



THE JOURNEY: SUSTAINABILITY INTO THE FUTURE

SHAPING THE FUTURE OF LOCAL
GOVERNMENT IN WESTERN AUSTRALIA

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1. Introduction

1.1 Background

The publication of this Plan represents the conclusion of the extended research, investigation and consultation process known as the Systemic Sustainability Study for Local Government in Western Australia.

The beginnings of these processes can be dated from 2004 when, as part of the lead-up to the 2005 State Election both major political parties made statements heralding the future reform of the Local Government Sector. This resulted in a 2004 AGM motion requesting the WA Local Government Association (WALGA) to conduct a Structural Reform forum. The consequent forum, held in November 2005 featured former Victorian Premier Jeff Kennett, sharing his amalgamation experience and Professor Brian Dollery of New England University, who presented a number of versions of 'cooperative regionalism' which were positively received by the audience.

The Northern Country Zone of WALGA held its AGM/Conference in March 2005 on the theme 'Amalgamate, Cooperate or Disintegrate'. The 2005 WALGA AGM passed a resolution for WALGA to lead the development of a framework that would assist individual Councils to review, debate and consider the future sustainability of Local Government and to ensure the framework encompassed the assessment of economic, social capabilities and capacities of individual communities and regions. In late 2005 WALGA appointed a three-member panel chaired by Professor Greg Craven, then of Curtin University of Technology, to research and investigate the sustainability of Local Government in Western Australia.

This Systemic Sustainability Study Panel (the SSS Panel) commissioned a report by Access Economics, *Local Government Finances in Western Australia* (June 2006). Based on this analysis and from their extensive consultation with Local Government representatives from throughout WA, the Panel framed 41 Recommendations for further action. The Association formed a Taskforce of its State Council to oversee the process. This Taskforce resolved to carry forward the SSS Panel recommendations. *In Your Hands* (The SSS Panel Report) was released in December 2006 and referred to an industry forum, held in April 2007 for further input. The WALGA Taskforce then convened five Working Parties made up of Councillors and senior Local Government managers from across the State. These Working Parties addressed the following themes from the SSS Panel Report:

- leadership for change
- finance
- revenue
- services
- capability.

The working parties concluded their investigations and reported to the WALGA Taskforce in December 2007 and January 2008. This Final Paper *The Journey: Sustainability into the Future* (the Plan) is constructed around the outputs of these working parties, with Sections dealing with each of the identified themes. It arises in a particular context. In all other States of Australia (and in New Zealand) there has been externally imposed reform of Local Government. In Australia, this reform has been driven by State Governments. The common characteristic in all cases has been amalgamation of Local Governments to generate greater efficiency through the creation of economies of scale.

The window of opportunity for industry driven Local Government reform in Western Australia has been narrowing throughout the duration of the Systemic Sustainability Study. The WA State Government has honoured its commitment to refrain from imposing reform during the current term of government. WALGA has also been aware that failing to initiate a determined and disciplined response by Local Government risks testing the patience of the State Government. For example, in April 2007, despite a State Government agreement to fund a voluntary reform process within Local Government, the Queensland Government moved to enforce change.

1.2 New Vision

The five working parties of the Taskforce achieved high levels of agreement around the direction for reform in Local Government. In July 2007, a workshop consisting of the WALGA Executive Team and working party members was convened to establish a level of alignment between the frameworks emerging in their respective areas. The result of the discussion was a Vision Statement to guide the continuing efforts of the working parties:

“Local Government will implement and maintain a governance model that integrates effective service delivery (on a regional basis) with appropriate political representation (on a local basis).”

The Vision was based on the outcome of consultations to that point which had been reported in the SSS Panel Report, confirmed at the April 2007 Forum, and repeatedly expressed in the course of the working parties' efforts.

The firmly held view, based on this combined effort, was that the core strength of Local Government lies in its representational base for the aspirations and expectations of local communities.

While for numerous and pressing reasons reform was absolutely necessary, measures which sacrificed this strength should not be advocated.

This conviction, based as it is on a combination of evidence and opinion, has led to the proposal for a major shift in the functional arrangements for delivery of services by Local Government.

1.3 Overview of Key Issues

Each of the Sections of this Plan explores the implications of failing to undertake decisive reform built around a combination of local, regional and state-wide service platforms.

A key driver for this shift is the recognition of the increasing difficulties faced by Local Governments in securing the numerous skills sets, many of them required as a prerequisite for delivery of services and functions stipulated by law as the responsibility of Local Government as a sector. This dynamic and the internal and external pressures of an increasingly competitive labour market in WA were matters focused upon by the SSS Panel in its report. The Capability Section addresses these drivers for change.

Associated with the capability issues confronting the sector are the mounting pressures surrounding service expectations in the communities to which Local Governments owe primary loyalty. Arising from a variety of sources, Local Governments are under increasing pressure to improve the quality of existing services and to assume responsibility for an increasing range of services into the future. These pressures are evidenced by the

extraordinary efforts of individual Local Governments to respond to their communities' needs for services as diverse as primary health care to telecommunications, none of which lie within the traditional range of services delegated to Local Government. The potential for regional service delivery and its benefits are canvassed in the Regional Responses to Sustainability Challenges Section of this paper.

Of central importance to the capacity of Local Government to meet its obligations for delivery of a wide range of services of high quality, is the all important matter of resourcing. At the core of this discussion is the revenue raising capacity of the sector. The Revenue Section discusses these matters at length and proposes a range of innovations. These include:

- enhanced capacity for Local Governments to create trading entities to generate income from service delivery
- adoption of best practice models for rate setting and the fixing of fees and charges
- new best practice for the setting of development charges
- increased use of prudentially managed debt as a means to address appropriate issues such as replacement and renewal of community infrastructure.

These recommendations are closely linked with a range of measures discussed in the Finance Section, for example:

- sector wide adoption of long term financial plans
- markedly improved standards of infrastructure and asset management.

The achievement of change will entail significant ongoing leadership highlighted in the Leadership Section of the Plan.

The Plan documents Local Government's preferred way forward and the proposals in this paper should be taken as clear statements of intent. As with the SSS Panel Report, this paper represents public disclosure on the state of Local Government in WA. It cannot now be undone.

Suggestions for the amendment and enhancement of proposals for achievement of their intended purposes are always welcome, as are additional proposals directed to the identified issues. There will also be an opportunity for the details of specific proposals and the manner of their implementation to be discussed and agreed.

On behalf of its members, WALGA will table its interest in collaborating with State Government to pursue an Action and Implementation Plan.

Achievement of reform will only occur with genuine commitment by Local Governments to properly support and strategically engage with the changes. Many of the recommendations in this paper entail amendment to the *Local Government Act 1995* and Regulations. To assist Local Governments in confronting the challenges posed in the Plan a Sustainability Checklist has been developed and appears in this Paper.

A Summary of Actions is also provided as a reference. These actions are organised according to theme area; identifying a provisional order for their delivery across the Plan and highlighting those requiring legislative change.

The challenges to Local Government embodied in the Plan are not avoided in this paper. They are substantial but overcoming them is considered central to the retention of quality of life for the community served by Local Government. While acknowledging the excellent efforts of many Local Governments in grappling with the identified issues, the approach to

date is in the nature of ad hoc responses to endemic issues of great significance to current and future generations.

A hidden feature of external intervention by State Governments to force structural change, usually through amalgamations of Local Governments, is their distraction value. The focus is upon Local Government but rarely upon the deficiencies in planning and funding of services by the State and Commonwealth Governments and the private sector. Repeatedly in this paper the fiscal imbalance impacting upon Local Government and associated increasing cost transfers and service demands are raised as key issues requiring debate and resolution.

2. The Way Forward: The Plan for Reform

2.1 The Context

This Plan follows an extended period of consultation with Local Governments and stakeholders on the draft discussion document (the Draft Plan) released in February 2008. The reader interested in tracking that history may do so by reference to the WA Local Government Association (WALGA) website or archives where the various background documents are available for review.¹

The Draft Plan documents the efforts of five Working Parties consisting of Elected Members and Local Government Officers to address key focus areas related to the sustainability of the Local Government sector. To respect that significant contribution of time and effort the Draft Plan retained the bulk of the Working Party input and left their various recommendations largely unchanged. It also included extensive appendices to introduce and provide full disclosure for the purposes of effective consultation. This was considered the best means to retain the authenticity of the consultative process and to ensure that the continuity of the process was not interrupted.

The feedback and comments from 34 briefing and consultation sessions and the contents of 105 submissions have been considered in the preparation of this Plan. For this reason its contents depart substantially from the Draft Plan². Arguments, analysis and recommendations have been reconsidered and reformulated in a significant number of areas to address feedback raised in the consultation process and to include suggested changes.

Numerous responses from member Local Governments have emphasised that the core issue underlying the sustainability of Local Government is the adequacy of its funding. WALGA shares this conclusion. It was central to the thinking behind *The Journey* and the proposals therein.

The motivations for embarking on the Systemic Sustainability Study (SSS) and developing a plan for the sector are widely documented in the various interim and final reports of both the SSS Panel and the Taskforce. Briefly, the purpose of following the SSS path was to develop a direction for the sector which would counteract those forces agitating for State enforced reform of Local Government and empower the sector to control its own destiny.

This motivation remains strong and relevant in 2008.

However, there is an equally relevant impetus for reforming the Local Government sector, and that set of arguments belongs to the national tax debate.

Put simply, Local Government needs a greater share of national taxation revenue in order to fulfil its infrastructure and service delivery obligations into the future.

This need arises as a result of:

- the historical cost shifting of the other spheres of government to Local Government (*documented by the Hawker Inquiry³ and assessed at up to \$1 billion*)

¹ See www.walga.asn.au

² The Draft Plan is available from www.walga.asn.au or WALGA archives

³ House of Representatives Standing Committee on Economics, Finance and Public Administration. 2003, *Rates and Taxes: A Fair Share for Responsible Local Government*, Commonwealth of Australia, Canberra.

- the relative decline in the value of Financial Assistance Grants as a proportion of national taxation revenue net of GST (*from 1.01% in 1995/96 to 0.71% at present, as revealed in the ALGA Federal Budget submission 2008-09*)
- the magnitude of the national infrastructure renewal task, (*currently estimated at over \$1.4 billion annually by the ALGA*).

While awareness of the dollar magnitude of these challenges is relatively recent information, Local Governments have been aware of the situation in a general sense for many years, and the State Local Government Associations and the Australian Local Government Association (ALGA) have been pressing the case for more funding from State and Commonwealth governments, virtually from the time that Financial Assistance Grants (FAGs) were first introduced. Why then have FAGs gone backwards?

The answer is never as simple as the problem, but there are three main observations that can be made and they both relate to the political will of Commonwealth Governments to invest in Local Government.

Firstly, they are subject to random indexing decisions by the Commonwealth and are not based on a particular methodology. This leaves the grants system subject to the budgeting and political nuances of the government of the day.

Secondly, in the strategic game of Commonwealth-State relations, Local Government is not an official player. The Australian Constitution is the means by which the Commonwealth is created and it is the tool by which the sovereign States give powers to the Commonwealth Government to exercise in the national interest. There is no acknowledged role for Local Government in the Constitution, and the Commonwealth Government has only been able to influence Local Government through its 'grants' powers. This often creates angst with the States and reduces Local Government to a bit player on the national stage and something of 'the meat in the sandwich' in the complex interplay between State and Commonwealth governments for control over policy outcomes.

Thirdly, there is a reluctance by Commonwealth (and State) governments to invest generally in Local Government in terms of access to a greater share of general financial appropriations, largely out of an apparent desire for more managed political outcomes and a persisting concern about the efficiency of the sector.

Certainly, Commonwealth funding is changing. New funding is coming to the sector in the form of programs like *Roads to Recovery* and the proposed *Community Infrastructure Fund* – not through expanded FAGs allocations. Whilst additional funding is always welcomed by the sector, tied funding links financial assistance to Federal policy objectives and removes the capacity for Local Governments to utilise those funds for their discretionary expenditure.

What does this mean for Local Government?

Two things:

- it underlines the importance of the push for Constitutional recognition, to give legitimacy to Local Government in the federal operating context
- it demands that Local Governments improve their operations to 'best practice' levels to encourage the other spheres of government to see Local Government as a desirable investment vehicle and partner in strategic decisions.

So the development of *The Journey* is not just a defence mechanism against State imposed reform and forced amalgamations. It is very much an optimistic and positive approach to creating a Local Government operating environment which:

- sees Local Government playing a valid and important role in the federation
- makes Local Government an attractive investment vehicle for the State and Commonwealth Governments, so that the appropriate proportion of the national tax take flows to Local Government
- ultimately gives the communities served by Local Government the best outcome.

There are always choices to be made and there is available the choice to do nothing in this environment. However, the Plan is premised on the view that this choice is both unproductive and becoming increasingly less tenable. By doing nothing, the best interests of local communities will not be served and the legitimacy of Local Government will be undermined as a consequence. This in turn will fuel the argument for State-imposed structural reform, particularly forced amalgamations.

Forced amalgamation processes become useful distractions for those interested in avoiding the underlying chronic funding deficiencies which lie at the heart of the existing sustainability issues for Local Government.

The Plan is crafted to require those issues to be addressed by:

- increasing the legitimacy and recognition of the role of Local Government
- improving the capability of Local Government to play a more effective role
- maintaining focus on the core issues.

Local Government must take the initiative of reform in order to bring the other spheres of government to the realisation that they are missing opportunities by not embracing the sector more fully within the federation.

The interstate experience of other Local Government jurisdictions should be enough motivation for WA Local Governments to pursue the voluntary path. There is no shortage of examples of State Governments acting to reform their Local Government sectors in the absence of timely, sector lead change.

This Plan seeks to position Local Government to make irrefutable its rightful claim to greater recognition and central involvement in the planning and delivery of infrastructure, functions and services.

Some of the feedback received has preferred a more interventionist approach by WALGA and encouraged the adoption of a more proactive stance on the amalgamation of existing Local Governments. Others have suggested WALGA has already gone too far in that direction with the publication of the Draft Plan. This reflects the sometimes contradictory pressures under which representative organisations operate; most particularly when they serve a membership as dynamic and diverse as Local Government.

In seeking to achieve balance following feedback from members extensive efforts have been made to clarify, explain and substantiate the case for change and the methods available for its achievement.

For example, numerous stakeholders made comment on the perceived inadequacies of 'The Regional Model' as outlined in the Draft Plan. Even where generally supportive of the thrust of the Model, Local Governments felt that its intention and form was not sufficiently clear and did not do the proposal justice. For others, this lack of clarity may be the source of some of the negativity with which it has been received. Accordingly, much more detailed discussion is provided in this Plan and numerous comments and suggestions have been incorporated.

While conscious of the diverse views of members over the prospect of amalgamation, WALGA has retained its position:

- It is not within WALGA's capacity to deliver a forced amalgamation process. WALGA has no direct sanctioning power over member Local Governments, nor does it seek such powers.
- Amalgamations will not of themselves address the underlying issue of the fiscal imbalance between Local Government and the other spheres of government.
- WALGA reflects the views of the membership.

The Draft Plan can be seen as placing more emphasis on the weaknesses and vulnerabilities of Local Government than upon the significant strengths and opportunities which present. An effort has been made to adopt a more positive orientation in this Plan. However, the Association does not resile from the firm view that reform in Local Government arrangements is urgently required.

2.2 Opportunities and Challenges

The risk presenting for the Local Government sector is that unless positive efforts are evident, change is likely to be forced on the sector. WA's Local Governments directed their Association to conduct extensive research into a sustainable system of Local Government prior to forced reform. This leadership now offers the sector a choice about its future.

This Plan is prepared for an audience of Councillors⁴, Local Government professionals, employees, and other interested stakeholders. Its structure and style is framed accordingly. However, the primary interests pursued in the Plan are those of the constituents which Local Government exists to represent and serve.

The detailed analysis of the Systemic Sustainability Study Panel (the SSS Panel), appointed by the Association found that there were widespread problems associated with financial sustainability, service delivery and capability issues throughout the sector. While none of these issues in and of themselves are forecast to result in the failure of individual Local Governments, they are impairing the ability of the sector to meet its responsibilities. The intended result is heightened capability in delivery of functions and services in the short term and the improvement, extension and enhanced sustainability of arrangements into the future.

