can include the amalgamation of two or more (part or whole) council areas.

### Links with other briefing papers

This paper links with the following briefing papers

- ▶ Supporting local community needs
- ▶ Local representation and decision making
- ▶ Service delivery and infrastructure

## 2. The current situation

### Framework for boundary change

The *Local Government Act 1993* (the Act) provides the framework under which boundary changes can occur. In accordance with Section 218A of the Act, the Governor may, by proclamation, amalgamate two or more areas into one or more new areas. The Governor may also, by proclamation, alter the boundaries of one or more areas under Section 218B of the Act. A proposal for boundary change can be made by either:

- ▶ The Minister for Local Government
- ▶ A council affected by the proposal
- ▶ An appropriate number of electors<sup>1</sup>

### Process for boundary change

On making or receiving a proposal, the Minister must refer it to the Boundaries Commission (see Appendix 1 for information on the Boundaries Commission) or the Director-General.

The Minister determines the appropriate pathway for the consideration of a proposal for boundary change; however, where a referral is made to the Director-General the report produced must be referred to the Boundaries Commission for review and comment prior to submission to the Minister.

There are three key timeframes within the boundary change process:

1. Under S218F of the Act, advertised public meetings, public submissions, postal surveys must be conducted over a period of at least 40 days  
The Boundaries Commission or Director-General, as the case requires, must seek the views of electors of each of the areas affected by the proposal over a period of 40 days by way of advertised public meetings, invitations for public submissions, and postal surveys or opinion polls (reply-paid questionnaires distributed to all electors), or formal polls.
2. Under Section 263 (2A) the Boundaries Commission must hold inquiry and give reasonable public notice (28 days notice)

<sup>1</sup> If the proposal applies to the whole of one or more areas this number is 250 or 10% of the enrolled electors for each area, whichever is the greater; if the proposal applies to part only of an area this number is 250 of the enrolled electors for that part or 10% whichever is the lesser.

3. Arrangements for new council elections – elections for new council areas take place approximately three months following Proclamation.

When considering a proposal, the Boundaries Commission must have regard to the following factors in relation to both the existing areas and the proposed new area/s:

- ▶ Financial advantages or disadvantages
- ▶ Community of interest and geographic cohesion
- ▶ Existing historical and traditional values
- ▶ Attitude of residents and ratepayers
- ▶ Requirements in relation to elected representation for residents and ratepayers
- ▶ Impact on council's ability to provide adequate, equitable and appropriate services and facilities
- ▶ Impact on the employment of staff
- ▶ Impact on rural communities
- ▶ In the case of a proposal for the amalgamation of two or more areas:
  - the desirability (or otherwise) of dividing the resulting area/s into wards
  - the need to ensure that the opinions of each of the diverse communities are effectively represented
- ▶ Other factors as it considers relevant to the provision of efficient and effective local government.

The Minister may recommend to the Governor that the proposal be implemented:

- ▶ With modifications that arise out of the Boundaries Commission's report or the Director-General's report, and/or
- ▶ With modifications as the Minister determines.

Alternately, the Minister may decline to recommend to the Governor that the proposal be implemented.

Once a proclamation for boundary change is made, the existing areas are dissolved, the new area/s constituted and the councillors of the former areas cease to hold office. The election date for a new council resulting from a boundary change will be set by the Governor's Proclamation.

## History of boundary changes in NSW

There has been a significant history of amalgamations and boundary changes in NSW since 1858.

- ▶ The largest number of amalgamations occurred in the period between 1906 and 1981 (from 327 councils in 1906 to 176 councils in 1981).
- ▶ In 2003, the number of councils had reduced from 176 to 172 (following a period of voluntary amalgamations).
- ▶ The number of councils currently stands at 152 (following a period of amalgamations initiated by the Minister).

The table on the following page summarises the history of change across the NSW local government sector since 1858.

# NSW Local Government history of change

- 1858 ▶ The *Municipalities Act 1858* established the system of permissive incorporation.
  - ▶ Municipalities were constituted upon the petition of 50 householders.
  - ▶ This resulted in a fragmentary establishment of some 327 local government areas
  
- 1905 - 1906 ▶ A general system of rational and systematic incorporation of the State was achieved.
  - ▶ The *1905 Shires Act* compulsorily incorporated 60% of the State into 134 Shires.
  - ▶ The *Local Government Extension Act of 1906* brought pre-existing municipalities under the umbrella of the *Shires Act 1905*.
  
- 1913 ▶ Royal Commission investigated local government areas in the metropolitan area of Sydney.
  - ▶ Various schemes, which embraced 53 local units, proposed but lapsed due to onset of WW1.
  
- 1919 ▶ The *Local Government Act 1919* set out the basis of State control over local government and the legislative framework for alterations of local government boundaries.
  
- 1931 ▶ Lang Government introduced a Bill which would have reduced the number of authorities from 69 to 28. This lapsed when the Government was dismissed in 1932.
  
- 1937 ▶ The *Greater Newcastle Act 1937* saw the amalgamation of nine municipalities.
  
- 1941 - 1947 ▶ McKell reforms – Royal Commission of Inquiry into boundaries.
  - ▶ *Local Government (Areas) Bill 1947* proposed reducing 66 areas to 14.
  - ▶ Final recommendation: formation of 17 new units from 43 existing areas.
  - ▶ The Act passed in 1948.
  
- 1947 ▶ Greater Wollongong was created by merging two municipalities.
  
- 1948 ▶ An Act to amend the *Local Government Act 1919* passed reducing the number of local governments in the County of Cumberland from 68 to 39.
  - ▶ 17 new units were created from an original 46 areas, 22 areas left unchanged.
  
- 1948 ▶ Shoalhaven Shire was created from 5 municipalities.
  
- 1964 ▶ Local Government Boundaries Commission established after representations from LGSAs.
  - ▶ 327 proposals for boundary alterations.
  
- 1971 ▶ Minister established a Special Committee (Barnett Committee) to investigate local government boundaries and administration.
  
- 1974 ▶ Report released in 1974 recommended that existing 223 areas be reduced to 97.
  - ▶ The report was unpopular with councils and LGSAs.
  
- 1976 - 1980 ▶ Wran Government: Boundaries Commission steered through changes affecting more than 50 shires and municipalities.
  - ▶ Some established by agreement and others followed recommendations of Public Inquiries.
  
- 1980 ▶ 44 county councils reduced to 20.
  
- 1981 ▶ 38 councils were abolished and replaced by 17.
  
- 1982 ▶ Local Government (Boundaries Commission) Amendment Act 1982 altered terms of reference and structure of Commission.
  
- 1993 ▶ Amendment of *Local Government Act*.
  
- 1999 ▶ *Local Government Amendment (Amalgamations And Boundary Changes) Bill 1999*.
  - ▶ Councils invited to submit proposals for voluntary amalgamations
  
- 2003 ▶ Local Government Reviews result in proposals for amalgamations being referred to Boundaries Commission
  
- 2000 - 2004 ▶ 26 new councils formed

## Voluntary amalgamations

In June 1999 the former Minister for Local Government, the Hon Harry Woods MP, wrote to councils inviting them to submit proposals for voluntary amalgamation.

The Minister received proposals from the following councils:

- ▶ Richmond River Shire Council and Casino Council – this voluntary amalgamation went ahead in February 2000 (forming Richmond Valley Council)
- ▶ Armidale City Council and Dumaresq Shire Council – this voluntary amalgamation went ahead in February 2000 (forming Armidale Dumaresq Council)
- ▶ Strathfield Municipal Council and Burwood Council – in March 2000, the Boundaries Commission released its report recommending the amalgamation, however in April 2000 Strathfield Council resolved not to proceed with the amalgamation
- ▶ Nymboida Shire Council and Ulmarra Shire Council – this voluntary amalgamation went ahead in July 2000 (forming Pristine Waters Council)
- ▶ Concord Council and Drummoyne Council – this voluntary amalgamation went ahead in December 2000 (forming City of Canada Bay Council)
- ▶ Windouran Shire Council and Conargo Shire Council – this voluntary amalgamation went ahead in July 2001 (forming Conargo Shire Council)
- ▶ Nundle Shire Council and Parry Shire Council – in May 2000 the Boundaries Commission released an information paper calling for public opinion; however in June 2000 Nundle Shire Council resolved not to proceed with the amalgamation.