Some stakeholders in Local Government have expressed the view that there are no substantial problems confronting the sector that cannot be overcome with the application of ingenuity and hard work. Doing more with less is a quality with which Local Government is familiar. The sector has become acclimatised to meeting ever increasing service expectations with diminishing resources. Though often the source of innovation and creative effort this response pattern may leave the community more vulnerable over time. The SSS Panel was particularly concerned that if left unaddressed, the consequences may be severely detrimental to intergenerational equity, particularly in respect of infrastructure planning, management and renewal.

⁴ Throughout this paper the term 'Councillor' is used to describe the persons elected to represent constituents on the various Councils, Shires and other representative structures within the Local Government sector. It is used in the knowledge that some elected members do not carry the title of 'Councillor'; having been elected to positions of different designation e.g. a directly elected Mayor or Shire President. It is used in an inclusive sense.

To be successful the Plan will require continued leadership, both from the Association and from individual Local Governments. While presenting challenges, the opportunity is to create a future built on proven existing strengths.

The greatest difficulty confronting WALGA in developing the Plan involved preserving the strength of Local Government while also addressing its challenges. As a consequence, the Association determined to retain the core element of Local Government's strength, which is its close connection with the community. The respected position of Councillors in the community, along with the fact that they are in every local community, is a great strength of Local Government. It provides the sector with its legitimacy.

2.3 Founding Principles

In seeking to emphasise the principles underpinning *The Journey* a number of recommendations were framed. Primary among these was the belief that the existing localised governance arrangements should be retained as the base for a service model emphasising the benefits of more regional approaches.

The Plan adopts an approach to *sustainability* which embraces social, environmental, economic, financial and cultural aspects. While much of the focus in the supporting research has been on the financial and economic sustainability of Local Government, the contributing bodies have placed repeated emphasis on the other dimensions of *sustainability*. Examples of the concerns held include:

- The potential deeply negative effect of poor infrastructure and asset management practices on intergenerational equity. Future generations should not be required to pay more than their fair share of infrastructure costs.
- The importance of many of the services offered by Local Government for social cohesion and community building.
- The increasing demands of climate change and the likelihood that Local Government will be expected to play its part in responding to these major challenges.
- The extent to which Local Government has over recent decades assumed increasing responsibility for the cultural vibrancy of their supporting communities.

The diversity of the communities served by Local Governments has been cited repeatedly as both a source of great strength and an increasing challenge for Local Government. For this reason this Plan takes great care to avoid 'one size fits all' prescriptions, especially regarding *structural* as distinct from *functional* matters.

However, throughout the consultation there has been resounding agreement that where issues of sustainability arise, the diversity of the settings in which Local Governments operate - while important matters of context - should not be used as reasons for avoiding addressing issues through change and innovation. In large part this is why this Plan issues an invitation to Local Government to re-examine its organisational arrangements for delivery of functions and services from a regional perspective. The assumption is that while differences no doubt exist, there are also existing strong affinities built around regionally defined identity across the State.

The process has also noted the 'metro centric' nature of State planning processes. An aspect of the Plan is to encourage more effective planning and delivery of services and infrastructure through regional arrangements, and to consolidate the presence and capability of Local Government within those arrangements.

2.4 Diversity Celebrated

In a state as socially and geographically diverse as Western Australia it is not possible to develop a universal model that applies to all Local Governments. For this reason the importance of local democracy and the retention of the ability to reflect the wishes of the local community lies at the heart of the Plan.

The success of the Plan will hinge on the willingness of Local Governments to find common ground and to engage in reform. This common ground will be found when local communities create affinities that can manifest and deliver their shared aspirations. Without a recasting of the catchments of common interest⁵, the regionally defined processes and platforms proposed as one aspect of the Plan will gain limited traction. While Local Government is well placed to build these alternative approaches the task will require patience, mature judgement and determined leadership. The strengths of the proposed regional processes rely on change occurring voluntarily and arising organically in a collaborative process through the sector.

The Local Government sector in Western Australia is comprised of 139⁶ entities that represent and service their local communities to the best of their ability. Notwithstanding the extensive *ad hoc* resource sharing arrangements that currently exist, the prevailing approach is to operate with almost full institutional independence. As a consequence, many of the benefits accruing out of technological and business practice changes have not been gained by the sector. It is in this context that fuller consideration of more regionally defined processes is proposed.

State Governments, other than in Western Australia, have seen fit to intervene to dictate the process of reform. This occurred in 2007 in both Queensland and the Northern Territory. For reasons outlined above, the reform proposals present challenges to the other spheres of government. This is as it should be, since many of the pressures being experienced by Local Government are the consequence of the planning processes, policy settings and funding decisions adopted by successive State and Commonwealth Governments. The proposed shift to a greatly increased emphasis upon regional platforms for the delivery of services and functions is intended as a catalyst for the broader debate. The intention is to secure more diligent and effective planning and delivery of the core services and infrastructure needed to support the quality of life in the diverse communities which make up the State of Western Australia.

2.5 Vision for the Sector

The Plan is proposed to support the Local Government sector with an industry led reform program that has the potential to rejuvenate the sector while retaining the best aspects of the existing arrangements.

While a shift to more regionally defined processes and platforms for delivery is a feature of the Plan, there are a wide range of components which can be progressed to the advantage of the sector. The Plan does not stand or fall upon the uniform adoption of these regional approaches. Indeed, the Plan anticipates that some Local Governments, having considered their sustainability, may correctly decide that regional approaches offer no enhancement of their capacity. Nonetheless, other aspects of the Plan may offer them significant advantage.

⁵ SSS Panel, *Community of Interest and the future shape of Local Government*, 2005 pp. 25 – 28.

⁶ It is noteworthy that during the course of the review process there have been voluntary amalgamation processes which have reduced the number of Local Governments from 142.

The emphasis in the Plan is *sustainability* in social, environmental, economic, financial and cultural dimensions. The effort is to craft a set of proposals which meet defined needs but do so in a fashion which permits adaptation to the diverse environments in which Local Governments operate. There is no one size that fits all.

The Plan is supported by a variety of practical tools and methodologies. A variety of these were provided as appendices to the Draft Plan. They are not reproduced in this Plan but remain available to Local Governments to support efforts at reform of processes and structures.

One tool which is produced in this Plan is the Sustainability Checklist. The Checklist is not an exhaustive treatment of the proposals and recommendations contained in the Plan. Nor will a formulaic application of the Checklist satisfy the demands placed upon any Local Government. It is not intended as a simple compliance instrument but rather as a self-assessment tool to assist in the transition to a performance based culture within the Local Government sector.

The thinking behind the Checklist is to place sustainability issues 'front of mind' for Local Governments and to encourage regular and systematic monitoring and review around key strategic issues.

3. Leadership

3.1 The Context for Change

The preceding commentary provides an overview of the context in which the Plan was developed. This paper forms part of an extended process of reflection on the current settings for Local Government in Western Australia, their suitability and durability into the future, and their capacity to deliver sustainable services and infrastructure to their local communities which rely heavily upon their Local Governments for their quality of life.

The necessity for change is dictated by the serious doubts which have emerged on the sustainability of various aspects of the existing arrangements.

Most particularly those concerns relate to:

- **The demonstrated serious deficiencies in the capability of Local Government as a whole to map, plan, maintain, renew and expand the infrastructure base upon which communities rely** - The SSS Panel Report, using the Access Economics analysis, has identified a \$1.75 billion shortfall in infrastructure renewal efforts across the Local Government sector. Associated with this cluster of issues is the need for Local Government to reinforce its claims to legitimacy and authority in the representation of local communities by enhancing its transparency and reporting methods to those communities. Broadly speaking this set of issues is addressed in the Section dealing with Finance.
- **The current arrangements for the generation and management of the revenue streams available to Local Government** - The discussion in this area has obvious interrelationships with the perceived deficiencies in financial planning and management, particularly on issues of infrastructure management and service provision. For this reason, the Section dealing with Revenue shares themes, albeit addressed from differing perspectives, with the discussion in the Section on Finance. The Revenue Section also examines a range of deficiencies in existing arrangements by which the respective accountabilities and funding responsibilities of the three spheres of government are currently defined and managed.
- **The capacity of Local Government to define, agree upon and deliver an appropriate range of services which should correctly be the responsibility of Local Government** - Central to these concerns, and in common with the other areas under analysis, is the perceived lack of sustainability in existing arrangements and the resulting levels of vulnerability to which communities are exposed in the medium to long term. Central to this set of concerns is the ad hoc nature of existing planning arrangements for the development and management of services across the three spheres of government.¹ This creates close relationships between the Sections of Finance and Revenue and the Section dedicated to Services.
- **The current intense pressure upon Local Government in securing the human resources needed to deliver sustainable outcomes in all areas** - In the context of the various changes in strategic and functional arrangements foreshadowed in the other Sections of this Paper, this demand implies the necessary enhancement of:
 - Councillors to exercise the governance responsibilities with which they are confronted

¹ The 'three spheres of government' referred to throughout this paper are the Commonwealth Government (sometimes referred to as the Federal Government), the Western Australian State Government and the collection of 139 Local Governments in Western Australia's state jurisdiction, referred to collectively as the Local Government sector.

- the managerial capacity to manage revenue generation and the planning and maintenance/renewal of services and infrastructure
- the capability of Local Government to attract and retain the full set of skills and capacities necessary to meet current and future demands.

The Section on Capability deals with this set of pressing issues. The evidence suggests that Local Government is approaching crisis point in this area within current settings. This Paper suggests that the associated pressures are likely to worsen over time in the context of intensified competition within Local Government, the current pressures within the WA economy for skills sets, and emerging demographic changes with an ageing population, at least in the medium term.

The SSS Panel Report anticipated that these human resource issues would prove key drivers for change and the analysis underpinning this paper has confirmed this observation.

3.2 The Pressures for Change

The proposals made for delivery against the Plan are driven by a commitment to the primary responsibilities and accountabilities of Local Government to local communities. In the absence of change in the identified areas, the current capability of Local Government as a sector to deliver on current community expectations is in serious doubt. The ability to deliver in the medium to long term is under severe question. Of major concern in matters of sustainability is the underlying prospect of deeply detrimental effects upon the intergenerational equity. This underlying consequence of deferring systematic reform of service and infrastructure delivery is foreshadowed in the SSS Panel Report and confirmed in this paper. This set of considerations should be a sufficient catalyst for a change in methods and approaches.

Further impetus for change is offered by the ability of Local Government to adopt positioning which presents challenges to the other spheres of government to improve their delivery to the local communities to which Local Government is responsible. The Plan is directed to this result. While presenting immediate challenges to Local Government, the Plan has profound implications for the improvement of outcomes overall. The emphasis in the paper is upon the creation of opportunities for interface between the spheres of government which are built around issues of crucial importance to the community. It is intended that out of these interactions improved relationships and definitions of responsibilities and obligations between the spheres of government will emerge.

A key assumption is that the question of whether services and infrastructure are delivered by Local, State or Commonwealth Governments is largely irrelevant to the wellbeing of the population in general. What matters to the community is that services and infrastructure items are delivered in an effective and sustainable fashion. This paper proposes at several points that Local Government may have advantages in some instances in terms of the cost efficiency of service delivery.² However, it also emphasises that these advantages are not being fully realised on current settings.

The proposals for change are intended to position Local Government as a more respected partner in governmental arrangements and to redefine the responsibilities between the spheres of government. They seek the adoption by Local Government of a platform which both enhances capacity within existing settings and generates intense focus upon the limitations of the planning and delivery methods of the State and Commonwealth Governments. A corollary is that the resulting debates will provide a firmer foundation for

² This relies upon the well established principle of 'subsidiarity' within federal systems of government, which proposes that the most effective and efficient arrangements are those by which services and infrastructure are delivered by the lowest sphere of government while the higher level spheres are responsible for funding.

planning and delivery of essential services and infrastructure, including their funding adequacy, where responsibility is agreed to lie with Local Government.

All components of the Plan, in common with the SSS Panel Report, accept that, in the absence of a positive response by Local Government, externally imposed change is inevitable. It seems highly likely on current settings that the prospect of radical change similar to that experienced in other States and New Zealand will arise in the next term of State Government. The ailing infrastructure management capabilities of Local Government as a whole are likely to be the catalyst for that intervention. Conveniently for both the State and Commonwealth Governments the focus is unlikely to be upon their responsibilities for chronic under funding of services and infrastructure in various forms.

On these settings it appears likely that while justifiable in some terms and with Local Government as its target, intervention will also serve as a distraction from a number of key underlying deficiencies in the existing relationships between the spheres of government. Primary among these are the institutional arrangements for the planning, funding and management of services and infrastructure.

In this context the common theme by elements of the Plan is the opportunity which presents for Local Government to adopt a positive orientation to change which will serve as both a defensive and aggressive campaigning strategy. The proposals contained within constitute a blueprint for change and may, in the anticipated timeframe, amount to the last word on the subject by Local Government acting in its own interest. It will:

- Provide the basis for Local Government to pre-empt external intervention by the adoption of a positive reform agenda.
- Demonstrate the *bona fides* of Local Government as a legitimate and responsible representative of the diverse communities it supports.
- Serve to focus debates upon the shared responsibilities of the spheres of government, thereby:
 - enhancing the prospects of improved outcomes in the short term
 - empowering communities through better understanding of the network of intergovernmental relationships through which services and infrastructure are provided
 - providing focus for the address of the identified underlying deficiencies for planning, funding and stewardship for services and infrastructure of a sustainable nature
 - better shaping the debate should intervention occur.
- Present a foundation for Local Government's response to intervention which represents the 'least worst' outcome in the view of Local Government.

However, it would be deceptive to downplay the 'crunch issue'. The Plan presents profound challenges to Local Government. The question is:

Is Local Government in WA satisfied with its current settings or is it willing to confront the challenges of internal reform and the prospect of being a catalyst for improvement in services and infrastructure for the communities it serves?

3.3 The Scope for Change

The required transformation for Local Government is in the nature of *functional* rather than *structural*³ realignment. The SSS Panel Report was careful to emphasise that there was no demonstrated case that amalgamations of Local Governments will deliver improved outcomes. The forced amalgamation of Local Governments without existing capability and without specific regard to the ability to deliver more sustainable arrangements offers slim prospects of improvement. The extensive work of the five working parties which have generated the Plan has confirmed this conclusion.

Further, the investigations by these working groups have identified numerous instances of the adoption of alternative platforms for delivery by Local Governments under current settings which have delivered improved efficiencies and outcomes. Those arrangements are particularly pronounced in the areas of Capability and Services, but numerous instances also exist in Finance and Revenue. The full reports of the working parties are available for review from the WALGA website or archives.

During July 2007 a facilitated workshop was held to define the scope of the continuing efforts of the working parties. The workshop arose from a shared sense that some common vision was required to focus their continued efforts.

The challenge to Local Government applies to all and the change processes foreshadowed will impact upon all. In numerous instances the recommendations and proposals in the following sections go to changes in legislation and the adoption of uniform standards and processes by all Local Governments. The change process will create tensions and difficulties which can only be overcome by a concerted shared commitment to change.

The distinction between *structural* and *functional* change is intended to differentiate between the governance relationships underpinning Local Government, and the platform by which the various services and functions, delivered by and channelled through Local Government, are delivered. The core of this paper is emphasis upon the latter, without the need for a determined view on the former. The paper at various points expresses confidence that the best *structural arrangements*, perhaps involving formal amalgamation and coalescence of existing Local Governments, should be determined by the experience of a substantial shift in the methods for *functional delivery*.

In managing the transition to new platforms for the delivery of services, with greater emphasis upon their delivery through regional and state-wide mechanisms, it is clearly necessary to craft accountable and transparent governance structures. It is anticipated that regional service delivery will be the vehicle for closer working relationships between Local Governments which in turn will provide the catalyst for structural changes over time. It is important in negotiating any changes to governance and representational arrangements that they are based on genuine communities of interest defined around regionally based affinities.

But this does not represent a 'Get out of gaol' for Local Governments resistant to the *functional* realignments advocated in the Plan:

- In some instances the existing cooperative arrangements between Local Governments have been struck on a distinctly *ad hoc* basis.
- This Plan proposes a template for increased emphasis upon strategic regionally based functional delivery.

³ The *structural* arrangements go to the formal organisation of Local Government arrangements, including their governance arrangements. For example proposals to amalgamate Local Governments are *structural* responses. *Functional* responses are directed at the more effective and sustainable delivery of outcomes.

- The debate surrounding such set of arrangements will generate the need to review the appropriateness of the existing service sets on offer by individual Local Governments.
- Where a Local Government has distinctly unsustainable arrangements in place, it is unlikely that neighbouring Local Governments within a proposed regional grouping will seek to 'bail them out'. This will be an acute issue in managing transition to regionally based services.
- Similarly an internal discipline will be imposed. Local Governments who chose to offer functions which are not sustainable can expect to 'carry the can' for funding and delivery. This will be a feature of the ongoing arrangements necessary to support a strategic approach to delivery of services, functions and infrastructure.
- The Plan anticipates that some Local Governments may choose not to pursue change.
- Scope is inbuilt for Local Governments to retain distinctly local functional delivery. This is necessary to allow regional groupings to craft their arrangements on a flexible basis to address the expectations of their constituents and the environments in which they operate. However, in choosing to 'go it alone', the imperative for demonstrated strategic analysis by Local Governments of the sustainability of their preferred action will come to the fore.
- The proposals include a range of measures which, if implemented, will help Local Governments identify unsustainable frameworks.

In advocating a wide ranging evaluation of functional delivery, the paper contemplates the emergence of an array of governance and delivery mechanisms, including:

- Increased capacity for the creation of trading entities managed by Local Governments to deliver functions, through local, regional or state-wide platforms.
- The creation of regional governance structures to govern functions delivered at that level. This includes legislative amendments to increase the amenability of regional structures.
- The existing option of outsourcing and external contracting of functions and services.

3.4 The Leadership Imperative

The proposals contained in this paper will demand firm and determined stewardship and high degrees of leadership. Some are controversial in their nature, demanding of Local Government and require clear and consistent communication of their intention and nature into the public debate.

The proposals also arise from an extended and carefully considered process of consultation. They are based on the experience of other jurisdictions. They are crafted and intended to address the diversity of Local Governments and their settings. They are based on careful political judgement of what is both necessary and attainable to enhance the sustainability of services and functions. They are intended to generate a broader debate on the adequacy of the existing frameworks for the planning and delivery of an improved quality of life for Western Australians, including those who on current settings may be left to pick up the tab into the future. In summary, they represent a strategic response by Local Government.

3.5 Unswerving Commitment

Repeatedly this Plan lays down a challenge to Local Government – ‘Engage and Reform’. In the absence of a critical mass of engagement and active participation in the reform process, Local Government will fail to demonstrate its credentials. In such circumstances the State and Commonwealth Governments would be justified in failing to respond in a welcoming fashion. The case is being made through the SSS process, of which this paper is a central plank, for the need for reform in Local Government as a whole.

4. Regional Responses to Sustainability Challenges

4.1 A Process Not a Structure

The research effort supporting the creation of this Plan has revealed a wide range and large number of existing cooperative efforts in place within Local Government. In performing a variety of statutory functions and delivering a wide array of services Local Governments have moved to create new and innovative processes and platforms.

The Regional concept needs to be viewed as a process and not a structure. The intent of the Regional Model was to point the way to voluntary co-operation by a group of like-minded Councils. The participants in a regional group are self selecting, and the range of activity of the region is determined by whatever the parties can agree to.

The range of options for implementation of the Regional concept around shared services platforms, including but not limited to:

- Voluntary Regional Councils
- Formal Regional Councils
- Local Government trading entities
- Single Local Government as the regional service provider
- Private sector provider/contractor
- State-wide managed preferred supplier or service.

In some instances, cooperation will be formalised through the creation of Regional Organisations constituted under the *Local Government Act 1995*. In others, it will be the subject of voluntary arrangements between Local Governments with lesser levels of formality.

Elsewhere in this Plan, new mechanisms for cooperation are raised and explored (e.g. commercial trading entities).

The intention of the Plan is to encourage the exploration of more regionally defined processes and platforms for the planning, delivery and funding of the functions and services offered by participating Local Governments. The accountability of those Local Governments to their constituents may remain unchanged. The specifics of the arrangements and the methods for their delivery are not pre-empted. In large part the Plan seeks to make available greater levels of flexibility and an increased range of options by which these outcomes can be achieved. The purpose is not to limit but rather to enable Local Government to address sustainability issues in their local context.

4.2 The Objective

Regional processes integrate effective service and infrastructure planning and delivery (on a local, regional or state-wide basis) with appropriate political representation (on a local basis). They permit Local Governments to retain certain services for local delivery as appropriate to their circumstances. They also contemplate the ability to expand service offerings with the default of first undertaking an analysis of the sustainability of the proposal

and the best mechanism for its delivery. The approach is based on the concept of a 'catchment of common interest' which represents the community's mutual aspirations and historical connections, but with the scale for definition being a regional rather than purely local focus. It is also significantly influenced by the economies of scale for significant services delivered by Local Government. A key consideration is the ability to support and service current and future arrangements with the necessary skill sets and capabilities in a highly competitive labour market.

In return for Local Governments transferring a degree of their institutional independence, they may be able to improve the quality and quantity of the services they provide to their communities.

Focusing Local Government reform around regional processes and platforms is significantly different to imposed structural reform initiatives. It is not driven by a reduction in the number of Local Governments for the sake of simple cost savings, nor does it suggest there is a 'one size that fits all' solution. The objective is to improve the ability of Local Governments to actually meet the expectations of the communities, at both local and regional levels, through retention of existing representation arrangements supported by enhanced capability for improved service delivery. Individual Local Governments are able to consider reform based on the merits of the case before them and the aspirations and expectations of the communities they serve.

As indicated a variety of regional responses are already in place with the Local Government sector. These existing arrangements seem to be driven by a combination of factors, dependent on the nature of the services or functions to which they are directed.

In some instances a regional approach creates a platform for the application of defined skills sets. The labour market for many of these skills is increasingly competitive. In this competitive labour market, employees frequently value opportunities for career progression as significantly as wages. Regional processes enable the Local Government sector to position itself as a more desirable employer by offering greater career development opportunities while expanding the potential for making a difference to the community which has always attracted people to the sector.

Cooperation among Local Governments also lessens the extent to which the Local Government sector competes against itself in seeking out the skills sets required to deliver against the range of statutory functions designated for Local Government.

In other cases, organisation on a regional basis creates greater 'purchasing power' for the consortium in securing more economical service delivery through contracting arrangements.

In all instances the objective is to free up resources for application by the participating Local Governments to additional services and functions matched to the expectations and aspirations of their constituents. Whatever arrangements made are by agreement of the participants.

4.3 Structural Implications

The adoption of regional processes may well herald significant structural changes for the Local Government sector in the long term. However, those changes which emerge will be based on the experience of Local Governments and their constituents with the relative advantages and benefits of regional arrangements. Most importantly Local Government boundary changes will occur only when the threshold issue of improved service capacity has been demonstrated. For constituents, the emergence of a community of interest and increased affinity; based on regional rather than local considerations; may flow from closer integration of services and functions delivered within their region. In the event of positive

operational outcomes and increased affinity, voluntary amalgamation of existing Local Governments may occur.

Comment received has drawn attention to the role and function of the Regional Development Commissions (RDCs) operating throughout the State. In several instances the commentary advocated that these roles and the associated budgets should be assumed by regional Local Government structures. This proposal generates several issues:

- Regionally organised Local Government arrangements are embryonic and not fully tested. There is as yet insufficient evidence of the capability of the Local Government sector to warrant the transfer of responsibilities from RDCs.
- Some elements of the Local Government sector remain ambivalent over their commitment to transitioning to regional processes and delivery platforms. While the assumption of the RDC functions may be a worthy aspirational goal for the sector, implementation is premature in most instances.
- A number of the existing cooperative arrangements make use of Information Communications Technology (ICT) to create virtual service platforms across regional boundaries. These may prove to be a highly useful model for a variety of service areas. The suggestion concerning the RDC role implies that there are contiguous boundaries shared by participating Local Governments in a particular 'regional' grouping. Clearly this need not be the case if Local Governments decide on virtual networks, rather than geographical regions, as the method for delivering shared services and functions.

The matter of regional boundary definition is one best left to the Local Governments wishing to explore more cooperative arrangements. However, any group of Local Governments engaged in discussions would be wise to determine the questions at an early point, especially if a long term ambition to assume the RDC functions was an aspect of their strategy.

4.4 Demonstration of Capacity

It is necessary for the Local Government sector to clearly demonstrate its capacity and to provide a firm foundation for its claim for recognition. Individual Local Governments and some existing regional groupings are already well respected but the reputation of the sector is highly variable. It is necessary for Local Government to address this threshold issue. A range of the recommended actions in this Plan are specifically targeted at enhancing the standing of Local Government.

Willingness to engage in dialogue with others over possible regional processes is a clear counter to the stereotype of Local Government as dominated by parochialism in its governance. Delivery against regionally defined objectives would clearly demonstrate Local Government's capability to other spheres of government, corporations and constituents.

Under successive Commonwealth Governments there has been a trend towards infrastructure planning and delivery on a regional basis. While the diversity of Western Australia is acknowledged, its partitioning into well established and widely recognised regions is a feature. Regional responses are a well established feature of the political, economic and social landscape. A willingness by Local Government to embrace this level of organisation will position the sector to take advantage of a variety of opportunities which are likely to emerge.

4.5 The Vision

In promoting any change process it is desirable that there be some guiding vision for the eventual endpoint. This is not to say that the detail will not vary according to local circumstances or that 'success' will be judged by the achievement of some idealised model which is not fit for purpose in its local application. The Plan is an important refocusing of Local Government's evolution in Western Australia and will involve a considerable change in both practice and process of the sector. An important aspect is the willingness to re-evaluate the traditional manner in which functions and services are delivered. The proposal to explore regional level processes and platforms is the mechanism by which this evaluation process is proposed to proceed. A significant number of Local Governments are already engaged in cooperative endeavours of various forms. The proposal is to make the framework more coherent and systematic than might otherwise be the case.

How effectively the functional reform is embraced by the sector will depend on the leadership shown by the sector itself. It will also depend on the willingness of the State Government to engage with and invest in industry-led reform.

Within the shift to regional processes there are significant challenges to the other spheres of government. Currently both Commonwealth and State Government profess a commitment to regionally based planning and delivery of services and infrastructure. Yet the alignment of the boundaries for Commonwealth and State departments vary between and within each sphere. This creates confusion and inefficiencies and detracts from concerted efforts to deliver benefit to the community. The Plan is intended as a catalyst for greater responsiveness by government in general, beginning by generating pressure for coherent representation of 'community of interest' through the adoption of common regional boundaries.

The adoption of the regional processes and platforms central to the Plan will better position Local Government as a respected partner in the planning and delivery of services and infrastructure and will potentially improve the advocacy and representative ability of regional groupings of Local Governments.

4.6 Interstate Developments

Over the last two decades, Local Governments throughout the country have been subject to an extensive wave of structural reform that has dramatically reduced the number of Local Governments in every State and Territory except in Western Australia. During the 1990s, South Australia, Tasmania and Victoria underwent episodes of forced Local Government amalgamations. More recently, restructuring under duress has occurred in New South Wales and the Northern Territory. In Queensland a collaborative process of structural reform was halted to impose significant amalgamations on Local Government. The problems confronting the Local Government sector have never been so well understood and never has there been the same impetus for reform across the nation.

The reforms in Queensland occurred despite the State Government having committed almost \$25m to the Size, Shape and Sustainability program that was intended to lead to voluntary structural reform. Citing a lack of engagement from the sector, the Local Government Reform Commission stated that:

"The majority of Queensland's current Local Government boundaries have been in existence for more than 100 years. They are largely based on the territory that could be covered in a day using transport modes prevalent at the time, but which are now long outdated. These boundaries have served Queensland well throughout the 20th century, but today do not align with the shifts in population, changing community

expectations, and developments in communications and transport that have occurred since that time.”¹

Excluding WA, the number of Local Governments in Australia has declined by 55 per cent over the last century, with the majority of that decline occurring over the last 15 years. The historical changes to the number of Local Governments in Australia are described in Table 1.

Table 1
Historical Changes in Local Government

State	Councils		
	1910	1991	2007
New South Wales	324	176	152
Victoria	206	210	79
Queensland	164	134	157 to 73*
South Australia	175	122	68
Western Australia	147	138	142
Tasmania	51	46	29
Northern Territory*	n/a	n/a	64 to 13**
Total	1,067	826	556

* Based on reforms announced in 2007.
** This change includes community government councils and 'association councils'.
Source: Local Government Reform: A new chapter for Local Government in Queensland

Obvious considerations in the case of Western Australia are the size of the land mass and the dispersal of the State’s population. While these can be claimed to be unique features entitling Local Government in Western Australia to different treatment, the strength of such arguments is eroded by time and change. The extent to which communities already relate to their common regional characteristics is pronounced. Advances in information and communication technologies and transport infrastructure have significantly reduced claims to a ‘tyranny of distance’. The Plan seeks to accommodate and work with these shifts but to focus on quality of outcomes in *functional* terms, rather than relying on simplistic boundary changes.

However, the Plan does not limit the ability for structural change to occur. It seems highly likely that with time and the experience of working more closely through regional arrangements, closer affinities of interest will emerge which are sufficient to warrant voluntary mergers of existing Local Governments.

4.7 Funding for the Sector and Funding for Change

There are two fundamental funding considerations which impact on the capacity of the sector to enhance its sustainability.

The first is the national taxation debate (outlined earlier) and the second is a financial commitment by the State to underwrite catalytic change processes within the sector.

¹ Queensland Local Government Reform Commission, *Report of the Local Government Reform Commission*, vol 1, 2007, p. 4. Available from: www.strongercouncils.qld.gov.au/Resourcesandpublications/Commissionsrecommendationsreport.aspx

In terms of the national taxation debate, Local Government needs to secure an entitlement to share in a percentage of the Commonwealth tax take (net of GST), so that financial assistance to Local Government grows automatically, and in line with the growth in the Commonwealth tax take. In this way, commonwealth funding to Local Government will be maintained in relative terms, and over time this will gradually address historical cost shifting.

For example, moving from the current Financial Assistance Grants funding base to a funding pool based on 1% of total Commonwealth taxation (net of GST) would increase Local Government funding from \$1.684 billion to \$2.068 billion (2006/7 figures).

In addition, funding programs like *Roads To Recovery* (R2R) and the proposed Community Infrastructure Fund need to be made a permanent part of the funding distribution to Local Government, and should be indexed annually based on the rate of growth of Commonwealth taxation so that they retain their funding relativity as a proportion of the tax revenue regime.

These mechanisms would contribute substantially to underpinning the financial sustainability of Local Governments.

The second consideration is the importance of the State Government taking a lead role in fostering sector reform by funding a program of catalytic activity to bring about change.

During the consultation period a number of Local Government groupings have indicated their willingness to pilot shared services models and other regionally based initiatives.

The shift from the current service models will require significant research, analysis and an understanding of the Local Government environment to enable a transition to the shared services arrangements on a regional basis. Sufficient funding must be allocated to achieve this.

Each proposed regional pilot group of Local Governments will need to be assessed on a case by case basis.

This will require analysis of the impact of the proposed change on stakeholders of each member Local Government of the Regional Group and a well developed plan to guide the development of the Group as a whole.

It is proposed that WALGA will provide research and assistance through its Governance and Economics portfolios in respect to financial, service delivery and governance ramifications.

WALGA will develop a submission to State Government advocating the allocation of \$30m to underpin and support the sector's role in transformational change and actions required of this Plan².

Action 1: That the Local Government sector endorses and actively supports a campaign for enhanced funding with the following elements:

- **The existing national campaign for Financial Assistance Grants to be underpinned by a fixed percentage of total Commonwealth Taxation (net of GST).**
- **The national campaign for the establishment of a Community Infrastructure Fund.**

² The financial allocation is intended for the purposes outlined in Action 3 and not for ancillary development projects, such as the comparative data delegated to DLGRD under this Plan.

- **WALGA advocate for the current Roads to Recovery program to be established as a permanent funding source and escalated each year based upon the increase in Commonwealth Taxation Revenue.**

Action 2: That the Local Government sector in Western Australia endorse a re-evaluation of the processes and platforms for the delivery of functions and services to more fully explore the adoption of regional arrangements.

Action 3: That WALGA advocate and seek initial funding of \$30m to develop a series of pilot Regional Shared Services examples and to progress strategies to further develop the concept of regional processes and platforms for the Local Government sector.

5. Finance

5.1 Strengthening Financial and Planning Disciplines

The SSS Panel identified four critical needs to strengthen financial and planning disciplines across the Local Government sector:

1. Deficiencies in the WA Local Government sector's financial reporting.
2. Lack of an effective planning framework for the Local Government sector. This includes long-term financial plans, asset management plans (including whole-of-life costing models for critical asset classes), and community infrastructure plans.
3. Absence of financial best practice guidelines for all aspects of financial activity, including debt raising and standardisation of an asset management program.
4. Capability gaps between Local Government's current capacity and what is required to implement financial best practice.