In 2003 the then Minister for Local Government, the Hon Tony Kelly MP, announced a local government reform program that included a series of regional reviews. These reviews resulted in proposals for amalgamation that were initiated by the Minister and assessed by the Boundaries Commission. This process resulted in a number of amalgamations in 2004.

The table on the following page summarises council amalgamations that have taken place since 2000 – all of which have been the result of the 1999 call for voluntary amalgamation and the 2003 regional reviews.

## Current NSW Government policy

In response to the need for local government reform, the Minister for Local Government established the Independent Local Government Review Panel in May 2012, to investigate and identify options for governance models, structural arrangements and boundary changes for local government in NSW, taking into consideration:

- ▶ the ability to support the current and future needs of local communities
- ▶ the ability to deliver services and infrastructure efficiently effectively and in a timely manner
- ▶ the financial sustainability of each local government area
- ▶ the ability for local representation and decision making
- ▶ barriers and incentives to encourage voluntary boundary changes.

In its deliberations, the Panel is required to take into account the Liberal-National's 2011 election policy of no forced amalgamations.

## Amalgamations proclaimed since 2000

New Council	Proclamation date	Former council areas
Armidale Dumaresq Council	21/02/2000	Armidale & Dumaresq
Richmond Valley Council	21/02/2000	Richmond River Shire & Casino
Pristine Waters	01/07/2001	Nymboida & Ulmarra
City of Canada Bay Council	1/12/2000	Concord & Drummoyne
Conargo Shire Council	01/07/2001	Windouran Shire & Conargo Shire
Council of the City of Sydney	06/02/2004	City of Sydney & South Sydney City
Cooma-Monaro Council	11/02/2004	Cooma-Monaro & part of Yarrowlumla
Palerang Council <sup>2</sup>	08/12/2004	Tallaganda & parts of Yarrowlumla, Gunning, Mulwaree
Goulburn Mulwaree Council <sup>3</sup>	06/10/2004	Goulburn & part of Mulwaree
Greater Queanbeyan City Council	11/02/2004	Queanbeyan & part of Yarrowlumla
Tumut Council	11/02/2004	Tumut & part of Yarrowlumla
Upper Lachlan Council	11/02/2004	Crookwell & parts of Yass, Gunning & Mulwaree
Yass Valley Council	11/02/2004	Parts of Yass, Gunning & Yarrowlumla
Clarence Valley Council <sup>4</sup>	25/02/2004	Copmanhurst, Grafton, Maclean & Pristine Waters
Gwydir Shire Council	17/03/2004	Bingara, Yallaroi & part of Barraba
Liverpool Plains Shire Council	17/03/2004	Quirindi & parts of Murrurundi and Parry
Tamworth Regional Council <sup>5</sup>	31/03/2004	Tamworth, Manilla, Nundle & part of Barraba and Parry
Albury City Council	26/05/2004	Albury & part of Hume
Bathurst Regional Council	26/05/2004	Bathurst & parts of Evans & Oberon
City of Lithgow Council	26/05/2004	Parts of Lithgow & Rylstone
Corowa Shire Council	26/05/2004	Corowa & part of Hume
Greater Hume Shire Council	26/05/2004	Culcairn, Holbrook (excl 19 sq km) & part of Hume
Mid-Western Regional Council	26/05/2004 & 25/08/2004 & 11/02/2005	Mudgee & parts of Merriwa and Rylstone
Oberon Council	26/05/2004	Parts of Oberon, Lithgow & Evans
Upper Hunter Shire Council	17/03/2004 & 26/05/2004 & 25/08/2004 & 11/02/2005	Scone & parts of Murrurundi and Merriwa
Warrumbungle	25/08/2004	Coonabarabran & Coolah
Glen Innes Severn Shire Council	15/09/2004	Glenn Innes & majority of Severn

2. Originally proclaimed as Eastern Capital City Regional Council 11/02/2004

3. Originally proclaimed as Greater Argyle Council 11/2/2004

4. Pristine Waters Council was originally proclaimed 01/07/2000 and was a voluntary amalgamation of Nymboida and Ulmarra Councils

5. Originally proclaimed as Peel Regional Council 17/03/2004

# Barriers to boundary change



## 3. Barriers

There are a range of real and perceived barriers to voluntary boundary change, examples of which are shown in the table below and further explored on the following pages.

### Barriers to voluntary boundary change

Financial	<ul style="list-style-type: none"> <li>▶ Poor understanding of potential benefits of amalgamations</li> <li>▶ Cost of amalgamation</li> <li>▶ Financial sustainability and reliability of financial data</li> <li>▶ Local government revenue – limitations on ability to raise revenue</li> </ul>
Socio-economic & geographical	<ul style="list-style-type: none"> <li>▶ Geography and distance – remoteness, distance from services</li> <li>▶ Demographics and needs</li> </ul>
Infrastructure	<ul style="list-style-type: none"> <li>▶ Implications of infrastructure maintenance backlogs</li> </ul>
Legislative	<ul style="list-style-type: none"> <li>▶ Processes for boundary change</li> <li>▶ Staffing provisions</li> <li>▶ Councillor numbers</li> </ul>
Local	<ul style="list-style-type: none"> <li>▶ Resistance to change (community and councillors)</li> <li>▶ Loss of local identity, representation and services</li> <li>▶ Reduced community engagement and loss of community voice</li> <li>▶ Impact on local employment</li> </ul>
Operational	<ul style="list-style-type: none"> <li>▶ Staffing issues – morale, relocation, loss of experience, industrial issues</li> <li>▶ Organisational barriers – difficulty consolidating business functions</li> </ul>
Political	<ul style="list-style-type: none"> <li>▶ Lack of political will to drive change and political interference in the decision making process</li> </ul>

### Financial barriers

Examples of financial barriers to voluntary boundary change include:

- ▶ A poor understanding of potential benefits
- ▶ Cost of amalgamation;
- ▶ Financial sustainability of councils and reliability of data
- ▶ Limitations on local government revenue.

#### Poor understanding of potential benefits

*“It is more difficult to measure the cost savings resulting from amalgamation of local governments than it is for corporations as the benefits will generally be utilised by the amalgamated local government in the provision of an expanded range of and/or better quality services”<sup>6</sup>*

There is a tendency for people to consider the benefits of amalgamation solely in terms of productivity improvements or financial savings, and there are generally mixed views as to the level of financial gains that can be made through amalgamation. Some report that there are significant financial gains to be made .....

*“The Victorian government’s 1993 structural reforms saved around \$160 million a year or about \$1 billion over the four years since amalgamation .... similarly recurrent savings in South Australia could be estimated at \$20 million per annum”<sup>7</sup>*

As well as substantial savings through economies of scale .....

*“...capital-intensive services, like sewerage disposal and domestic water supply, usually yield significant economies of scale ... (and) ... consolidation of councils into one larger council can thus reap scale economies”<sup>8</sup>*

However, researchers also warn that a reliance on financial savings as a basis for amalgamation is not recommended .....

*“...the lack of rigorous evidence of significant economies of scale in municipal service provision casts considerable doubt on using this as the basis for amalgamations”<sup>9</sup>*

6. Review of Local Government Amalgamation Costs Funding Submissions – Final Summary Report, Queensland Treasury Corporation, 2009

7. 1997–98 Local Government National Report (NoLG, 1998: 52)

8. Australian Local Government Amalgamation: A conceptual analysis population size and scale economies in municipal service provision, Dollery et al, 2008

9. Byrnes and Dollery in Evaluation of the Arguments for Amalgamation in the Final Report: No Lessons Learned, A Critique of the Queensland Local Government Reform Commission Final Report, ANU

Adding more complexity to this issue is the fact that any cost savings or financial gains that are made as a result of amalgamation will not generally show up in a council's financial bottom line. This is because local government, unlike the private sector, is not in the business of making profits. Financial savings as a result of amalgamation or boundary change are generally made over a longer period of time, are often redirected into infrastructure and service delivery, and are generally not identified as a financial gain in a council's accounting and reporting process.