The dominant theme in the review process has been the financial sustainability of the sector particularly with regard to the management of infrastructure and assets. Of particular concern was the deeply negative impact upon intergenerational equity associated with the erosion of the infrastructure base upon which quality of life is based.

There is no doubt that the better performing Local Governments can be justifiably proud of their performance. Outstanding examples exist of excellent practices and a determination to improve upon these into the future. But the evidence remains that performance is variable and the sector remains vulnerable to criticism.

The intention of the Plan is to allow benchmarking of performance in financial planning and management by the adoption of more uniform practices and the creation of comparative data which allows individual Local Governments to assess their performance relative to others in the sector. The consultation process has confirmed the absence of uniform accounting standards as an important source of the current deficiencies in this area. The Department of Local Government and Regional Development (DLGRD) has responded very positively to the SSS process. For example the recommendation for the creation of an Industry Accounting Manual (the Manual) has been actioned through a working group consisting of DLGRD, Local Government Managers Australia (LGMA) and WALGA.

The Manual is being drafted to address requirements as they currently exist and will provide a useful foundation for the development of better practices within the sector. Most importantly it will provide the base for the development of more focused and consistent compliance and reporting standards. A frequently cited criticism from the consultation process has been the compliance burden imposed upon Local Government. In this context some apprehension was expressed that a variety of the initiatives proposed in the Draft Plan may serve to increase this burden.

The practical guidance that will be offered through the Manual creates a useful starting point for Local Governments in reviewing their existing practices. It will also provide a starting point for further discussion of the rationalisation of existing financial reporting and compliance arrangements. This outcome has been strongly advocated in the consultation process.

However, a cautionary note is necessary. While the decision to adopt the new Manual will be 'voluntary' in a technical sense, the expectation will be that it will become the industry standard.

It is the strong view of the sector that some of the legislative and reporting requirements placed on Local Governments are excessive and should be reviewed. This is the province of the DLGRD and they need to be engaged at the earliest opportunity on this matter. It has been suggested that a full review of the current compliance burden be undertaken to look at deleting items that are not essential and include the suggested regulatory items into the remaining package.

The repeal of non-essential compliance requirements that currently apply to the sector requires the input of the LGMA and Local Government Officers to identify non-essential compliance requirements so that Local Governments can function more effectively.

The review of compliance requirements would also look at identifying issues such as deleting the requirement to prepare Plans for the Future of the District and replacing it with the proposal to require Strategic Plans linked to Financial and Asset Management Plans.

There was also feedback from the submissions relating to the current Local Government Act compliance requirements being a one size fits all approach, requesting consideration to looking at the possibilities of having different compliance requirement levels for different sized Local Governments.

This was emphasised by a small rural Local Government with six administrative staff having to carry out similar compliance requirements to a metropolitan Local Government with 200 staff. Consideration would need to be given to banding Local Governments in certain levels based on identified criteria such as revenue, population, number of employees etc. This issue could be considered by a Working Party to undertake a review of compliance requirements.

In responding to the concerns expressed in the member and stakeholder consultations the following Action becomes an important element in the earliest stages of the Plan:

Action 4: That a Working Party consisting of WALGA, LGMA and the Department of Local Government and Regional Development undertake a review of all existing compliance and reporting arrangements applying under the *Local Government Act 1995* and Regulations to Local Government. The existing compliance burden to be reviewed and amended according to the following criteria:

- **continued relevance of the compliance requirement**
- **efficiency and effectiveness in achieving the intended outcome without undue burden upon Local Government**
- **the avoidance of duplication**
- **articulation to new compliance requirements proposed in the Plan**
- **banded levels of compliance.**

It is to be expected, in keeping with other elements of this Plan, that this review of compliance requirements will entail consideration of initiatives amenable to implementation through regional and state-wide mechanisms. The sector has expressed strong support for the elements of this Plan which entail new functions and activities such as the creation of comparative data sets for benchmarking, but share a concern that a new set of structures not be developed. This seems related to the concern that confusion over reporting obligations be avoided. However, it is important that the opportunities which present for

regional and state-wide initiatives are carefully considered, to both smooth the transition and create a more economically sustainable outcome.

In several areas (e.g. Comparative Financial Information) the Actions assume a State-wide arrangement, Local Government working in partnership with the State Government. However, Asset and Debt Management are two areas well suited to aggregation on a regional basis, particularly having regard for the skills shortages being experienced by Local Government and the enhanced 'buying power' of Local Governments operating through regional units. It is also desirable that in developing plans for infrastructure and services delivery and management, integrated regional processes be considered.

5.2 The Planning Framework

Local Government is well positioned to be a vibrant and valued sphere of government for the provision of an increased range of infrastructure needed for the delivery of social, cultural, environmental, financial and economic outcomes. The consultation process revealed strong support for initiatives to improve performance in the planning and delivery of infrastructure and services. An important element for improvement in sector wide performance lies with the adoption of long term strategic planning closely linked to infrastructure management, financial planning and service delivery plans.

The sector sees merit in the adoption of consistent terminology that has general community acceptance, such as the use of the term 'Strategic Plan' for the principal planning tool. This plan should then be supported with a number of service and capacity plans. Included in these plans would be key performance indicators set by the Council. Performance against these indicators could then be the foundation of annual reports or more expansive reporting to the community.

Figure 1: Planning Framework



Accordingly, the mandating of this longer term planning framework in legislation is warranted. This conclusion is conditioned by the concerns within the sector that the adoption of the planning framework not lead to a net increase in the compliance burden, but rather serve as a catalyst for its rationalisation. The following Actions are intended to achieve this result:

Action 5: That the *Local Government Act 1995* be amended to require Local Governments to:

- prepare and publish a Strategic Plan for a minimum of five years with a review required after each general election of Council
- create Asset Management Plans linked to the Strategic Plan
- prepare, as part of the published Strategic Plan, Financial Plans that allow for the implementation of the Strategic and Asset Management Plans.

While a minimum period of five years for strategic planning is advocated, it is recognised that the longer the planning horizon, the more effective the outcomes are likely to be. This is particularly in regard to the planning and renewal of assets and infrastructure.

5.3 Consistent Financial Reporting

An important step in addressing the existing compliance burden carried by Local Government is the building of consistent financial reporting arrangements. In the consultation process there were repeated concerns at the duplication of effort required in the generation of multiple financial reports for various purposes. The creation of the Industry Accounting Manual in collaboration with the DLGRD is an important first step in this process. However, as noted above, the Manual is being drafted to address the current regulatory requirements. As part of the shift to more coherent compliance and an improvement in the levels of consistency in reporting further change is required:

Action 6: Consistent Financial Reporting

- That the disclosure notes required under the *Local Government (Financial Management) Regulations 1996* are to be expanded to show the application of these revenues for operating, capital, reserve transfers and/ or debt servicing. Sections 23, 24, 39 and 40 of the *Local Government (Financial Management) Regulations 1996* be amended to require these disclosures.
- That the disclosure notes required under the *Local Government (Financial Management) Regulations 1996* be expanded to show the application of reserves for operating, capital and/ or debt servicing.

The data collection sets to include the classification of reserves held for the purpose of current liabilities, non-current liabilities, asset renewal, new assets, restricted funds (Special Area Rates/service charges, unspent grants) or future operating outlays.

Amendments be made to Sections 27(h) and 38 of the *Local Government (Financial Management) Regulations 1996* to require these disclosures.

- The model financial reports disclose the restricted assets, by way of a note, so that funds not applied can be aligned with the appropriate financial year. Further, that the effects of restricted assets such as unspent operating grants are considered in

assessing the operating result of Local Governments in preparing comparative financial indicators.

- **The current operating revenue classes for nature/type:**
 - a. **Grants and subsidies**
 - b. **Contributions, reimbursements and donations**

Be changed as follows:

- a. **Operating grants, subsidies and contributions**
 - b. **Non-Operating grants, subsidies and contributions**
- **Revenue received for reimbursements and donations that cannot be classified as operating/non operating contributions or Fees and Charges are to be classified as 'Other Revenue'.**
 - **Performance indicators for debt management be incorporated in the disclosure requirements for the long term financial plans, annual reports and the annual budgets.**
 - **The disclosure requirement for asset acquisitions be expanded to show the value of acquisitions for new assets and outlays on the renewal of existing assets.**

Once effected, these regulatory changes would be the subject of updating of the Manual on an ongoing basis. Similarly a range of other proposed Actions under this Plan entailing regulatory change, and especially those relating to Revenue Generation, would be captured by updating of the Manual.

Elements of this Plan create new compliance standards for Local Government. It is important that these new requirements are considered in the proposed review.

5.4 Capacity Building of the Sector

During the SSS consultative process the clear preference of the sector is for a well funded and well resourced Department of Local Government and Regional Development to provide capacity building to support Local Governments. The sector would also like to see the DLGRD's compliance/regulatory division clearly separated to its advisory services function.

There are a number of recommendations within this Plan looking for the DLGRD to implement the following strategies:

- support Local Government's ability to self examine its sustainability status
- improve access to consistent aggregated local government financial information
- encourage standardised asset management practices
- encourage long term strategic financial planning and management
- improve cost recovery of fees and charges

- provide comparable information on Local Government rating.

5.5 Comparative Data Collection

There is a widely recognised need for comparative financial information to be available for Local Governments to make informed decisions. Comparative financial data has not been prepared in WA since 1997. Each year Local Governments are required to produce various data sets for organisations such as the WA Local Government Grants Commission (WALGGC) and the Australian Bureau of Statistics (ABS). The opportunity exists for a number of agencies to which Local Governments are required to report to share their information needs and at the same time for the sector to develop a wide range of comparative financial information.

The majority of information can be extracted from the annual financial reports prepared by Local Governments under the current legislation. However, the production of an Accounting Manual and consistent financial reporting framework is necessary to ensure the reliability and comparability of financial information.

Action 7: That the Department of Local Government and Regional Development facilitate the production of comparative information for financial transactions for the sector. This information is to be compiled using a web based collection system, managed by the Department, which allows direct input and amendment of the information.

Action 8: That from the collection of Local Government financial information a set of industry comparative financial indicators associated with financial sustainability be provided to the industry on an annual basis.

Once available to the sector, comparative financial performance data becomes an excellent source for benchmarking of relative performance and the spread of improved approaches to financial planning and management.

5.6 Debt Management

The SSS Panel Report states:

“External borrowing can be an appropriate financing source in the right circumstances, especially to fund the acquisition of new non-financial assets or the upgrading of existing assets (as distinct from funding routine maintenance and the renewal of existing infrastructure assets which both should be funded out of internal cash flows). Use of borrowing to finance upgrading or expansion of infrastructure would then free up internally-generated funds which should be devoted to financing maintenance.

The long-term decline in Council’s reliance on borrowing needs to be reversed to allow more flexibility in Local Government funding. Any limits on borrowing for the purpose of acquiring new infrastructure assets within the Local Government sector should be set – based upon expert advice and accepted standards of prudence – by reference to a Council’s long-term financial capacity to service debt, rather than an anti-debt mindset.”¹

¹ SSS Panel Report, p. 38.

Security for Local Government borrowing is established under section 6.21(2) of the *Local Government Act 1995*. Debt can only be secured by giving security over general funds of a Local Government i.e. rates and untied grants as defined in section 6.21(4):

“(4) In this section and in section 6.23 —

“general funds” means the revenue or income from —

- a. general rates*
- b. Government grants which were not given to the Local Government for a specific purpose*
- c. such other sources as are prescribed.”²*

Debt management is viewed as both an indicator of financial performance and as a financing opportunity. Out of hand dismissal of debt as an appropriate source of funding is not a measure of prudence, but rather a failure to entertain an important opportunity for meeting defined objectives. The various measures embodied in the preceding recommendations are intended to position Local Governments to make informed decisions on long term financial management and the delivery of infrastructure of great significance to the quality of life of current and future generations.

The Western Australian Treasury Corporation (WATC) and commercial finance providers have been consulted on how performance indicators can be crafted to offer guidance to Local Government on Debt Management. The WATC has commissioned a review by a public accounting firm to provide indicators that it can use in its business decisions. That report may provide useful guidance to Local Governments.

Information from the 2006 WALGGC returns was used to give a status report on current debt usage by Local Governments in WA.

A set of indicators as the basis for industry comparability statistics in this important area of Debt Management has been generated. Indicators were considered firstly for the impact of debt servicing against revenue streams and secondly, the level of asset backing for debt.

The following indicators are proposed as appropriate:

1. Debt Service Costs

Debt service costs represent the outlays for principal and interest made by a Local Government. These would be expressed as a percentage of general funds (security provided) and a select group of revenue types (referred to as LG Revenue).

General funds are defined under the Act as general rates and untied grants.

LG Revenue is defined as general funds plus fees and charges and interest earnings. The other classifications have been excluded as they represent a direct matching of revenue and expenses/outlays.

In due course the ratio can be enhanced for those Local Governments that have debt related outlays associated with service charges and specified area rates.

To establish the finance risk and borrowing capacity the weighted cost of funds can also be calculated to show the trends in financing costs. This can be a simple calculation by

²*Local Government Act WA 1995*

multiplying each loan amount outstanding by the interest rate (%) and dividing the accumulated total by the total amount outstanding.

2. Level of Debt

The amount of debt outstanding can also be expressed against general funds and LG revenue.

It would be necessary to adjust the impact of 'book' overdrafts reported in financial reports. These arise when Local Governments having banking arrangements for cheque accounts with offset arrangements with other deposit accounts at the same bank. Therefore a Local Government may report an 'overdraft' as a current liability whilst showing Municipal investment/deposit amounts as current assets. Data sets need to extract this information.

3. Asset Backing for Debt

The industry currently discloses a ratio 'gross debt to economically realisable assets' which represents the level of debt against the total assets less infrastructure assets. As a comparator this represents 'realisable' assets to cover debt. There are some weaknesses in this position as a number of built assets are associated with land which is aligned to the provision of public services. However this ratio can be readily understood when reporting to the community.

Local Government maintains a unique financing arrangement where on the one hand it borrows funds whilst at the same time maintaining cash reserves for other purposes. In 2006 across the industry there was \$302m more in cash backed reserves (\$628m) than the amounts borrowed (\$326m) by Local Governments. Therefore looking at the issue of security backing for debt the unrestricted cash reserves provide a good counter balance to debt. The cash reserves would need to be adjusted by funds held for liabilities and contingent liabilities i.e. specified area rates, service charges, employee liabilities etc.

When considering cross sector indicators there is a need to survey indicators that are applied to industry and other levels of government. The Access Economics report *Local Government Finances in Western Australia* prepared for the Systemic Sustainability Study in June 2006 identified two main debt indicators:

"There are two main analytical measures of a Council's indebtedness at the end of a particular financial year derivable from its balance sheet. These are:

- 1. net debt, as measured by interest-bearing liabilities less unrestricted cash and securities*
- 2. net financial liabilities/(worth), as measured by net debt plus other net liabilities (namely provisions plus any other liabilities (less any other assets) that are not included in the measurement of either capital employed or net debt)."*

Net debt is traditionally favoured, being an indicator of the value of financial claims on a Council by financial intermediaries less the Council's financial claims on such financial intermediaries. However, there is an increasing acceptance that the net debt measure is limited by its narrow coverage of a Council's financial obligations.

We consider the net financial liabilities measure to be the more comprehensive measure – for analytical purposes – of a Council's reliance on debt (broadly defined). The net financial liabilities measure is the key analytical balance now being used for assessing the financial position of the Commonwealth and State governments in Australia. The net financial liabilities of a Council are all financial claims on a Council by other sectors of the economy other than

ratepayers (in the form not only of interest-bearing liabilities but of other liabilities) less the Council's financial claims on these other sectors.³

4. Debt Financial Indicators

The following comparative indicators are being actively considered for implementation:

- debt service costs as a percentage of general funds
- debt service costs as a percentage of LG revenue
- debt outstanding as a percentage of general funds
- debt outstanding as a percentage of LG revenue
- weighted average interest rate of debt
- untied cash reserves as a percentage of outstanding debt
- net financial liabilities.

Table 2: Debt Management indicators^{4,5}

	DEBT SERVICE RATIO		DEBT LEVELS		LG INDICATORS		RESERVES	
	Debt Service as a percentage of Rates/GC grants	Debt Service as a percentage of Rates/GC grants/fees & charges/interest	Outstanding debt to Rates/GC grants	Outstanding debt to Rates/GC grants/fees & charges/interest	Debt Service Ratio	Gross Debt to Revenue Ratio	Reserves LESS Debt as a percentage of Rates/GC grants/fees &	Net Debt (Reserves LESS Debt)
Number	142	142	142	142	142	142	142	142
na	2	2	2	2	3	4	5	5
Large	55.879%	42.836%	155.688%	94.635%	20.000%	93.798%	393.929%	65,705,022
Small	0.000%	0.000%	0.000%	0.000%	0.000%	-0.110%	-74.597%	-9,581,000
Average	7.136%	5.335%	31.795%	23.152%	3.481%	17.852%	18.464%	2,206,269
Median	4.765%	3.546%	23.798%	18.192%	3.000%	14.200%	11.380%	406,585
Zero	15	15	17	17	15	14	0	0
Best	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	100.000%	100.000%
State	5.214%	3.479%	29.696%	19.814%	3.481%	17.852%	27.384%	133.815%

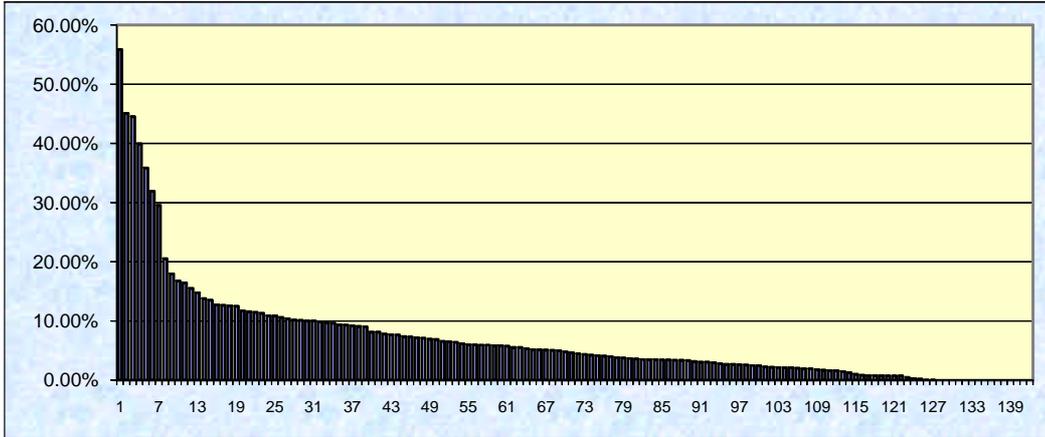
³ Access Economics Pty Ltd, *Local Government Finances in Western Australia*, June 2006, p. 4.

⁴ Note that the source is the Grants Commission return for 2006 and some caution has been expressed by the consultant in relation to reliability of the data.

⁵ The information for reserves to debt represents the gross result as the necessary 'restricted' funds are not included in the information sought from Local Governments. Accordingly the net financial liabilities could not be calculated.

Graph 1: Debt Servicing Obligation as a percentage of Rates/GC Grants

1 Debt Service as a percentage of Rates/GC grants



Overall State Average		5.21%	Number of Councils		140
Largest ratio		55.88%	Smallest ratio		0.00%
Average		7.14%	Number with no debt		15
Median					4.76%
Quartile 1	below 2.12%	Quartile 2	4.76% to 2.12%	Quartile 3	4.76% to 9.38%
				Quartile 4	above 9.38%

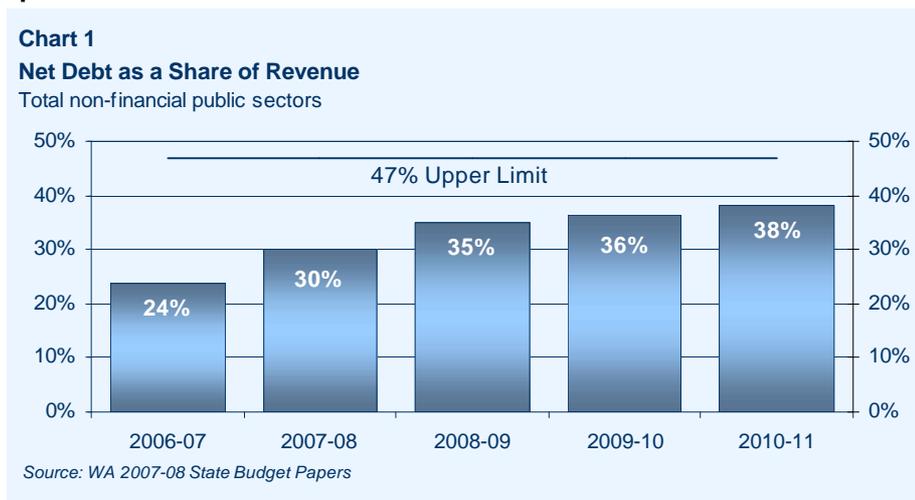
The preceding discussion notes “the net financial liabilities measure is the key analytical balance now being used for assessing the financial position of the Commonwealth and State Governments in Australia” and advocates the adoption of this measure by Local Government. This comparison with other spheres of government offers useful guidance on the question of prudent debt levels.

In a submission to the Public Accounts Committee the WA Chamber of Commerce and Industry comes to a conclusion on this question. It is noteworthy that the submission was to The Inquiry into Funding Arrangements for WA Infrastructure Projects, with the discussion of debt financing in this paper directed entirely to infrastructure funding. The conclusion of the CCIWA on the question is as follows:

“Given the robust outlook for the WA economy, CCIWA believes the WA Government can act decisively to create the infrastructure the State needs without placing at risk the continuation of prudent fiscal management. The 2007-08 Budget forecasts the State Government’s net debt as a share of revenue as being well below the level that would threaten its triple-A credit rating.”⁶

⁶ CCIWA, Submission to Public Accounts Committee, Inquiry into Funding Arrangements for WA Infrastructure Projects, May 2007 p. 14.

Graph 2: Net Debt as a Share of Revenue



The upper limit for debt without threatening the State Government's Triple-A Rating is set at 47%. As indicated in the earlier discussion the WATC has commissioned research which may further assist Local Government in determining prudent measures for debt.

Action 9: That suitable debt management indicators for Local Government be developed in consultation with the WA Treasury Corporation to form part of the proposed comparative data set for Local Government. Each debt indicator should include a range by which Local Governments can manage debt in a prudent fashion.

The production of comparative debt statistics will provide the industry with a valuable information tool and if possible the collation of information for the past 3-5 years should be produced as soon as resources will allow. The reliability of data can be more assured than is currently the case.

As with general financial data, it is proposed that the DLGRD compile comparative data on debt management for use by the sector.

Action 10: That comparative information be reported for debt and debt management. This information is to be compiled using a web based collection system that allows direct input and amendment of the information.

The information is to provide state, region and size analysis online for the following debt matters:

- **General statistics to include the amount of new debt raised, refinancing amounts, debt service amounts and outstanding debt.**
- **Performance indicators to be published for:**
 - **debt service costs as a percentage of general funds**
 - **debt service costs as a percentage of LG revenue**
 - **debt outstanding as a percentage of general funds**
 - **debt outstanding as a percentage of LG revenue**
 - **weighted average interest rate of debt**

- **untied cash reserves as a percentage of outstanding debt**
- **net financial liabilities.**

5.7 Infrastructure and Asset Management

In its report *Local Government Finances in Western Australia*, Access Economics provides a definition of 'Infrastructure Backlog'⁷:

"A single year's negative net acquisition of non-financial assets for renewal/replacement purposes may reflect lumpiness in renewal/replacement activity. Of more significance is a series of years in which such negative net acquisitions are observed. The accumulation of past negative net acquisition over a period of time will indicate what can be termed an infrastructure renewal/replacement backlog.

An infrastructure maintenance backlog is also possible, where assets have prematurely degraded because they have not been routinely maintained. This is sometimes called 'backlog maintenance', and gives rise to the need for the eventual rehabilitation of the assets.

*Our use of the term 'infrastructure backlog' covers both backlog forms.*⁸

The SSS Panel accepted this definition and applied the analysis based upon it for the purposes of the SSS Panel Report which places heavy emphasis on the inability of Local Government to maintain the built assets of the community. Using the Access Economics data it estimates an infrastructure backlog of \$1.75b, or 14% of the total value of Local Government held non-financial assets in WA. In addition it recognises the need to ensure accurate, consistent baseline information on road condition and backlog requirements to assist tighter definition of the infrastructure challenge and strengthen the position of the sector.

The SSS Panel Report proposed the following responses to this set of issues:

- a clear definition of the services to be provided by each of its classes of infrastructure
- a detailed knowledge of the assets held (thereby allowing predictions to be made about performance)
- the risks associated with managing the infrastructure being well understood
- asset-related spending distinguishing between spending on the maintenance, renewal, upgrading and expansion of assets
- the cost of long-lived assets over their useful lives being accurately recognised.

In the process, accounting inconsistencies should be resolved by requiring:

- a standard format for asset registers

⁷ This definition is adopted for all relevant purposes in this paper.

⁸ See Access Economics, 2006 p32.

- regular valuation of infrastructure at 'fair value'
- common definitions to enable the maintenance, renewal, upgrading and expansion of assets to be distinguished
- a standard depreciation schedule for assets whose total life has not been independently verified by a recognised assessment process or service.

Each Local Government should be working towards adoption of a total asset management system for the whole-of-life planning, funding, acquisition, registration, accounting, operation, maintenance, disposal, and renewal or enhancement of each component of its infrastructure.

The gravity of the issues cannot be underestimated. This discussion addresses infrastructure which is often taken for granted but central to the safety, health and quality of life of the communities served by Local Government. Failure to exercise stewardship over these core assets threatens a massive intergenerational transfer of risk and cost burden.

This is not to conclude that Local Government is solely responsible for the current infrastructure backlog and its consequences. Inadequate funding of infrastructure is a responsibility shared across all spheres of government. Cost shifting by Commonwealth and State Governments on to Local Government is an underlying cause. However, the responsibilities of Local Government to exercise responsible management practices cannot be avoided. The current deficiencies in those practices serve to mask the nature of the problem and allows all parties responsible, including the corporate sector, to avoid their obligations.

In this context, minimum asset management requirements should be mandated.

Cultural change and a whole-of-organisation approach to implement successful asset management policies and practices are central to successful outcomes.

Asset management could be implemented on a regional basis to address the resourcing issues. Regional cooperation proposed in the Plan infers the capacity to plan, manage and fund infrastructure of all forms on a regional basis.

There are a number of critical factors associated with asset management plans that an asset management system needs to account for. The critical factors include depreciation rates, life-cycles and unit costs. If this data can be produced accurately, it can be applied to asset management plans, which will be meaningful and provide guidance to Councillors. Any asset management programme that is implemented across Western Australia needs to be able to account for variances in the capital cost, rate of depreciation, replacement cost and other factors across the State.

Development of a sector-wide framework for asset management is proposed. The framework to asset management would be along the following lines:

- | | |
|----------------|---|
| <i>Stage 1</i> | Cultural change in Local Governments. |
| <i>Stage 2</i> | Development of detailed asset management plans and policies, including identification of asset categories. |
| <i>Stage 3</i> | Provide tools that the Local Government sector can use to produce asset management plans including depreciation rates, reporting ratios, risks etc. |
| <i>Stage 4</i> | Support for data collection and data management. |
| <i>Stage 5</i> | Possibly link completion of asset management plans to funding. |

A critical factor in asset management is the adoption of cultural change in addition to simple compliance. It is critical for Councillors and officers to embrace asset management as a significant component of long term sustainability of Local Governments.

The application of asset management plans will enhance the business case of those Local Governments using these processes. This should enable those Local Governments to better justify the allocation of grants funding to their locality and region. It should be noted that Action 5 in this Section advocates that asset management should be a legislative requirement as part of the strategic management process.

Action 11: That the roll out of an asset management program to all Local Governments is recommended. The process should be facilitated on a regional basis for smaller Local Governments.

- **The implementation of the program needs to be supported with resources that permit the timely implementation of the program.**
- **Consistent with the proposed practices included in the accounting manual, industry guidance be provided on service standards and intervention levels.**

Information for the annual road survey by WALGA should be collated through a web based collection portal and undertaken in conjunction with information collected through the Department of Local Government and Regional Development.

A core component of infrastructure under the stewardship of Local Government is the roads network. The collation of road infrastructure data for all Local Governments coordinated by the Department of Local Government and Regional Development is recommended.

Action 12: That a partnership be established between the Department of Local Government and Regional Development, Main Roads WA, and the Local Government sector for the collection of road infrastructure data for all Local Governments. Data collection and management to be undertaken by the Department.

6. Revenue Generation

As part of the extended review process, Local Government has examined its ability to remain sustainable in the face of numerous challenges. One of these challenges is the need to maintain a large infrastructure asset base and manage an increasing demand for improved quality of existing services and expectations for new services. These challenges place ongoing pressure on existing Local Government revenue sources and increase the need to identify new revenue opportunities.

6.1 Revenue Capacity

Currently, Local Government revenue can be categorised into four main sources being:

1. rates
2. fees and charges
3. grants and contributions
4. profit from business enterprise.

Of these sources, rates is the source over which Local Governments have the most discretion, although this discretion is limited by the ratepayer's capacity to pay and the inherent political process. Fees and charges also offer some level of discretion but are restricted by sporadic external State Government regulation and, in some cases; prices are limited to the cost of provision of the goods and services concerned. Grants and contributions are most commonly influenced by the quantum of transfers by other governments while business enterprise profit is inherently risky and subject to the political process due to the current inability to establish commercial trading entities (such as companies and Associations).

Therefore, the range of revenue sources available to Local Government remain severely constrained. This reality needs to be understood in the context of the vertical fiscal imbalance which plagues the relationship between Local Government and the other spheres of government and is the primary underlying cause of the infrastructure backlog with which Local Government must struggle.

6.2 Rates

On average across the State, rate revenue is the single largest discretionary revenue source available to Local Government and in 2005-06 contributed \$921m (39%) to total sector revenue. A Local Government's level of rate revenue is set within a defined budget process. Each year Local Governments determine their estimated expenditure and non-rate revenue, with the deficiency between these two amounts defining the dollar value to be met by rates. It is the discretion to set rates at any level that contributes to the political nature of rate setting as Councillors juggle the community's wants and needs against its capacity and willingness to pay.

While Councils have the technical ability to rate for financial sustainability it is the community's capacity to pay that effectively limits rate revenue. This capacity is influenced by rates being distributed using property values and that the owner/occupier's capacity to generate annual income has a limited correlation to a property's value. Differential rates

offer a mechanism to lessen this issue. However, they also entail increased administrative and political cost.

A Local Government's capacity to generate revenue from rates is also influenced by the proportion that rates contribute to a Local Government's revenue (rate base). On average across the sector, rates contribute the biggest slice of revenue for Local Governments. However, the rate base varies significantly between individual Local Governments. For example, the proportion of rates to total operating revenue can range from as low as 2% (Shire of Upper Gascoyne) to as much as 68% for the Town of Claremont (2005-06 year source WALGGC). If a Local Government has a low rate base then even large percentage increases generate a low revenue yield. This extreme variation removes rates as a 'single industry solution' to address sustainability issues.

However, the general pattern of rate setting between Local Governments within a regional grouping can be expected to be reasonably consistent. Where a particular Local Government within a region has practices significantly divergent from others it may be a cause of concern. The capability for comparison and benchmarking of rating practices ('peer rating') is another significant driver for the move to regional planning and delivery of functions and services. Part of the discussion surrounding the crafting of regional boundaries would be levels of affinity and commonality between existing Local Governments and their constituencies.

Alternative local taxation methods to replace or augment the current property rates system were considered at length by the Revenue Working Party. The conclusion from those investigations is that property rates continue to offer the most cost effective and efficient local taxation system available.

6.2.1 Rate Setting Process

Having established the principles of best practice it follows that consideration of how those principles can be applied to the rate setting process is needed. The following process incorporates the above four principles:

1. *Establish the opening position*

Establish the actual/estimated carried forward surplus or deficit from the immediate preceding budget year. Identify the unfinished projects from the preceding year and re-cost the projects to reflect current costs. Identify any unspent grants and restrict the cash in the balance sheet or transfer to a cash reserve. In the budget, identify the opening funds separated into the discretionary and carryover funding (if any) components. While taking into account cash flow needs, consider applying the discretionary surplus in part or entirely to:

- a cash reserve for strategic projects
- repay past borrowings
- future operating or capital projects.