The tendency to evaluate the success of boundary change in terms of 'financial gains' can lead to an under-reporting of the broader benefits, which include leadership, environmental and social benefits, resulting in a poor understanding of the benefits of amalgamation.

### Cost of amalgamation

Research into local government reform offers varying degrees of insight into the true costs of amalgamation. For example:

- ▶ An evaluation of the City of Geraldton - Greenough (Shire of Northam) amalgamation in Western Australia identified that funds totalling \$1.3 million were provided by the State Government to contribute to the costs of amalgamation. However, the City noted the need for additional assistance to manage this transition process.<sup>10</sup>
- ▶ The Queensland Treasury Corporation (QTC) originally published estimates by merged councils on the costs of amalgamations – this estimate totalled \$184.71 million. However, following a review of these costs undertaken by QTC<sup>11</sup> in 2009 this figure was reduced to \$47.21 million (i.e. 25.6 % of original claims).  
QTC assessed the costs of 24 amalgamating councils<sup>12</sup> and identified that claims for the costs of amalgamation ranged from \$0.15 million to \$4.27 million per council – this represented a percentage of operating revenue ranging from 0.3% to 1.5%.  
According to this study, wages parity, information technology, communication systems, senior officer/staff costs and councillor remuneration were the most significant cost items claimed by amalgamating councils in Queensland. IT and communication systems represented 43.8% of combined costs claimed, with senior officer/staff costs and councillor remuneration representing 28.2 %.

Staffing transition; consolidation of business functions, systems and associated training; establishment of new offices; and relocation of assets and equipment are also significant costs of boundary change.

Where councils and communities are given a choice between using already limited resources to pay for costs associated with boundary change or to pay for local services and infrastructure, most will choose the latter. Adding to this reluctance to use already limited resources to pay for costs associated with boundary change is the difficulty in quantifying financial and other benefits of amalgamation. This will often mean that amalgamation is seen as a poor investment by both the council and the community.

### Financial Sustainability

A council that is financially viable may not be as willing to amalgamate as a council that is facing financial difficulties. It is unlikely that any council, or community, would be willing to voluntarily take on the financial problems of a neighbouring council.

If a viable council were willing to take this on, there needs to be confidence in the reliability of the financial data that is available for each council, and confidence that there has been full and frank disclosure of the financial position of each council.

*Note: An independent company has been commissioned to prepare a financial report for each council in NSW (TCorp Assessment). This report will provide an overview of the councils' existing financial performance and position, a review of financial forecasts, future sustainability, and benchmarking and comparisons with other councils.*

### Local government revenue

There are a range of financial barriers to voluntary boundary change associated with councils' capacity to generate revenue through, for example, financial assistance grants and rates.

- ▶ Financial Assistance Grants (FAGs) – there is a perception that local government boundary changes will result in a reduction in FAGs grants paid to councils. The general purpose component of FAGs is based on population, and there is often a concern that any decrease in the population of a council area as a result of boundary change will equate to a reduction in FAGs funding. In reality, where the population of a council area decreases as a result of boundary change, other factors such as property

10. *Reform case studies - amalgamation in Western Australia City of Geraldton-Greenough Shire of Northam*, May 2010

11. *Review of Local Government Amalgamation Costs Funding Submission; op cit*

12. *ibid*

values, relative disadvantage and revenue capacity will often compensate for this change in the FAGs allocation process.

- ▶ Raising revenue through rates – in NSW, the current system of Rate Pegging has a significant impact on a council's ability to raise revenue through rates, particularly given the potential for a council to inherit increased liabilities as a result of boundary change. The inability to increase rates above the pegged rate can be a barrier to voluntary boundary change, as councils may fear being unable to adequately resource a newly formed council if they are unable to increase rates. This can be a particular issue during the 3 year transition phase, where cost savings cannot be made through staff reductions and transition costs are at their highest.

The difference between rates charged to residents can also be a barrier to voluntary boundary change. The average residential rates per assessment is currently \$786 per quarter – with rates charged to residents ranging from \$95 (Brewarrina) to \$1,234 (Hunters Hill). Where there are major differences in rates charged by neighbouring councils, there can be major resistance to boundary change - both by the council itself (particularly where a council would be inheriting a significant number of residents who pay lower rates) and by the community (particularly by people in the community where rates may be increased as a result of boundary change).

*It is important to note that councils have available to them the option of seeking approval for a Special Rate Variation (SRV) which, if approved, would enable them to apply additional rates beyond the annual rate peg amount. Applications can be made for a SRV to undertake, for example, environmental works, town improvements, redevelopment of community and civic facilities, address maintenance backlogs and maintain or improve existing service provision. Applications for SRVs are assessed by the Independent Pricing and Regulatory Tribunal (IPART).*

## Socio-economic and geographical barriers

There are a range of socio-economic and geographical characteristics that are often perceived as barriers to voluntary boundary change. These characteristics, which can present significant challenges for rural and remote councils in meeting the needs of their constituent communities, include:

- ▶ Declining general populations
- ▶ High needs and expectations of Aboriginal communities (increasing in numbers)
- ▶ Economies based on agriculture that are susceptible to market variations
- ▶ Susceptibility to natural disasters resulting in economic and social pressures
- ▶ Remoteness from major population centres on which the communities are dependent for services
- ▶ High levels of unemployment, limited employment and educational opportunities
- ▶ Distances to neighbouring council boundaries
- ▶ A lack of transport infrastructure
- ▶ Socially disadvantaged communities with high dependency needs.

Councils in rural and remote areas may be unwilling to take on a larger geographical area for fear that this may place even further pressure on local services and infrastructure.

## Infrastructure barriers

*"Councils in NSW are currently facing deteriorating infrastructure, increased costs and lower revenues"<sup>13</sup>*

NSW councils are the custodians and trustees of public assets and are required to effectively plan for, account for and manage the assets for which they are responsible. In 2010/11 NSW councils were the custodians for infrastructure assets with a net value of \$119 billion.<sup>14</sup>

Councils are responsible for a wide variety of assets including roads, pavements, bridges, stormwater and drainage systems, libraries, sporting fields, council chambers, community facilities and car parks. Different councils have different infrastructure mixes, in particular water and sewerage assets, and the state of roads is a particular issue in many council areas.

It is difficult to get an accurate picture of local government infrastructure, and many councils find it difficult to report infrastructure assets and related expenses accurately.

Data on hand may provide information from an accounting perspective, but may not provide detailed information as to the maintenance requirements and longevity of assets.

13. *Financial Reporting and Local Government Reform - a(Mis) match?* Qualitative Research in Accounting and Management, Vol 2 No. 2 Pilcher, R. (2005)

14. *ibid*

Across NSW, there is a major backlog in infrastructure renewals and repairs stemming from a failure to invest in infrastructure, and infrastructure maintenance backlogs are an issue for most councils. The potential to inherit another council's infrastructure problems can be a barrier to voluntary boundary change.

*Note: A NSW Infrastructure Backlog Audit is currently being undertaken, aimed at auditing all council infrastructure assets to identify investment priorities. This audit will reflect the current state of NSW's council infrastructure backlog, covering maintenance, renewal and the building of new infrastructure required to cater for longstanding existing needs within each council area. This process will also enhance confidence and consistency in infrastructure backlog data by assessing the reliability of infrastructure backlog information that is reported by councils.*

## Legislative barriers

There are a range of legislative barriers to voluntary boundary change contained within the Act, including the process of boundary change, staffing provisions, and limits on councillor numbers.