2. *Create/Review service standards*

Create/review formal service levels as determined appropriate.

3. *Establish expenditure estimates*

Create expenditure estimates based upon formalised service levels, the strategic plan and long-term plans using the WA Local Government Cost Index as a guide where appropriate. Establish optimum maintenance levels for major asset classes as per a formal asset management plan. Establish the amount of the capital renewal program based upon the

asset management plan. Establish the new service capital program based upon the long-term financial plan and/or community infrastructure plan. Add unfinished carryover projects from the previous year(s). Determine the level of transfers to cash reserve to meet strategic, long term and asset management plans.

4. Determine asset renewal levels

Establish any gap between the current budget net asset renewal program (BARP) and the net long-term asset renewal program (LTARP) adopted in the asset management plan. If $BARP > LTARP$ source the deficiency from cash reserves (if previous established) or other sources, if $BARP < LTARP$ use the LTARP quantity as the yearly estimate and increase transfers to cash reserves to equalize the gap. If the deficit gap between the long term renewal need and current budget program can not be sourced from past savings or borrowings then Local Governments will need to rationalise assets, reset priorities and/or adjust service levels.

5. Set Fees and Charges

Determine the full cost of relevant outputs to calculate the appropriate level of fees and charges in accordance with a formal pricing policy and readjust pricing if required. Check any discretionary annual lease revenue to the market or a community facilities discount policy for fairness. Review the level of fees and charges comparable to other like Local Governments for fairness.

6. Establish non-rate revenues

Identify non-rate revenues sources ensuring reconciliation to expenditure for any grant revenue (or restricted cash from unspent grants) that requires matching expenditure.

7. Determine financing options

Determine the capital and commercial projects to be funded by financing options such as borrowings and/or cash reserves in accordance with a formal financial management policy.

8. Establish proposed rate levels

Calculate the revenue to be sourced from rates to meet the revenue gap and determine the preliminary percentage increase from the previous year. Adopt preliminary rate levels and any changes to the current rate distribution model in accordance with a formal rate revenue policy.

9. Consider ratepayer capacity to pay

Councillors will inherently consider the issue of the ratepayer's willingness and capacity to pay any rate increase as part of their deliberations.

10. Overall considerations

As part of the above process, it may be necessary to:

- adjust the service levels to reduce estimated expenditure
and/or
- adjust the fees and charges level to increase non-rate revenue

to achieve an acceptable budget outcome considering the proposed rate revenue. While doing so, it is helpful to determine the base level of services necessary to maintain significant assets at their optimum maintenance/renewal level and determine the minimum operational

statutory compliance level. These two areas should be quarantined from any service level adjustments.

Assess the feedback from the community consultation process and determine the service level and rate percentage increase deemed appropriate by iteration through the above process.

6.2.2 Rates and Revenue Capacity

Rates are set within a framework influenced by political priorities and legislative parameters. Each Local Government may set rate revenue at any level it considers appropriate, and by the use of cash backed reserves, is not constrained by any legislative capping. To this degree, a Local Government's financial wellbeing, and hence sustainability, is within its technical capacity to address.

In practical terms, ratepayer backlash and capacity to pay issues cap rates as a limited source. General rates (excluding specified area and sewerage rates) during 2005-06 year amounted to \$912.5m. Every one percent increase equates to \$9.2m. In global average terms the \$120m annual road infrastructure deficit (previously identified) could be achieved with a one off 13% rate increase. The solution is not that simple, as sustainability issues and rate bases vary between regions and Local Governments. The challenge is to help each Local Government identify its individual circumstances and develop a financial strategy to address their needs.

The working party investigated alternatives to the existing property rating system that produces a greater revenue capacity. On review, there does not appear a ready alternative to rates in use around Australia.

New Zealand recently completed an extensive review of Local Government revenue issues due to *"the funding system (being) under pressure because of significant growth in expenditures and growing affordability problems with the main source of funding, namely rates"*.¹

As part of their considerations, a range of possible new revenue sources were examined, namely:

- a citizens or poll tax
- payroll tax
- a local income tax
- a local consumption tax
- general revenue sharing
- industry and commodity taxes, including a bed tax
- environmental or green taxes, such as a waste levy and road congestion pricing.

New Zealand's extensive study concluded that rates still offered the best outcome as other revenue sources all had issues with equity and economic impact. Generally, rates were considered the most cost effective and unavoidable local taxation method.

¹ Report of the Local Government Rates Inquiry, *Funding Local Government*, August 2007 p. 1.

The most pragmatic conclusion is that, although the system of property rating has significant drawbacks, there is no obvious alternative local taxation system as efficient. Any alternative taxation models would require substantial and detailed modelling to assess their efficiency comparative to rates.

In reviewing rates, it is common practice for Local Governments to reduce last year's rate in the dollar when valuations change to achieve a common percentage increase on the calculated revenue yield compared to the previous year. In a search for a growth revenue source, it is worth considering if this practice should change in exchange for a fixed rate in the dollar and rising valuations. Complicating this issue is that many Local Governments have concerns surrounding ratepayer capacity to pay and some may have falling valuations.

The other side of the argument is that a fixed rate in the dollar allows changing valuations to determine the equity across the rate base. This response sounds attractive but for the imperfect correlation between property ownership and capacity to pay. The diversity of each Local Government's circumstances makes this issue difficult to resolve.

As part of assisting Local Governments to maximise their rate base major revenue leakages issues are addressed later in this Section.

Action 13: That the Local Government sector endorses the rate setting process as outlined in this Plan as an example of best practice in rate setting.

Consultations confirmed strong levels of support for rating practices to be included in the comparative data set proposed earlier for key aspects of financial management. Given the significance of rates as a source of income the availability of such data would allow Local Governments to benchmark their rating practices and to make 'like with like' comparisons with other Local Governments of their choosing.

Action 14: That the Department for Local Government and Regional Development establish a website for the purpose of providing Local Governments with access to comparable information on rates in terms of a set of standard ratios to be agreed.

In keeping with other Actions aimed at addressing unnecessary hindrances and inflexibilities in the current regulatory arrangements the consultation process confirmed strong support for allowing greater flexibility in the method of payment of rates.

Action 15: That the Local Government sector seek change to Section 6.41(2)(b) of the *Local Government Act 1995* to increase a Local Government's flexibility to offer a monthly payment of property rates without a individual instalment notice.

The Draft Plan also reviewed a variety of serious issues confronting Local Government in its efforts to maximise revenue generation from Rates.

6.3 Revenue Leakage

There are a variety of issues presenting for Local Government concerning revenue foregone as a consequence of policy settings beyond its control. Among these are the limits placed upon the operation of commercial entities by Local Government and external capping of charges for various goods and services which are addressed later in this Plan. Given the high level of reliance upon the rate base, particular attention is drawn to the restrictions placed on this source of revenue.

Restrictions on the rate revenue base compound the difficulties created by the vertical fiscal imbalance between Local Government and State and Commonwealth governments.

They serve to curtail the operating revenue available to Local Governments which are already underfunded for the provision of services and infrastructure. Among the categories of potential full ratepayers whose contribution is currently limited are:

- areas subject to State Agreements
- State forests
- organisations holding 'charitable status' for commercial activities, many of which have substantial capacity to pay and significant rateable areas under their control
- government and quasi government organisations.

This area of revenue leakage is an ongoing advocacy issue of WALGA.

6.4 WA Local Government Cost Index

Greater precision in estimating the escalation of input costs and its effect on the cost of services is very important to the transparency of setting rates, fees and charges. However, it is also important to recognise that input costs are just one part of the rate setting process and the adoption of any cost index should not be considered a substitute for detailed budgeting.

The Consumer Price Index (CPI) issued by the Australian Bureau of Statistics (ABS) is widely published and regularly quoted. It is considered by many to be an all purpose benchmark of cost escalation against which all suppliers (including Local Governments) should be compared. Increases in Local Government rate variations may be compared to movements in the CPI, and Local Governments that increase rates or charges more than movements in the CPI are often criticised.

However, the validity of applying the CPI as a measure or benchmark, for rating purposes, is limited. The range of goods and services included in the CPI reflects the purchases of an average metropolitan household, which differs markedly from the goods and services purchased by Local Governments.

The major expenditure groups for Local Governments are summarised in the following table, with an appropriate cost or price index for each category.

Table 3: Major Local Government expenditure categories, as reported to the WA Local Government Grants Commission for 2005/06.

	\$ million	% of Total	Recommended Index ^{1.}
Wages & Salaries	552.6	28.7	Labour
Superannuation	62.7	3.2	Labour
Fringe Benefits Tax	5.4	0.3	Labour
Other Employee Benefits	61.6	3.2	Consumer
Materials and Contracts	497.7	25.9	Consumer
Utility Charges	64.2	3.3	Consumer
Insurance	32.1	1.7	Consumer
Purchases of Property Plant & Equipment	401.8	20.9	Equipment
Payments for Construction of Infrastructure	246.4	12.8	General Construction & Road Construction
TOTAL	1,924.50	100	

Notes:

1. The Recommended cost / price indices published by the ABS are:

Labour	Labour Price Index Table 4b ABS Cat No 6345.0 Hourly Rates of Pay (excluding bonuses): Public Sector, WA Series Id A2159249T
Consumer	Consumer Price Index Table 1 ABS Cat No. 6401.0 Consumer Price Index, All Groups, Perth Series Id A2325826V
General Construction	Producer Price Index Tables 15 & 16 ABS Cat No. 6427.0 Output of the General Construction Industry, WA Series Id A2333751L
Road Construction	Producer Price Index Tables 15 & 16 ABS Cat No. 6427.0 Road and Bridge Construction, WA Series Id A2333769
Equipment	Producer Price Index; Tables 10 & 11 ABS Cat No. 6427.0 Construction and Mining Equipment Cost Series Id A2307785X

For the sector, and for a Local Government with a cost base similar to the average, the Local Government Cost Index would be calculated from movements in each of the five price or cost indices using the weightings shown in Table 4.

Table 4 Weightings for Cost Items

Cost or Price Index	Weighting in Local Government Cost Index (%)
Labour Price Index	35.1
General Construction Cost Index	20.4
Road and Bridge Construction Cost Index	20.4
Mining & Construction Machinery Price Index	15.4
Consumer Price Index	8.7

Local Government Cost Index = 35.1% * % Change in Labour Price +
 20.4% * % Change in General Construction Cost +
 20.4% * % Change in Road & Bridge Construction Cost +
 15.4% * % Change in Mining & Construction Machinery Price +
 8.7% * % Change in Consumer Price Index

This proposed approach should provide a reliable and justifiable estimation of price movements in the major expenditure categories for Local Government. This represents an enhancement to the Local Government Cost Index generated from the Consumer Price Index and General Construction Cost Index first published by WALGA in 2006. The weightings could be improved by averaging expenditure in each category over time (say rolling three years) and customising the data for each Local Government and their associated regions.

A Local Government cost index has been developed in South Australia in conjunction with the ABS, which utilises a combination of actual cost movements and a mix of ABS published indices. It is recommended that this methodology and its delivery be enhanced and delivered via a web based interface.

Action 16: That:

- **WALGA in conjunction with the ABS constructs and maintains a revised WA Local Government Cost Index using average actual expenditure and appropriate cost and price indices.**
- **The WA Local Government Cost Index be delivered via a website managed by the Department of Local Government and Regional Development that allows Local Governments and/or regions to input individual expenditure to customise their weightings and develop an index tailored to their circumstances.**
- **Local Governments use a revised WA Local Government Cost Index as part of their budget calculations and communications and to approximate cost increases as part of their annual review of fees and charges.**

6.5 Fees and Charges

Fees and charges are, on average, the second largest source of discretionary revenue available to Local Government and contributed \$434m (19%) to local revenue in the 2005-06 year. Fees and charges represent an opportunity to recoup the cost of providing services and in some cases allows for a profit component. As with rates, fees and charges represent various proportions of revenue depending upon an individual Local Government's circumstances.

The revised Local Government Cost Index will enhance the ability of Local Government to set fees and charges more in line with their true cost of delivery. As with rate setting a limitation on the charging of full costs is the willingness and ability of the community to pay. However, the consultation process revealed strong support from Local Government for the development of a comparative data source to allow Local Governments to benchmark their performance against others of their own choosing.

Local Governments with fees and charges set below full cost recovery are effectively subsidising the consumption of the good or service in question. In some circumstances, this may be a conscious decision due to the community benefit attached. Examples of this are exclusive use sporting ground user fees or community hall hire and swimming pool entry fees. These services are often subsidised as part of policy to encourage healthy lifestyles and achieve other designated purposes. There may be other circumstances where full cost recovery does not occur due to a lack of information regarding the full cost of the service and this represents a leakage of revenue capacity.

Action 17: That the comparative financial data held by the Department of Local Government and Regional Development is the reference source for the purpose of setting standard costs for like goods and services provided by Local Governments. The Department to manage a reference group of Industry Organisations including WALGA, LGMA and the WA Department of Treasury and Finance to overview the relativity, accuracy, applicability and methodology of standard costs, which would be available for Local Governments to adopt.

The Department to conduct reviews of best practice in pricing policy and suggest methodologies for setting discounted community fees and charges to ensure industry consistency. The default unit for analysis and fee setting should be regional.

The area of greatest concern in relation to revenue leakage is the price levels set externally by State Legislation as it is outside the direct control of Local Governments. Examples of externally set fees are dog registration fees, town planning fees and building permits. Local Government does not have a central mechanism to influence decision making regarding these prices, and as such, this revenue leakage is being made up from rate revenue.

6.5.1 Imposing Fees and Charges

Timing with Annual Budget

To comply with s.6.16 (3) of the Act a Local Government must either adopt its fees and charges at the time of adopting the Budget or advertise each fee and charge imposed under s.6.19. Advertising is costly and for this reason most Local Governments adopt the fees and charges at budget time.

The statutory deadline for adopting the budget is August 31 each year and this may delay the Local Government's ability to charge the new price levels for the full year. It would be beneficial to have an option to adopt fees and charges separately from the budget and maximise the effect of the change.

Action 18: That section 6.16 (3) of the *Local Government Act (1995)* be amended to allow Local Governments to set fees and charges other than at the time of adopting the annual budget and provide sufficient time to be applicable from 1st July each year.

Fast Moving Consumer Goods

A number of Local Governments operate commercial trading activities that have associated shop fronts selling consumer goods. Examples of these activities are recreation facilities and visitor centres.

These shop fronts sell goods as defined under s.6.16(1) of the Act and as such, their prices are to be set at the time of the budget. Decisions concerning the price of a packet of confectionery are more appropriately made by line management and cannot effectively or efficiently be made under the constraints of s.6.16 (3).

This requirement is particularly onerous for Councils selling fast moving consumer goods (FMCG) – a term describing frequently purchased consumer goods, e.g. food and beverages). A change to the requirements under s.6.16 from an absolute to a simple majority decision of Council (for a nominated class of goods and services) would allow for the fee setting power in relation to FMCG to be delegated to the CEO or his designate under the current provisions of the Act.

A change in this area would reflect current practice in the retail industry.

Action 19: That section 6.16 of the *Local Government Act (1995)* be amended to cater for circumstances where Local Governments operate a commercial undertaking selling fast moving consumer goods and where marketing imperatives require line managers to make pricing and discounting decisions.

6.6 Land valuation methods

The SSS Panel Report sets out concerns with the current Gross Rental Valuation (GRV) method used to value urban property for rating purposes. It suggests an alternative method, Capital Improved Valuation (CIV), is worth considering.