- ▶ Processes for amalgamation of areas and alteration of boundaries – the process that must be followed under the Act to seek approval for boundary change (see section 2.2) is seen by some as cumbersome and time consuming. Although in reality those amalgamations that have occurred since 2000 have taken between one and eight months from proposal to proclamation, councils are still less likely to voluntarily put forward a proposal for change if they perceive the process as difficult and resource intensive.
- ▶ Staffing provisions – the Act contains a range of staffing provisions that may make it difficult for councils to make financial savings through amalgamation, particularly in the short term. These provisions include:
  - Maintaining rural staffing numbers - a council that employs regular staff at a rural centre has to ensure that the number of staff employed is, as far as reasonably practicable, maintained (S218CA).
  - Preserving entitlements - all non-senior staff must continue their employment on the same terms and conditions they were on prior to transferring to a newly formed council, and their entitlements such as long service leave must be honoured (S354D).
  - No redundancies - non-senior staff members cannot be forced to take redundancies for three years after the transfer / amalgamation (S354F).
- Limitations on transfer of work base - non-senior staff cannot be forced to be based outside of their former council boundary for a period of three years after amalgamation (S354I).
- ▶ Councillor numbers – the maximum number of councillors per council prescribed within the Act is 15. This limit may be a barrier to councillors voluntarily supporting boundary change, particularly where an amalgamation will result in a significant decrease in councillor numbers.

## Local barriers

### Community and councillor resistance to change

Resistance to change in local government can be seen at the community level and at the councillor level. This resistance, which will be a barrier to voluntary boundary change, may be driven by concerns about:

- ▶ Accountability – there is often a perception that larger councils are more complex and removed from the community, and therefore less accountable and less transparent and than smaller councils.
- ▶ Ownership of local assets – communities that have worked closely with councils over many years to lobby for local assets may fear a loss of these assets through boundary change.
- ▶ Proposed changes to council boundaries and areas of responsibility may raise questions such as: Who will own the local assets? Who will take responsibility for maintaining the assets? How will rationalisation of assets affect my local community? Will resource prioritisation result in increased assets in one area at the expense of another?
- ▶ Parochialism – the current local government system allows for the short-term interests of particular rate-payers or groups to be considered ahead of the longer term interests of the broader community. As councillors are elected by voters for a four year term, decisions are often based solely on short term gains that are in the interests of current voters, not in the interests of future communities. The community may fear losing the ability to influence or lobby their council to meet local and short term needs as a result of being 'swallowed up' by a larger council.
- ▶ Past experience – where past boundary changes have been handled poorly, there has been little evidence of resulting benefits, or where there has been

a lack of positive role models or 'champions' advocating the benefits of change there can be a resistance to voluntary boundary change. This is particularly the case from those who have experienced amalgamations first hand in the past, or have been influenced by negative reports of amalgamations in other states and territories.

### Loss of local identity, representation and services

Loss of identity and culture, reduced opportunities for local representation and threats to local services can be barriers to voluntary boundary change.

▶ Identity and culture – people often fear that their local identity and culture will be 'swallowed up' if their area becomes too large or their town or village is transferred into a different council area. This is not only a concern of residents living in isolated villages and towns, it is also a concern of other distinct communities with a strong sense of identity – for example, beachside suburbs, tourist towns, art and craft villages etc.

▶ Local representation and decision making – people may fear that local representation will be under threat as a result of boundary change. Anti-amalgamation campaigns identify that people often see amalgamations as a loss of their democratic right to govern themselves,<sup>15</sup> and people may fear that boundary changes will result in a loss of control over local decision making and resource allocation. A loss of local representation may mean that people no longer have direct access to the person they would normally go to when they need something fixed.

Ratepayers often approach their local elected representative/s if they want something done within their community. With a reduction in the number of councillors, people may fear losing this direct contact with their civic leaders.

Also, as a result of a reduction in councillor numbers, councillors may fear losing their own position of authority and may not voluntarily support a change that will increase competition for fewer positions in civic office.

▶ Services for local communities – communities may fear that boundary change will result in a loss of services at the local level.

A fear of local needs being overshadowed by the bigger picture of regional needs and community concern over the impact of change on council's

ability to respond to local level needs can be a disincentive to voluntary boundary change.

Residents living within smaller communities that are isolated from the main township often extol the benefits of living in remote, isolated or rural towns or villages. However, these same residents would also acknowledge that distance from the main township is already a disadvantage in terms of access to services. A change in boundaries may exacerbate this problem.

Amalgamations can also make it difficult to determine service priorities across a larger population resulting in a weakening of council service delivery, particularly to smaller isolated communities.<sup>15</sup>

### Community engagement and community voice

*"The larger you get the more familiarity you lose"*<sup>16</sup>

There is a potential for boundary change to impact on a council's ability to engage with, and listen to, the needs of the local community.

Communities often fear that the bigger a local government area becomes the more chance there is that the interests of the larger towns and more vocal community groups will overshadow the needs of smaller villages and communities of interest.

When a local government area becomes larger, there is the potential for reduced community engagement, less access to staff and departmental managers, and less access to local councillors. Specialist staff who had been working with specific communities may no longer be available as a result of staff reductions and transfers. And while smaller councils can focus more on the needs of particular communities, groups or vulnerable residents, as larger councils have bigger populations to support they have more of a tendency to focus on the bigger picture. As a result, the needs of smaller communities of interest and isolated communities may become neglected. Also, where there are major differences between the demographics of neighbouring councils, there is the potential that the needs of smaller cultural communities may become diluted in the bigger picture.

A further potential impact on the community relates to the change in location of the main council chamber. A change in location can result in councillors having to spend more time working outside of their own community, which can mean that councillors lose touch with the needs of their local community.

15. Traralgon Community Development Association Inc: <http://traralgon.org.au/Amalgamation.html>

16. *Desert Knowledge CRC – the working paper series*, Ruth Elvin, 2009

17. *Amalgamation – is it a dirty word? A collection of your thoughts, opinions and stories*, LGMA Emerging Leaders, 2010

### Impact on local area employment

In some areas, the local council is the major employer; providing opportunities for employment across administrative, technical and professional fields.

Where boundary changes result in the loss of the local council office/s, the transfer of people out of the area, or a reduction in staffing numbers, the local economy and the socio economic health of the pre-amalgamation council areas may be affected.

## Operational barriers

### Staffing issues

It is not unusual for staff to feel disenfranchised and concerned for their future when they know that boundary changes are on the agenda. Concerns about increased workloads, particularly in the short term, and reduced staffing numbers can result in low staff morale which can often be a major barrier to change.

Staffing and industrial issues can include:

- ▶ demoralised workforce as a result of employment uncertainty – this can lead to staff departures and lower productivity, making it difficult to maintain service levels during or after boundary change
- ▶ displaced employees – who may be difficult to place
- ▶ relocation costs – it can be costly to transfer staff to new council areas
- ▶ budget and organisational structure – problems agreeing to budgets and organisational structures can result in delays in appointing staff to a newly formed council
- ▶ loss of CEOs and experienced staff – resulting in a loss of experience, corporate history and local knowledge
- ▶ Industrial relations requirements (see section 3.4) - non-senior staff terminations are not permitted for a period of 3 years after the date of amalgamation, making it difficult to make short term efficiency savings as a result of boundary change.

### Organisational issues

The potential for a clash of cultures, difficulties in aligning business and administrative processes and issues relating to the separation of resources can be organisational barriers to change.

- ▶ Culture clash – the bringing together of two or more existing organisational cultures brings with it a number of challenges. Every council has its own way of conducting business, its own well-established practices and its own embedded culture. A reluctance to manage potential clashes of organisational culture and practices may be a barrier to voluntary boundary change.
- ▶ The consolidation of business and administrative processes can also be difficult to manage. For example, previous amalgamations in NSW resulted in some councils withholding documents, making it difficult for newly amalgamated councils to access and consolidate records. This could have been the result of a lack of implementation protocols, or may have been a way of amalgamated councils ‘fighting’ the amalgamation.  
Cost, time and compatibility of IT systems can also be barriers that are difficult to manage. Where new councils are formed, consolidating or changing IT systems means that staff need training and time to understand and implement the new systems.
- ▶ Where boundary changes result in a council being split up, as opposed to whole of council amalgamations, there can be difficulties associated with the separation of assets, equipment, staff and property. This can become a major issue, particularly where resources are limited and councils are reluctant to let go of key assets and experienced staff.

## Political barriers

Experience in the UK<sup>18</sup> has shown that the implementation of local government reform is significantly impacted by:

- ▶ A lack of political and managerial will to tackle contentious subjects
- ▶ A lack of impetus reflecting the feeling that there was no immediate need to change
- ▶ Political sensitivities where collaboration might have resulted in changes to service levels.

A lack of political will to drive the change process and the potential for political interference in decision making can be barriers to voluntary boundary change.

In July 2003, in a *Government News* article, the then Local Government Minister Tony Kelly acknowledged that the NSW government’s voluntary amalgamation policy had been problematic because councils had be-

18. *Form and Function: A comparative evaluation of new unitaries and two-tier pathfinders – Qualitative research*, PricewaterhouseCoopers LLP

lieved that the government would not act on amalgamations.<sup>19</sup>

Experience has shown that given a choice of whether or not to amalgamate, most councils will choose to maintain the status quo. In 2003/2004, the Division sought submissions from NSW councils on voluntary amalgamations. An analysis of council submissions undertaken at the time identified the overwhelming response from councils was to maintain the status quo (67%), with only 14% of councils proposing some form of amalgamation, 9% proposing boundary changes, and 10% indicating that they would be willing to consider suggestions for reform.

It is not just the issue of voluntary amalgamations that has seen this type of response. In 2007 the Minister for Water announced an independent enquiry into secure and sustainable urban water supply and sewerage services for non-metropolitan NSW. During the enquiry, councils and stakeholders were provided with an opportunity to identify their preference for reform, with options ranging from establishing water utility alliances (mandatory and voluntary), county councils, local government corporations or regional water authorities, or maintaining the status quo.

Despite the fact that *“many councils in their submissions and in presentations at Inquiry hearings acknowledge that change is necessary to the way services are planned”*<sup>20</sup>, the majority of non metropolitan councils (48%) chose to maintain the status quo as their first preference, a further 44% chose some form of voluntary or mandatory alliance, corporation or regional water authority, 2% opted for performance standards and 2% for amalgamation of local water utilities and (the remaining council areas were identified as not applicable or unknown).

Where there is no political will or drive behind change, or where the decision of whether or not to propose a boundary change can be influenced by politics at the local level, there may be little incentive for boundary change.

19. *Local Government Amalgamation in New South Wales*, Tiley and Dollery, Centre for Local Government UNE, 2010

20. *Report of the Independent Inquiry into Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan NSW*, Armstrong OBE and Gellatly AO, 2008

# Benefits of boundary change



## 4. Benefits

As identified in the following table, there are a range of potential benefits of voluntary boundary change. The benefits, which are applicable regardless of whether the boundary change is voluntary or forced, can be broadly categorised into: Benefits to the community; financial benefits; stronger governance; operational improvements, and improved services. These benefits are explored in more detail on the following pages.

### Benefits of voluntary boundary change

Community	<ul style="list-style-type: none"> <li>▶ Greater community cohesion</li> <li>▶ Ratepayer satisfaction</li> </ul>
Finance	<ul style="list-style-type: none"> <li>▶ Broader revenue and resource base</li> <li>▶ Spreading financial and business risks</li> <li>▶ Economies of scale, increased efficiencies and reduced duplication</li> <li>▶ Commercial business opportunities</li> </ul>
Governance	<ul style="list-style-type: none"> <li>▶ Strengthened local political autonomy / independence / influence</li> <li>▶ Larger more diverse pool of community leaders</li> <li>▶ Greater strategic and policy planning across a larger area</li> <li>▶ Greater influence on other spheres of government</li> </ul>
Operational	<ul style="list-style-type: none"> <li>▶ Better organisational structures, staffing, career paths</li> <li>▶ New technologies</li> <li>▶ Quadruple bottom line reporting</li> </ul>
Services	<ul style="list-style-type: none"> <li>▶ Economies of scope</li> <li>▶ Reduced cross LGA utilisation of services</li> </ul>

## Community Benefits

Benefits of voluntary boundary change for the community include a greater sense of community cohesion and improved ratepayer satisfaction in council services.

### Greater community cohesion

The opposing argument to a loss of local identity (see section 3.5) is the potential for boundary change to provide a greater sense of community cohesion. Community cohesion is the glue that holds a community together, and includes characteristics such as a sense of common belonging or cultural similarity.

Local government boundaries do not define culture. A community's identity and culture is not linked to the location or size of the council area, it is linked to its demographics and characteristics.

*"One of the striking things demonstrated to this Inquiry was the strong identification people had with the suburbs. Whether it had to do with community identity, property values, participation in local affairs, voluntary associations, it was clear that in the vast majority of cases this was at the level of the suburb not at the local government area. It is apparent many people identify with their local council only to the extent that it is the responsible local government authority in which their suburb is located."*<sup>21</sup>

For many people, the community they identify with is not necessarily the area they live in as determined by local government boundaries. People may identify with, for example:

- ▶ The suburb they live in, rather than the whole local government area
- ▶ The area where they go to work or where their children go to school
- ▶ A whole region, which can be larger than the local government area
- ▶ Their cultural community.

There is often a natural cultural fit between the communities of neighbouring councils. Alignment of communities of interest can promote the establishment of more cohesive and comprehensive strategic objectives on a

21. *Inquiry into the Structure of Local Government in Eight Council Areas in the Inner City and Eastern Suburbs of Sydney*, Professor Kevin Sproats, 2001

regional basis, and boundary changes that take into consideration communities of interest and make the most of this cultural cohesion will enable local government to provide services targeted at specific communities of interest on a larger, more cost effective scale.

### Ratepayer satisfaction

A potential measure of improved local government capability is ratepayer satisfaction.

*“Alan Morton, together with the company Market Facts, undertook a survey of ratepayers of the five amalgamated local governments in 1992/93. The outcome of this survey was positive and it indicated that over double the number of ratepayers considered the amalgamations were successful compared to those that thought the amalgamations were unsuccessful.*

*This is considered a good outcome considering the main ratepayer concerns surrounding amalgamation are loss of local jobs, reduced focus on local issues particularly with respect to smaller communities and loss of access to elected officials”.*<sup>22</sup>

### Financial Benefits

There are a range of financial and economic benefits of voluntary boundary change including: A broader revenue base; the ability to spread financial and business risks; economies of scale, increased efficiencies and reduced duplication, and the potential to establish commercial business enterprises.

### Broader revenue and resource base

The capacity of any council to provide services is directly related to its capacity to fund those services. For many smaller councils, particularly in rural areas, the capacity to generate revenue through rates is restricted by the size of the population and its capacity to pay. This is a particular problem in areas where the rate base is already small and the population is predicted to decline. Amalgamated councils have the capacity to increase their resources in a number of ways, including through:

- ▶ Redistribution of wealth
- ▶ Reduced competition for resources between neighbouring councils
- ▶ Savings through a reduction in fees paid to elected officials (reduced number of councillors)
- ▶ Savings through reduced staff costs, overheads and compliance costs
- ▶ Ability to attract regional funding.

A broader revenue and resource base can lead to an improved financial capacity to respond to community needs and deliver projects, increased resources to deliver better and more cost effective services, and a reduction in fees for services.