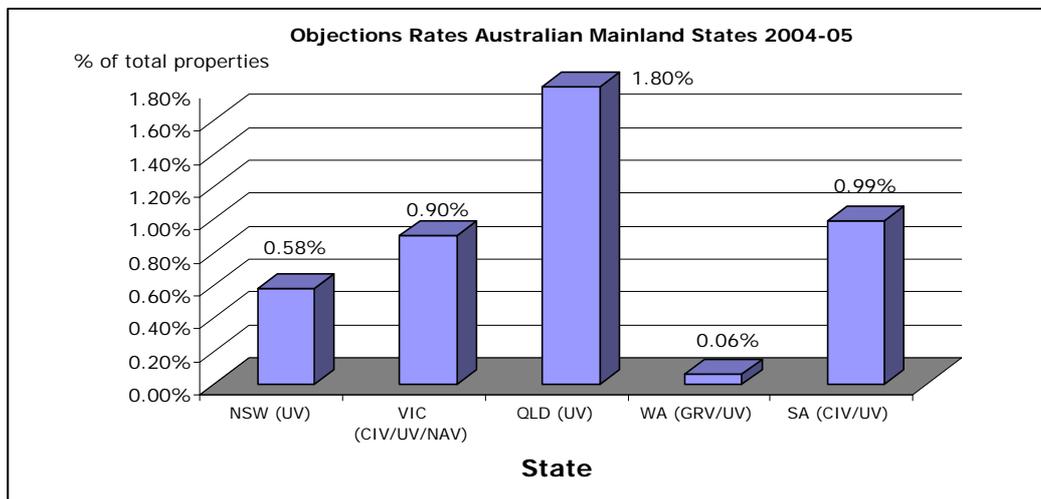
In the subsequent process the Revenue Team met with the Valuer General to seek information regarding the current valuation systems and the potential for a CIV system in Western Australia. A summary of this information is in the following table:

Table 5: Valuation Methodologies

Method	Advantages	Disadvantages
GRV	Good quantity of most property types to source GRV Easy to explain the concept of GRV Low objection rates Shared cost with Emergency Services Levy (ESL) GRV best for commercial and industrial properties as rents are available and capital rates harder to obtain.	GRV suffers from compression of values at the top end when compared to CIV Some problems with the cap on assessed GRV values
UV	Easy to assess and requires a basic database	High level of disputes due to spread of values Ignores capital inputs Equity concerns
CIV	Fully reflects capital value of improvements Provides a better valuation variation over the property base as GRV's typically lead to compression of values	Requires a comprehensive data set with accurate building area data leading to higher maintenance costs Higher level of disputes and objections

WA has the lowest valuation objection level compared to other States, which was suggested to be due to the absence of CIV and the reduced reliance on Unimproved Values (UV). A CIV system was characterised as being more difficult to achieve with the same degree of accuracy as GRVs as it required a more complex mix of data sets. This complexity potentially made the CIV method more expensive to maintain than GRV and UV. The following graph shows the valuation methods and objections rates as a percentage of properties.

Graph 3: Comparison of Valuation Methodologies



Source: Valuer General

Valuation objections are best avoided as they are costly to resolve for both the Local Government and the State. Another notable disadvantage of CIV is the additional cost to maintain the system. If Local Government was to use this system it would not share the develop and maintenance costs with the State Government as the State uses UV (land tax) and GRV (ESL) systems at present.

Examining the advantages of the CIV system, it does reduce the compression effect that is associated with GRVs. This compression appears as a reduction in the spread of valuations at higher GRV levels due to the rental market having a market ceiling. This reduction in compression would offer a more equitable distribution of the rate burden.

6.7 Valuation methods and revenue capacity

More equity in the distribution of the rate burden does not automatically result in more revenue particularly if a percentage increase in the yield is used when increasing rates. However, it does potentially improve the ratepayer's capacity to pay and thus lessen a major barrier to increasing the rating effort.

The trade off between the cost of maintaining a new CIV method and the benefits to ratepayers' capacity to pay is extremely difficult to quantify. After reviewing the valuation objection data and considering the difficulties with CIV, on balance, it is considered that the advantages of introducing a CIV system may not be sufficient to outweigh the costs.

6.8 Development Contributions for Community Infrastructure

WALGA, in consultation with the Urban Development Institute of Australia (UDIA) and the Department for Planning and Infrastructure (DPI) has developed a proposed State Planning Policy (SPP) outlining a new framework for development contributions to community infrastructure, which is awaiting action by the Minister for Planning and Infrastructure and the WA Planning Commission. The Minister has indicated in principle support for the framework.

This framework is the result of work commissioned by WALGA in December 2007 titled *Contributions to Community Infrastructure*. The report identified the principles to be incorporated into the SPP and set out a framework for Local Government to follow. Clear in the report is the need to develop comprehensive long term Community Infrastructure Plans (CIPs) to be used as a basis for calculating the contributions. This need is also clear in a study undertaken in February 2006 for the Local Government Association of South Australia titled *Developer Responsibilities/Contributions – Analysis and Framework Study*.

As new residential developments occur they raise issues for Local Governments such as the timing and level of facilities to be provided to the new community and how the cost of these facilities should be distributed. CIPs seek to forecast the needs of the whole community with regard to new and renewed facilities and are essential if a Local Government seeks to gain a contribution from new developments.

Development contributions are not likely to be a substantial source of capital contributions for all Local Government but are particularly crucial for communities under pressure due to rapid growth. Preparing CIPs can be a demanding exercise and requires detailed policy development concerning service provision levels and establishing equity between existing and new communities. A clear separation between new and renewal infrastructure spending in Local Government accounts can help and this practice is advocated elsewhere within this Paper.

CIPs provide an opportunity to formalise cooperative actions between different levels of government. A detailed CIP can be used to show contributions and incorporate commitments from others, set out co-operative service programs (hard and soft) and provide for their planned implementation to new and existing communities.

A copy of the draft SPP and report titled: *Guidelines: Levying Development Contributions for Community Infrastructure* is available from the WALGA website or archives². The subject matter of that appendix bears directly on the subject of a more coherent approach to the levying and application of developer contributions. Key aspects of the policy are summarised here.

“There are three main reasons for using development contributions to fund infrastructure provision:

- 1. When carefully applied they augment Local Government funds by levying those who benefit directly from infrastructure improvement – that is they are focused;*
- 2. It is economically efficient for development charges (reflecting the costs of infrastructure provision) to be levied on those responsible for the development so that infrastructure costs are included in development decision making; and*
- 3. It is equitable to charge those individuals who benefit from public investment in infrastructure.*

However, these benefits must be balanced by a transparent system of calculation that ensures that development contributions are not used to address previous under provision of infrastructure or inadequate maintenance and upgrading practices. They should also not be used to remedy existing deficiencies where infrastructure is not up to current standards.” (p3)

The policy identifies eight Principles to underpin the process of setting development contributions and the purposes for which the application of development contributions are appropriate:

“Principles underlying development contributions for community infrastructure

Eight principles have been identified to underpin the process for determining development contributions. These principles apply to the manner in which the need for community infrastructure is determined and to the method of calculating the level of contributions to be levied.

1. Need and the nexus

The need for the infrastructure included in the DCP must be clearly demonstrated (need) and the connection between the development and the demand created should be clearly established (nexus).

2. Transparency

Both the method for calculating the development contribution and the manner in which it is applied should be clear, transparent and simple to understand and administer.

3. Equity

Development contributions should be levied from all developments within a development contribution area, based on their relative contribution to need.

² At www.walga.asn.au

4. Certainty

All development contributions should be clearly identified and methods of accounting for escalation agreed upon at the commencement of a development

5. Efficiency

Development contributions should be justified on a whole of life capital cost basis consistent with maintaining financial discipline on service providers by precluding over recovery of costs.

6. Consistency

Development contributions should be applied uniformly across a Development Contribution Area and the methodology for applying contributions should be consistent.

7. Right of consultation and review

Developers have the right to be consulted on the manner in which development contributions are determined. They also have the opportunity to seek a review by an independent third party if they believe the contributions are not reasonable.

8. Accountable

There must be accountability in the manner in which development contributions are determined and expended.

Development contributions can be sought for:

- *a new item of infrastructure*
- *an upgrade in the standard of provision of an existing item of infrastructure*
- *an extension to an existing facility, or*
- *the total replacement of an infrastructure item after it has reached the end of its economic life*

Whilst development contributions are generally restricted to capital items, development contributions may be levied for economic development or community development purposes. However, these activities would need to be supported by a formal Council policy and strategy and the need and nexus would have to be clearly demonstrated.”

The policy explores the methodology for the creation of a Community Infrastructure Development Contribution Plan (DCP). Further the additional mechanisms required to support a DCP for community infrastructure are identified as:

- a Community Infrastructure Plan
- a Capital Expenditure Plan
- a methodology for determining the proportion of costs of community infrastructure to be attributed to growth and the proportion to be attributed to existing areas. This will need to include a mechanism for escalating costs.

Practical tools are provided as attachments to the policy and methodologies for the creation of a Community Infrastructure Plan and a Capital Expenditure Plan are offered.

The adoption of the principles and methodologies contained in the policy will greatly enhance the transparency and consistency of approach across Local Government.

Action 20: That the Local Government sector endorses the principles and methodologies contained in the document *Guidelines: Levying Development Contributions for Community Infrastructure* and seek funding from the State Government for the expansion of the Community Infrastructure Planning framework proposed in that document.

Further, that Councils experiencing significant levels of growth and development should prepare Community Infrastructure Plans as part of their strategic planning process.

6.9 Business Enterprise by Local Government

Local Governments seeking to be involved in business enterprise face some legislative barriers. Section 3.60 of the Local Government Act excludes (unless permitted by Regulation, not currently present) a Local Government from establishing a body corporate (except a Regional Council).

There also exist various other requirements in the Local Government Act that make business enterprise activities more cumbersome such as section 3.58 (disposal of property) and section 3.59 (Business plan consultation).

Unlike many other States, WA does not have an effective process in place for the establishment of a corporation by a Local Government.

A summary of other key jurisdictions follows:

Table 7: Comparison of Jurisdictions

Jurisdiction	Legislative Capacity
VIC	Permitted to form a corporation, partnership or acquire equity in a corporation. The Minister's approval is required over a trigger value. Various audit requirements and conditions can be placed upon the activity by the Minister.
QLD	Permitted to establish Local Government owned corporations using enterprise powers. Local Governments can also participate in partnerships and acquire equity. Some restrictions exist on Directors and liability guarantees.
NSW	A Local Government must not participate in the formation of a corporation unless approved by the Minister following a public interest test.
SA	Local Governments are provided with all the capacity of a natural person and may establish a subsidiary corporation but only to undertake a non-regulatory function.
NZ	General competence powers are applied to Local Governments to allow them to transfer any function to a corporation following a formal consultative process. Restrictions exist on guarantees and the Board operates under the general corporation law.

Establishing a corporation or commercial partnership would require a Local Government to establish a suitable governance framework. The challenge is to develop a legislative basis for business enterprise that maintains the public's trust in the core activities of Local Government. A strong governance model would be required to reduce any perceived conflict of interest between Councils enterprise activity and regulatory role. The essential characteristics of this model are suggested to be:

- A clear separation between the Local Government's regulatory role and business enterprise role.

- A separate decision making Board (with no joint placements) appointed based on expertise and accountable to the shareholders (Council) established by a formal charter to achieve set objectives.
- The corporation not being eligible for any legislative exemptions or subsidies enjoyed by Local Government.
- No cross subsidisation in relation to fees or transfer of assets.
- The corporation being subject to general corporate law.
- The corporation having no capacity to guarantee liabilities from general Local Government assets.
- Regional Local Governments' eligibility to form corporations.
- A limit on the type of activities that a Local Government can undertake using a corporation.
- The prior approval by the Minister for Local Government based upon the submission of a business plan.

6.10 Business Enterprise and Revenue Capacity

There is likely to be only a limited number of large Local Governments that would find a cost benefit in establishing a corporate structure to undertake its activities. However, for these Local Governments such a structure offers an opportunity to undertake business, such as property developments and urban regeneration, using a more transparent and appropriate structure than at present with the ability to regenerate areas in line with best practice urban planning outcomes. A corporate structure may be attractive to smaller regional Local Governments, organised on a regional basis, as a means of providing services to members and also offer services commercially to supplement revenue.

Data is not available to predict the likely revenue effect of WA Local Governments establishing corporations. However, during the 2005-06 year New Zealand Local Governments received \$308m (6% of revenue) from investments, dividends, rents and interest from commercial investments.³

With a strong governance framework, it is considered that the ability to establish a corporation could add flexibility to a Local Government's revenue capacity in the future, as has been demonstrated in other jurisdictions.

In February 2008 a draft of a Report: *Achieving Best Practice in Urban Regeneration; A review of statutory constraints to Local Government guided outcomes* became available to support the Systemic Sustainability Study. A copy of the final version of this Report can be found on the WALGA website or in archives. The Report offers comments on a range of the matters and issues raised in this discussion, specifically in relation to the creation of an arm's-length entity to deliver best practice urban regeneration outcomes for Local Governments. Key elements of the Report's contents are summarised to emphasise the relevance of the Report and the need for its incorporation into this paper.

The Report proposes:

³ *Funding Local Government*, NZ August 2007 p. 47.

“Beyond its traditional role as a planning authority, measures that might be taken by Local Government to achieve regeneration objectives could include:

- direct undertaking of selected development projects, especially those of a form that is not attractive to the private sector (e.g. higher density or mixed use in suburban localities without a prior established pattern of such development);*
- joint ventures with private owners to mitigate the development risk;*
- underwriting of specific aspects of development projects where the private sector is unable or unwilling to carry the risks involved; and*
- aggregation of sites to enable development to occur on a suitable scale to achieve the desired density or land use outcomes (e.g. transit oriented development).*

However, the involvement of a Council in property ownership and/or development raises a number of issues regarding public perception and the relationship with the community. These include:

- actual or perceived conflicts of interest between Council's role as a planning authority and as a commercial property owner or developer;*
- potential conflicts between political or social priorities of Council and its commercial activities;*
- conflict between the need for commercial confidentiality returns and the responsibility for transparency and accountability to the residents and ratepayers;*
- the management of financial risk when public or community assets are involved;*
- situations in which Council may be placed when dealing with decisions necessarily required as a consequence of Council being involved in commercial activities in (real or perceived) conflict with its constituents.*

Furthermore, where commercial property is owned by a Council, it is inevitable that situations will arise where the Council (as owner) must make decisions that have regard to non-financial issues. This can in turn raise questions of equity in relation to competing businesses that have private landlords, if it is perceived that the Council is subsidising a particular business relative to other competing businesses.

Creation of an arms' length vehicle such as a Council-owned development company or an investment trust to hold and manage the Council's property interests (as well to enter into participation ventures with other parties) is one way to avoid most of these issues. The essence of such an entity is that the Board or trustees are legally obliged to operate at arms length from the Council, within the performance parameters laid down by the Council, and to act independently of all other factors including political pressure.”

The governance structures required to support this extension of Local Government's capacity are discussed at length, as follows:

- A staged approach be adopted to the use of approved corporate structures by Local Government.*

- Regulations be introduced that permit the creation of Local Government Corporate Entities (LGCEs) for specific purposes approved by the Minister (on a case-by-case basis).
- With eventual authorisation of LGCEs by way of a new Regulation 32A under the Local Government (Functions and General) Regulations 1996 (relating to section 3.60 of the Act), with the existing Regulation 32A being renumbered accordingly.
- Introduce statutory performance measures and tidy up a number of related issues, including sections 3.58 and 3.59 and the investment powers of Local Government.

Action 21: That the proposals contained in the Report *Achieving Best Practice in Urban Regeneration: A Review of Statutory Constraints to Local Government Guided Outcomes*⁴ be adopted and the Local Government (Functions and General) Regulations 1996 be amended as proposed in that Report to enable a Local Government to form a corporate entity (such as a company, partnership or joint venture) providing that any amendment contains restrictions and safeguards.

To support this Action, specific proposals are reproduced on the WALGA website and archives.⁵

⁴ See Appendix A *The Draft Plan*

⁵ See www.walga.asn.au

7. Services

7.1 The Services/Governance Linkages

While financial and economic factors dominate the sustainability issues for Local Government, wide ranging factors contribute to the pressures being experienced. These can be broadly categorised as the cost of properly delivering services and the cost of good governance.

The delivery of service and good governance share some characteristics; most notably the increased awareness of the requirement for the Local Government sector to maintain the community's assets at an optimum state for future generations. Examinations of sustainability in most states of Australia have identified that in many instances there is serious under funding of asset maintenance and preservation. With the ageing of infrastructure the issue will get worse and cannot be ignored indefinitely. The major opportunity is to ensure that through the responsible management of infrastructure assets and the creation of strong linkages to long term financial management, the sustainability of a Local Government's financial performance is improved over time. In many instances this will require improved financial governance.

The preceding sections dealing with Financial Planning and Management and Revenue Generation have contributed a significant number and range of Actions for delivery as part of this Plan.

As State and Commonwealth governments and the private sector vacate or under fund service responsibilities there has been pressure on Local Government to fill the void in many areas, such as health, education and public safety, all of which are clearly the responsibilities of others but are not being properly addressed, or addressed to the community's satisfaction.