### Economies of scale, increased efficiencies and reduced duplication

*“Alan Morton in his report titled Outcomes from Major Structural Change of Local Government, which was released in July 2007, estimated administrative cost savings from the Cairns, Ipswich and Gold Coast amalgamations of 1992/93 to be between 1.1 per cent and 3.1 per cent per annum. The report also stated that the South Australian Government estimated savings of 3.0 per cent to 5.0 per cent of expenditure per annum resulting from amalgamation. These estimates focused on administrative efficiency”*<sup>23</sup>

Increased resource utilisation, rationalisation of assets, increased buying power and more efficient business processes are benefits of amalgamations and boundary changes. Business processes and services that can be rationalised through boundary change, resulting in cost savings, are shown in the table on the following page.

Savings identified in a 2009 review of Queensland local government amalgamations<sup>24</sup> included:

- ▶ Information technology and communication systems \$37,278,918
- ▶ Annual councillor remuneration \$30,138,030
- ▶ Senior officer/staff costs \$37,690,572
- ▶ Buildings, renovations \$4,544,841
- ▶ Other savings (including group insurance, staff housing rental savings) \$8,432,731
- ▶ Asset utilisation/procurement \$1,315,371
- ▶ Combined town plans \$2,128,718

22. Review of Local Government Amalgamation Costs Funding Submissions, op cit

23. ibid

24. ibid

Function	Savings in . . .
Administration	Support for Councillors and Council/Committee Meetings
Audit	Internal and external audit costs
Customer Service	Dealing with face-to-face enquiries at council offices, switchboard management
Financial	Annual accounting, investments, accounts receivable, cash book, asset management, financial & statutory reporting, purchasing
Human resources	Industrial / employee relations, staff training, workplace health & safety, workers compensation, payroll services
Information Technology	Access to technology, purchase / management of software and hardware, IT help desk
Legal services	Legal advice and representation, statutory compliance
Public relations	Public and community relations, marketing, events management, publications
Rates	Rates collection and reconciliation, maintenance of computerised property systems
Records	Records management, classification of incoming and outgoing mail, records archival
Other benefits	Election costs, group insurance, staff housing rental

### Commercial business opportunities

Larger councils can have a stronger capacity to establish commercial enterprises to generate additional revenue. Many metropolitan and regional rural councils deliver services and infrastructure in competition with other providers. Councils choose to provide these services for historical or strategic reasons, or for potential revenue raising opportunities. Examples of competitive services include caravan parks, child care services, golf courses, tourist attractions and health and fitness centres. Larger councils are better equipped to operate commercial businesses because of their larger resource base (which may be used for

investment or start up costs), their capacity to attract highly skilled staff, and the willingness of councillors to see the bigger picture and take on a commercial enterprise.

### Governance Benefits

Governance incentives for voluntary boundary change include: strengthened local political autonomy, independence and influence; a larger more diverse pool of community leaders; the ability to undertake greater strategic and policy planning across areas; and a greater influence on other spheres of government.

#### Strengthened local political autonomy, independence and influence

*"Larger councils would be more influential in terms of establishing partnership relationships as distinct from subservient ones"*<sup>25</sup>

The larger the council, the stronger the political influence. Larger regional or city councils tend to have a stronger political voice than their smaller counterparts. The capacity of an amalgamated council to negotiate with government, large companies and other corporations considering working in the region will be significantly greater than that of any of the individual councils. An amalgamated council will be better placed to negotiate with companies and corporations in a way that ensure the best return for the broader community.

#### Larger more diverse pool of community leaders

One of the current issues facing the NSW local government sector is a lack of diversity in local representation and concerns about the ability to attract and retain councillors with the required skills.

Where voluntary boundary change results in a reduction in councillor numbers, the pool of community leaders from which to elect people to civic office becomes larger, which provides voters with a broader choice of candidates.

#### Greater strategic and policy planning across a larger area

*"Structures need to be propagated which lift the profile of strategic planning within local government. Strategic planning needs to be resourced so that it is driven both at the community and political level, achieves the necessary import from appropriate professional experts and is adequately funded over the long term"*<sup>26</sup>

25. *Inquiry into the Structure of Local Government, op cit*

26. *ibid*

Smaller councils often adopt an ‘operating’ rather than ‘strategic’ approach to asset management and planning. Councils that are larger and cover a broader region or area can have a stronger capacity to undertake strategic land use planning, economic development activities and infrastructure planning on a broader scale. Boundary change can also have a positive effect on other planning instruments. For example, the NSW government outlined proposed changes to planning in its Green Paper: “*A new planning system for NSW*”. There is a potential for local government boundary changes to complement changes to planning processes that may be made as a result of the Green Paper.

### Greater influence on other spheres of government

Larger councils that are more regionally focused can have a stronger influence on whole-of-government approaches to strategic planning and service delivery. Smaller councils sometimes find it difficult to encourage other government departments to engage in the local community strategic planning process. This is often because most government departments are regionally based and can find it difficult to participate in and support planning activities at the very local level. It is much more efficient for other levels of government to participate in planning activities that are undertaken on a broader scale – i.e. with a regional council as opposed to a number of smaller councils.

## Operational Benefits

*“The Final Report of the Queensland Reform Commission argued that, in particular, capacity has been seen to improve in the areas of better asset and infrastructure management, increased ability to attract and retain quality staff in key positions, superior risk management and compliance with financial and other reporting requirements, and improved growth management”<sup>27</sup>*

Operational incentives to voluntary boundary change include: a capacity to establish better organisational structures, employ specialised staff and offer better employment opportunities and career paths; a capacity to provide access to better technology; and quadruple bottom line benefits.

### Better organisational structures, specialised staff, improved employment opportunities/career paths

*“Small regional councils do struggle in terms of expertise”<sup>28</sup>*

Larger councils have a better capacity to attract and retain staff through, for example:

- ▶ The provision of new and more varied work
- ▶ The opportunity to build the capacity, resources and career paths of staff to meet organisational capacity requirements
- ▶ More opportunities to focus on bigger picture issues which can lead to more technical positions
- ▶ More resources for staff development
- ▶ Access to specialist expertise
- ▶ The provision of higher quality services or expanded services
- ▶ Professional procedures and guidelines that improve the working environment for employees
- ▶ Capacity to offer increased salaries to attract more highly skilled staff.

More career opportunities within the workplace and better organisational structures can result in a stable work force that is better supported and more equipped to provide superior services to the community.

### New technologies

As a result of economies of scale, larger councils are better equipped to purchase higher quality technology, provide more access to technology for staff and provide improved communication systems. This, in turn, enables staff to deliver the services the community requires more effectively and efficiently.

A larger council may also be able to provide the community with better access to technology. For example, by consolidating library and IT budgets an amalgamated council may be more able to offer better technology through a regional library.

### Quadruple bottom line benefits

Quadruple bottom line reporting for local government includes leadership, social, environmental and economic indicators, and there are a range of benefits of boundary change associated with each of these indicators. Examples include:

- ▶ Leadership – councillors focus more on the bigger picture resulting in improved decision making and better outcomes for residents and a stronger lobbying position
- ▶ Social - more effective allocation of resources towards local services and infrastructure allows for the

27. Evaluation of the Arguments for Amalgamation in the Final Report: No Lessons Learned, op cit

28. Dollery et al in Evaluation of the Arguments for Amalgamation in the Final Report: No Lessons Learned, op cit

provision of more resources to undertake projects on a larger scale

- ▶ Environmental – aligned local area planning instruments and regional master planning allows for a more strategic approach to future growth and development
- ▶ Economic - simplified administration practices, better purchasing power and shared equipment reduces duplication and costs.

costs are born by the provider council and paid for only by ratepayers within that council area, not by ratepayers from the neighbouring council areas.

A potential benefit of voluntary boundary change in these circumstances is that ratepayers who access these services end up within the boundaries of the provider council, and therefore contribute towards the costs of services through their rates.

## Service Benefits

There are a range of service benefits of boundary change including economies of scope and reduced cross local government area utilisation of services.

### Economies of scope

*“Local governments may utilise savings achieved from improved economies of scale to increase the range and/or to improve the quality of services offered”<sup>29</sup>*

With access to broader resources, funding and superior human resources, a larger council will be in a better position to provide services than smaller individual councils.

Where there are cost savings as a result of boundary changes there are opportunities to direct these savings into service delivery. This can mean that either more services are provided, or the same services are provided but at a higher standard.

There are also opportunities for larger councils to bring services into the community that have been missing. For example, a larger council has the capacity to bring in tradespeople to the area because of the increased availability of work. These tradespeople are also then able to provide a fee-for-service for people living within the community. Larger councils also have the scope to be able to employ people with skills/labour needed in the community and then on-sell or contract out these services.

### Reduced cross LGA utilisation of services

Cross LGA utilisation of services occurs when smaller councils rely on neighbouring larger councils to provide services to their ratepayers. In many smaller council areas, residents travel to neighbouring council areas for access to, for example, cultural activities, recreation facilities, libraries and social services.

As the costs of providing these services are generally not passed on as user pays fees (full cost recovery), the

29. *Review of Local Government Amalgamation Costs Funding Submissions, op cit*

# Incentives for boundary change



## 5. Incentives

The table below identifies a number of incentives that may encourage voluntary boundary change. These incentives are explored in more detail on the following pages.

Incentives for voluntary boundary change	
Financial	<ul style="list-style-type: none"> <li>▶ Changes to grant funding criteria / processes</li> <li>▶ Removal of rate pegging</li> <li>▶ Provision of transition funding</li> </ul>
Governance	<ul style="list-style-type: none"> <li>▶ Opportunity for earned autonomy</li> <li>▶ Provision of flexible governance models</li> <li>▶ Negotiated incentives</li> <li>▶ Enhancement of the role of the mayor</li> <li>▶ Increased councillor and mayor remuneration</li> </ul>
Legislative	<ul style="list-style-type: none"> <li>▶ Removal of limits on councillor numbers</li> <li>▶ Change to staffing requirements</li> <li>▶ Simplified process for boundary change</li> </ul>
Political	<ul style="list-style-type: none"> <li>▶ Political drive and support for voluntary boundary change</li> </ul>

### Financial Incentives

Financial incentives for voluntary boundary change may include making changes to grant funding (reducing red tape), removal of rate pegging and the provision of transition funding.

#### Grant funding criteria

There are a range of grants paid to councils to subsidise services and infrastructure that cannot be fully funded from ordinary revenue raising means, including Com-

monwealth Financial Assistance Grants and State grants for special purposes such as regional roads, water, sanitation, environment, recreation, social services etc.

Financial Assistance Grants from the Commonwealth Government are provided to Local Government under the principles and objectives of the *Local Government (Financial Assistance) Act 1995*. Each State Government is given the responsibility for determining the actual allocation of the grants, consistent with six National principles. These principles include the following protections and incentives for amalgamated councils which ensure they are not penalised as a result of an amalgamation:

- ▶ Minimum grant – every council is entitled to a minimum grant of at least 30% of the amount allocated if the total pool was allocated on a per capita basis;
- ▶ Amalgamation - 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.

A reduction in red tape for larger / amalgamated councils applying for funding, including Financial Assistance Grants and other state and commonwealth grants, may be an incentive for voluntary boundary change. By streamlining and reducing the application and reporting processes for larger councils (amalgamated councils, regional councils), not only would this be an incentive for voluntary boundary change, it would also reduce the administrative costs associated with grant management and allow for more grant funding to be allocated towards direct services.

#### Rate pegging

The removal of rate pegging for larger / amalgamated councils would enable the council to respond to infrastructure renewal and service delivery needs that are specific to the local community, provide opportunities for local autonomy and responsibility and afford amalgamating councils the ability to address financial suitability.

An alternative to the deregulation of rates could be to allow for a 'rate catch-up' for amalgamating councils

whose rates (in one or more of the amalgamating councils) are not in line with other 'like' councils. This would assist councils that started out with lower rates prior to the introduction of rate pegging and have, in effect, fallen behind other councils. The removal of rate pegging for amalgamated councils, either on a permanent or short term basis, could provide additional resources required during the transition period.

### Transition funding

The provision of appropriate and sufficient financial support is a key incentive to voluntary boundary change. Transition funding would enable councils to ensure that:

- ▶ Change processes are appropriately managed both internally and within the community
- ▶ Communities are engaged in, and kept informed of, the change process
- ▶ Robust representative structures are established that can adequately address legislative, procedural, compliance and reporting obligations
- ▶ Community and service delivery issues of the new area are appropriately addressed (new Integrated Planning and Reporting documents are developed including a Community Strategic Plan that reflects the priorities of the newly created area)
- ▶ Transitioning and redundant staff are adequately supported and resourced
- ▶ The costs of consolidating business functions and establishing new offices are subsidised.

*Note: the total budget allocated by the Queensland government to cover the costs of amalgamation was around \$27 million. In Western Australia, the government allocated \$4,511,858 in the 2011/2012 financial year alone for local government reform.<sup>30</sup>*

### Governance Incentives

Governance incentives for voluntary boundary change include: the opportunity for earned autonomy; the provision of flexible governance models; negotiated incentives; enhancement of the role of mayor; and increased councillor and mayor remuneration.

### Earned autonomy

The establishment of a different set of 'rules' for amalgamated councils that have proven to be operationally

and financially sound, and reducing the regulatory requirements on larger well-performing councils could be a direct incentive for voluntary boundary change.

In 2001 the UK Government introduced a range of 'freedoms and flexibilities' aimed at releasing authorities from some of the existing regulatory burdens that prevented them from being more innovative and at providing greater freedom for them to use their resources and powers in ways which better meet local needs and aspirations e.g. freedom from producing plans, seeking consent or being inspected, flexibility to borrow, trade or charge. Although this was met with some enthusiasm, take up of the measures was mixed and there was some frustration at slow government progress in implementing this agenda<sup>31</sup>. Over time, as council performance improved more broadly, the justification for giving only some authorities these freedoms diminished.

More recently, all councils in the UK have been given new freedoms and flexibilities to shape local communities, respond to what local people want and innovate to deliver better value for money. Some of these key reforms include:

- ▶ A 'general power of competence', giving councils the legal capacity to do anything that an individual can do that is not specifically prohibited.
- ▶ Abolition of the Standards Board regime, which requires councils to have a code of conduct and overseeing councillor committee, regulated by a central agency. Instead, it will become a criminal offence for councillors to deliberately withhold or misrepresent a personal interest, reducing the cost of dealing with trivial complaints whilst ensuring serious sanctions for corruption and misconduct.
- ▶ Introduction of directly elected mayors in major cities, in place of a leader/cabinet model, to raise the profile of English cities and strengthen local democracy.
- ▶ Power to establish Community Budgets, with freedom to break open funding silos and redesign services. The aim is to better target scarce resources and reduce administrative cost.
- ▶ Power to form Local Enterprise Partnerships (LEPs). LEPs are locally-owned partnerships between local authorities and businesses and play a central role in determining local economic priorities and undertak-

30. 2011-2012 Annual Report, Government of Western Australia Department of Local Government <http://www.dlg.wa.gov.au/Content/Updates/View.aspx?ItemID=30752F45555366497641303D>

31. <http://www.communities.gov.uk/documents/localgovernment/pdf/152492.pdf>

ing activities to drive economic growth and the creation of local jobs.

- ▶ New models of service delivery, for example applying the business model of budget-airlines to council services, scaling back core services and charging additional fees for services such as a customer relationship officer or faster planning permission.

A similar system of earned autonomy and tiered regulatory compliance could be introduced in NSW as an incentive for voluntary boundary change.

### Flexible governance models

The opportunity to select a governance model that is appropriate to the particular needs of the council and the community could be an incentive for voluntary boundary change.

Examples of flexible governance models that could be considered are explored in the *Local Representation and Decision Making Briefing Paper*, and include:

- ▶ Tiered local government
- ▶ Multiple governance arrangements within a single local government system
- ▶ Community governance
- ▶ Boards
- ▶ Village Committees
- ▶ Remote area governance model – local village committees, centralised coordination and delivery board, centralised administration office
- ▶ Outback Communities Authority
- ▶ Indigenous governance
- ▶ Collaborative governance
- ▶ Corporate Board vs Parliamentary Executive

### Negotiated incentives for the sector as a whole

In return for large scale commitment from the local government sector to reform, the sector could be provided with ‘something in return’. This would likely be something that they have been lobbying for, such as removal of rate pegging, and would be negotiated between the LGSA, the State government, associations and other key stakeholders.

### The role of Mayor

Enhancing the roles and responsibilities of mayors on larger councils could be an incentive for voluntary boundary change.

As identified in a recent report released by the Australian Centre of Excellence for Local Government, there are many mayors across Australia who “exercise considerable authority and provide forceful leadership ... (and) ... there is an emergence of influential groupings of mayors”.<sup>32</sup>

Providing the mayors of larger councils with roles that are recognised as more strategic and more of a leadership position may be an incentive for voluntary boundary change. One incentive could be to give larger councils the option of an Executive Mayor structure.

### Councillor and Mayor remuneration

Increasing the remuneration for councillors elected to larger councils may be an incentive for voluntary boundary change.

An increase in remuneration, tied to the skills, experience and responsibilities of councillors on larger councils would also encourage:

- ▶ A more diverse choice of candidates
- ▶ A larger number of candidates
- ▶ More highly skilled candidates.

### Legislative Incentives

Legislative incentives to voluntary boundary change could include removal of limits on councillor numbers, changing staffing requirements in the Act, and simplifying the processes that need to be followed for boundary change currently contained within the Act.

### Removal of limits on councillor numbers

*“No information put before the Inquiry enables a definitive conclusion about the ideal number of councillors or the ideal representation ratio. What appears to be important is how opportunities are created which enhance democracy and allow the community to participate in information sharing and decision making”*

*“Leadership and the opportunities for community participation should be strengthened and recognise local communities of interest. At the same time the structure of elected representation should enhance councils’*

32. *Australian Mayors: what can and should they do?* Australian Centre of Excellence for Local Government, 2012

*abilities to be more strategic and outwardly focused as these are critical requirements of future local government”<sup>33</sup>*

Removing the upper limit on the number of councillors may be an incentive for voluntary boundary change. Where councils and voters can, themselves, determine what level of representation is in the best interests of their community they may be more likely to view amalgamation more favourably.

### Changes to staffing requirements in the Act

Some of the staffing conditions currently included in the Act are already incentives for voluntary boundary change. For example, Section 354E ensures that new (amalgamated) councils are not bound to changes to staff entitlements made by councils during a proposal period.

There are a number of staffing conditions contained within the Act that are barriers to voluntary boundary change (see section 3.4 of this paper) and could be reviewed with the aim of reducing the financial impact on amalgamating councils.

It should be noted however that a recent attempt to amend the Act in relation to employment protections was unsuccessful. Proposed change in this area is likely therefore to be contentious and the need for it disputed.

### Simplifying boundary change process

Streamlining and simplifying the current processes for boundary change may be an incentive for voluntary boundary change. The current process (outlined in section 2 of this paper) is perceived by some as time consuming and complex. While there is a need to maintain some level of control over the process for boundary change, options for streamlining this process could include:

- ▶ Eliminating the need for boundary change proposals to be assessed by the Boundaries Commission
- ▶ reducing community consultation requirements
- ▶ automatic acceptance of proposals that meet certain criteria - such as majority support of voters, supported by all affected councils.

## Political Incentives

*“There is a clear view that structural reform will have to be led from the top” ... and at the end of the day .... (reform) will have to be driven from the state government level”<sup>34</sup>*

The experience of local government reform across Australia and overseas has identified that a lack of political will and political interference can be a barrier to voluntary boundary change (see section 3.7). Conversely, strong leadership at the political level can be a key to successful implementation of reform.<sup>35</sup>

Political support for reform may be an incentive for voluntary boundary change.

33. *Inquiry into the Structure of Local Government op cit*

34. *Consolidation in Local Government: A Fresh Look, Volume 1*, Australian Centre of Excellence for Local Government, 2011

35. *Form and Function, op cit*

## Appendix 1.

# Functions of the Local Government Boundaries Commission



## Functions of the Local Government Boundaries Commission

The Local Government Boundaries Commission is an independent statutory authority constituted under section 260 of the *Local Government Act 1993*. It has the function of examining and reporting on any matter referred to it by the Minister for Local Government regarding the boundaries of local government areas and the areas of operation of county councils. Section 263 (3) specifies factors which the Boundaries Commission must have regard to when considering amalgamation proposals.

### Membership of Boundaries Commission

The Boundaries Commission consists of four commissioners appointed by the Governor. Of the commissioners:

- ▶ One is a person nominated by the Minister, and
- ▶ One is an officer of the Department nominated by the Director-General, and
- ▶ Two are persons appointed from the panel constituted under section 262 (1) of the Act

### Functions of the Boundaries Commission

The Boundaries Commission is required to examine and report on any matter with respect to the boundaries of areas and the areas of operation of county councils which may be referred to it by the Minister. For the purpose of exercising its functions, the Boundaries Commission:

- ▶ May hold an inquiry if the Minister so approves, and
- ▶ must hold an inquiry if the Minister so directs,
- ▶ but may not hold an inquiry otherwise than as referred to above

The Boundaries Commission must hold an inquiry for the purpose of exercising its functions in relation to a proposal for the amalgamation of two or more areas that has been referred to it in accordance with section 218F of the Act.

Reasonable public notice must be given of the holding of an inquiry.

When considering any matter referred to it that relates to the boundaries of areas or the areas of operations

of county councils, the Boundaries Commission is required to have regard to the following factors:

- ▶ 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,
- ▶ the community of interest and geographic cohesion in the existing areas and in any proposed new area,
- ▶ the existing historical and traditional values in the existing areas and the impact of change on them,
- ▶ the attitude of the residents and ratepayers of the areas concerned,
- ▶ 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,
- ▶ 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,
- ▶ the impact of any relevant proposal on the employment of the staff by the councils of the areas concerned,
- ▶ the impact of any relevant proposal on rural communities in the areas concerned,
- ▶ 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,
- ▶ 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,
- ▶ such other factors as it considers relevant to the provision of efficient and effective local government in the existing and proposed new areas.

The Boundaries Commission is not entitled to examine or report on any matter relating to the area of operations of a county council constituted or proposed to be constituted for the supply of electricity.

The Boundaries Commission must allow members of the public to attend any inquiry held by the Commission under this section.

The Boundaries Commission may continue with an examination or inquiry even though a commissioner or acting commissioner replaces another commissioner during the course of the examination or inquiry.

The Supreme Court may not make an order in the nature of prohibition in respect of, or an order for removing to the Court or quashing, any decision or proceeding made or conducted by the Boundaries Commission in connection with the exercise of its functions.

In proceedings before the Boundaries Commission, a person is not entitled to be represented:

- ▶ By an Australian lawyer or by a person qualified for admission as an Australian lawyer, or
- ▶ By any person acting for a fee or reward.

However, this does not prevent:

- ▶ An employee of a person from representing the person before the Boundaries Commission if the employee is not a person referred to above
- ▶ A person who is the mayor of an area or the chairperson of a county council from appearing in that capacity in proceedings before that Commission, or
- ▶ A person referred to in subsection (1) (a) from preparing any documents or submissions or tendering any legal advice in connection with any proceedings before that Commission.

To assist it in determining the attitude of the residents and ratepayers of an area or areas for the purposes of section 263 (3) (d), the Boundaries Commission may conduct (in such manner as it thinks appropriate) an opinion survey or poll of the residents and ratepayers. The residents and ratepayers of the area or areas concerned may participate in any such opinion survey or poll but are not required to do so. The Boundaries Commission may request the Electoral Commissioner, a council or any other person or organisation to conduct any such opinion survey or poll.

## Appendix 2. References

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