The question arises: "What needs to happen to make Local Government sustainable in the long term?" Part of the answer lies in creating economies of scale and applying new technologies and business practices

The historical approaches to structural reform have been heavily biased towards economic efficiency at the expense of democratic representation and capacity building, to the extent that the term 'structural reform' is almost a proxy for amalgamation. The verdict remains uncertain on the benefits of amalgamations in Australia. Proponents of amalgamations suggest bigger Local Governments will be more effective and efficient. Critics point to a lack of evidence to support the case, and claim that economies of scale may be achieved by means other than amalgamation, including regional cooperatives, resource sharing and that new technologies can be accessed through contracting out to the private sector.

The uncertain merits of amalgamation processes justify recasting the discussion in terms of 'functional' reform to be achieved by a variety of means, rather than 'structural' reform which has become synonymous with a 'bigger is better' amalgamation approach. It acknowledges the importance of retaining the benefits of localised democratic governance. At the same time it emphasises the imperative that the governance arrangements be diligent and effective in realising the trust of constituents in the delivery of high quality infrastructure and services on a financially sustainable footing.

The impact of the issues confronting Local Government falls unevenly across the sector. Some Local Governments have begun addressing their future sustainability, and as the diversity of Local Government confounds attempts to identify a 'one size fits all' assessment of the state of the sector, it is no surprise that the initiatives being taken are not uniform. They include amalgamation, regional cooperation, resource sharing in many forms and contracting out.

The City of Subiaco assisted with the development of a document which demonstrates the existing and emerging levels of participation by Local Governments in these various forms of joint service arrangements. It illustrates that in fact joint arrangements are widespread across the sector. However, it also demonstrates that numerous arrangements are informal in their organisation. Consequently the durability of these voluntary/informal arrangements is called into question. This paper advocates that the existing experience of shared service arrangements within the sector be consolidated through the application of a regional platform as the 'prism'. WALGA can then assist in the accumulation and exposure of these experiences through its website. This document can be located on the WALGA website or archives.¹

7.2 Amalgamations

Throughout the review process Councillors and officers have expressed the view that Local Governments serve a vital role in representing local communities.² This role is more than just service delivery. Local Government is often the only sphere of government physically present in a location and that presence is often underlined with a strong historical connection to an area. As a consequence, there has been a uniform desire for any reform program to be voluntary in nature.

It is vital that the sector moves towards viable mechanisms for functional reform that reflect the nature of the communities they service. The alternative is for State Government to present a model that is less reflective of the wishes of the community. History proves that population is a key consideration in the forced reform that has occurred in other states. Queensland, for instance, cited having 88 Local Governments with less than 8000 residents as a *prima facie* case for State-imposed amalgamations. In Western Australia, there are approximately the same numbers of Local Governments with populations of less than 2000.

A significant concern is that forced amalgamation brings about a loss of identity as smaller populations are submerged within larger ones. Further, the social capital built up by successive generations of Councillors and dedicated officers is destroyed through forced amalgamations. The recommended shift to increased degrees of 'regionality' of services provides the means to improve the ability of Local Government to deliver important services while also maintaining a strong connection with the local community. It provides the means to ensure local representation remains in place and has concern for the relationship between the Local Government and the community at its heart.

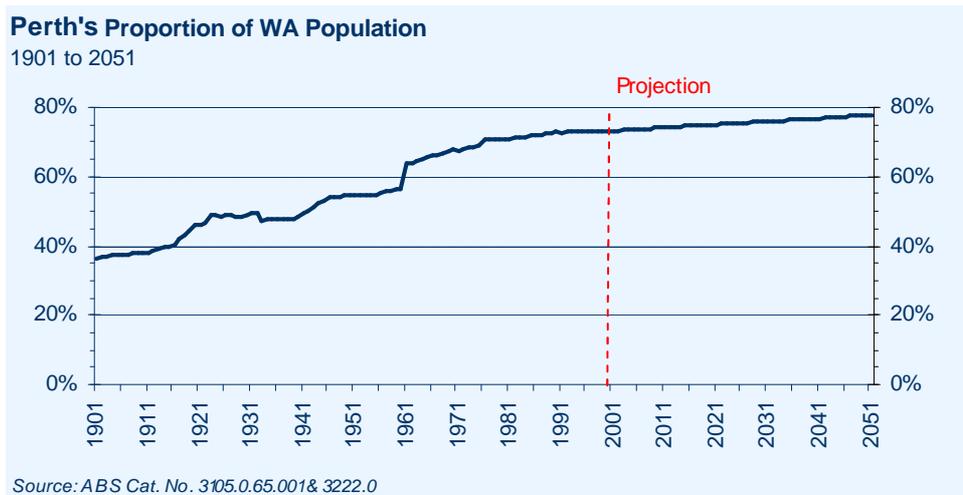
A regional basis for service delivery and functions can enable more explicit linkages between funding of a service and delivering it so that service requirements that originate locally and those that originate from the State or Commonwealth Governments are clearer. This greater accountability will create clearer incentives for State and Commonwealth Governments to fund their reasonable share for service delivery.

The alternative is the growth of increasingly metro-centric policies and practices. The following graph shows how the population of Western Australia will increasingly be concentrated in Perth in the years to come, according to the ABS population projections.

¹ See www.walga.asn.au

² Plenary input and workshop commentary at the Forum 'The Journey' April 2007 Duxton Hotel, Perth.

Graph 4: Perth's Proportion of WA Population



There is also a strong concern that the reduction of a Local Government's presence in certain towns will make them unviable or will accelerate population migration. This is an important concern and reinforces the importance of having an industry-directed reform process. The proposed use of regional arrangements will involve a change in the operating model for individual Local Governments but not necessarily a reduction in the level of services delivered locally. The movement to regional delivery of services may also provide the career progression necessary to induce young people to remain in the community. This career progression cannot be provided by existing arrangements because many individual Local Governments are currently too small to provide career progression.

Voluntary amalgamation remains a valid policy option for individual Local Governments to consider and adopt as they see fit. There have been a number of voluntary amalgamations that have taken place recently, reflecting the growing awareness of the need to change and the financial assistance provided by the *Connecting Local Governments* initiative³. The Plan provides a number of positive recommendations and practical assistance for individual Local Governments to determine whether this is the best course for their communities.

It is noteworthy that forced amalgamation is rapidly being superseded by developments in business practice. The economies of scale arguments that have historically driven amalgamation agendas are not valid when Local Governments have the ability to share service platforms both regionally and across the State. Indeed, amalgamation without further resource sharing at a State level can actually *reduce* the level of efficiency in the sector.⁴ However, the validity of this argument rests on individual Local Governments showing sufficient leadership to adopt extensive reform of their processes and practices. This remains the primary challenge to Local Government embedded in the Plan.

7.3 'Business as Usual' Will Not Be Enough

Without a commitment to change, Local Government will continue to experience the withdrawal of services by the private sector, State and Commonwealth Governments which

³ A DLGRD program offering financial assistance to Councils taking part in amalgamations.

⁴ B Dolly & A Johnson, 'Enhancing Efficiency in Australian Local Government: An Evaluation of Alternative Models of Municipal Governance', paper presented to the WA Local Government Association Structural Reform and Regional Cooperation Forum, Perth, 1 November 2004.

have impacted heavily upon communities. This will continue to result in a demand on Local Government to meet the associated service gaps and the related cost transfers.

The danger lies in Local Government continuing to respond to these developments on a largely *ad hoc* basis. The effect of this continued response pattern is the further erosion of sustainability, the worsening risk of deep intergenerational cost transfers and the increasing vulnerability in the community in the longer term.

This response by Local Government frequently allows those directly responsible for the unmet need to escape their responsibilities. The proposed direction for change embodies a significant shift in this positioning and emphasises the adoption of approaches which offer genuine responses to need, but through a systematic framework embodying challenges to other spheres of government to improve their service planning and delivery arrangements.

The proposal is for a comprehensive review of the service delivery platform by Local Government, with greater emphasis upon delivery through joint servicing arrangements at state wide and regional levels. For the purposes of this Plan, this shift in service delivery platform and associated governance arrangements is addressed in Section 3: Regional Responses to Sustainability Challenges.

These changes are proposed at a functional rather than structural level. This creates the opportunity for governance arrangements at the local level to remain largely unchanged, while services and functions are increasingly moved from local level delivery to collaborative arrangements at both regional and state levels. In some instances, the review will involve decisions to transfer to other spheres of government elements of services which are most effectively delivered by them. The required collaboration would in the first instance involve Local Governments and WALGA. But the preferred example will serve to press other spheres of government to collaborate for improved outcomes. A major role for Local Government is to act as a catalyst for change by increasing the expectations of communities of the standards of service that they can reasonably expect and the delivery mechanisms by which they will be achieved.

7.4 One Size Will Never Fit All

The number and size of Local Governments does not need to be the indicator of change. What is important for the future is that each Local Government has accepted the challenge and is addressing sustainability using a methodology which can be demonstrated to address the key issues of sustainability and viability.

Action 22: That as a matter of best practice, each Local Government conduct a self assessment of its sustainability annually, using the recommended Sustainability Checklist.

The range of options explored in the course of the research in respect to shared service platforms includes:

- Voluntary Regional Organisations of Councils (VROC)
- Regional Local Governments
- Local Government trading entities
- single Local Governments as the regional service provider
- private sector provider
- State-wide managed preferred supplier or service

- area integration or Joint Board models
- bigger Local Governments, created through boundary changes and amalgamations.

It is possible to successfully employ a combination of models to achieve the benefits of improved scope, efficiency and effectiveness in service delivery and to accurately target different service activities with the best approach. Different Local Government activities can be demonstrated to have different optimum service regions.

7.5 Stability a Measure of Sustainability

At several points in the consultation process, commentators have noted that some of the alternative platforms for service delivery have low levels of reliability. This becomes a particular issue where core services are under examination.

For example, despite their early success, several of the existing shared services vehicles in place have been reported to be tenuous due to the informal nature of the relationships that underpin them.

Clearly any joint venture relies on degrees of goodwill between participants, and on ensuring that appropriate MOUs and agreements are in place that enable appropriate risk management practices. However, when core services are at stake, the risks and consequences are heightened. This is not an argument for avoiding dialogue over the development of joint service arrangements. It is an argument for care in the structuring of those arrangements and the exclusion of potential participants assessed to be ambivalent or otherwise unreliable. The selection of the service platform to secure commitment by participants also becomes important in this regard and the arrangement must be robust enough to survive and resolve differences.

7.6 Interstate Experience with Shared Services Platforms

In June 2008 the Municipal Association of Victoria (MAV) held its *Shared Services Conference* in Melbourne. Perhaps not surprisingly, there was strong representation by delegates from Western Australia. The Conference provided an important opportunity to observe and evaluate the response by Local Governments in other States to the forced amalgamation processes they had undergone. The overwhelming evidence is that the adoption of various types of shared services arrangements is a common and prominent aspect of that response.

This accumulated experience becomes a useful source of inspiration and support for efforts in WA to generate new models for the delivery of services and functions in a collaborative fashion.

Action 23: That WALGA explore methods by which the various shared services examples emerging in other States can be shared with the Local Government sector in WA.

7.7 Regional Service Platforms

While Local Government evolves and adapts to meet the needs of contemporary society it is burdened by a funding system appropriate for the past, not the future. The dependence

on property rates is not a sustainable funding base for Local Government as it continues to grow and adapt. The delivery of many services may be best achieved through Local Government. Establishing a mix of alternatives through which services might best be delivered will be a significant contribution, but the question of sustainability will remain unaddressed unless there is a review of the worsening fiscal imbalance between the spheres of government.

In this paper there is repeated reference to the need for the adoption of models; the use of best practice examples; the creation of core capabilities; and basic functional realignments to increase the capacity of Local Governments to confront the challenges which are truly theirs to 'own'⁵. It would be remiss to then depart from this focused approach in dealing with the area of most immediate relevance and impact on the lives of the constituencies to which Local Government owes its primary loyalty. This Plan is based on the assumption that most communities will pursue options which offer the best opportunity to maintain and improve services to current and future generations. Their support will be enhanced if Local Government adopts an approach which is the catalyst for increased financial and policy responsiveness from State and Commonwealth Governments, and from the private sector interested in partnership approaches.

The alternative which offers the best opportunity for generating this range of outcomes is through greater emphasis upon regional cooperation by Local Government. It is interesting to observe that the majority of the shared services models presented at the June 2008 MAV Conference were built around regional approaches. This emphasis upon regionally based joint service models:

- allows for a service delivery platform which is flexible and responsive to the diversity of issues and needs across different regions in WA
- permits on the basis of close scrutiny and deliberative decision the retention of some services at the local level
- allows for the full range of specific delivery vehicles e.g. local direct service, regional direct service, public/private partnership, contracting out to be applied to the task
- does not necessitate an aggressive approach to the existing governance arrangements
- allows Local Governments as currently constituted to evolve in the light of their experience with emerging models for service delivery and governance
- sets in place a framework which, in the event of intervention by the State Government along the lines of that seen in other States, offers the most adaptable platform for continuity of services to communities
- complements the initiatives proposed elsewhere in this paper
- issues a long overdue challenge to State and Commonwealth Governments to work with Local Government as a partner in planning, funding and servicing the needs of communities.

To allow this delivery of infrastructure and services to be undertaken there are also a range of enabling roles, such as the collection of revenue and the full range of corporate services like Information and Communications Technology (ICT), Human Resources (HR) and Accounting. A key focus should be to improve the utilisation of the community's resources

⁵ See other Sections dealing with Finance, Revenue and Capability.

which are entrusted to their Local Government and to improve or increase the standard and range of services which can be provided.

Three key issues emerge from the consideration of the functions of Local Government:

1. Local Government is handed its statutory mandate by the State through its enabling legislation, the *Local Government Act 1995* together with a myriad of other legislation which grants powers and imposes roles and responsibilities, but the strength and relevance of each Local Government is drawn from its connection to its community. This is an outcome of community building and encouraging connection within its community.
2. Local Governments do not have to physically deliver infrastructure and services 'in house' to be validated. Local Governments plan for and make decisions about infrastructure and service delivery for and on behalf of their communities, but also should choose the most appropriate manner to responsibly allocate resources. This includes choosing service delivery options on the basis of what represents the best overall outcome for the community.
3. Local political boundaries and potential optimum service region boundaries may often not align.

7.8 Suggested Legislative Change

There are a number of significant impediments to revising service delivery platforms presented by the current regulatory regime.

Action 24: That the *Local Government Act 1995* be reviewed with the objective of amending unnecessary impediments and existing sources of inflexibility for regional Local Government structures.

Action 25: That the Local Government sector seek a partnership with the State Government/Department of Local Government and Regional Development so that stakeholders work together in pursuing the goal of achieving a long term sustainable Local Government model, with particular emphasis on reviewing and modernising the *Local Government Act 1995* to remove obstacles and foster sustainability.

Action 26: That the following amendments be made to the *Local Government Act 1995* and the *Local Government (Functions and General Regulations) 1996*:

- Review or evaluation of the *Local Government Act 1995* in relation to 'general competence' powers.
- Clarify the *Local Government Act 1995* to remove any requirement where the initiative is for delivery of Local Government services by an individual Local Government or by joint arrangements. Review the requirements to remove any requirement which requires disclosure of commercially important information (including to potential competitors).
- Revise the *Local Government Act 1995* so that it recognises the shared CEO option and reduce the level of direction so that local arrangements can be made and entered into by contract.

- **Amendments to the *Local Government (Functions and General Regulations) 1996* that focus on the underlying purpose and effect of Local Government Purchasing.**

These proposed amendments are framed to address the following set of issues (in respective order):

- The governance standard underpinning the performance expectations in the Act is one of 'general competence'. Yet the level of prescription in the regulatory arrangements limits the degree of flexibility to the point where the standard of 'general competence' becomes virtually meaningless.
- The intention is to free up the sector from the practical prohibition on the creation of trading enterprises.
- The drafting of the *Local Government Act 1995* proceeded on the assumption of one CEO working with one Local Government. The sharing of CEOs is already a feature in some locations and the Act needs to enable such flexible responses.
- Local Government is required in prescribed circumstances to call competitive tenders. The assumption of the requirement is a competitive market place. In reality this is often not the case where a number of supplies are either monopolised or oligopolised, particularly in regional areas. The Regulations may also place impediments on innovated service arrangements by Local Government, especially if they involve some form of long term commercial arrangements. Although the tender threshold was recently lifted to \$100,000 this amount varies across Local Governments and is not defined to the extent that minor purchasing will not eventually be subject to competitive public tender.

The tender provisions of the *Local Government (Functions and General Regulations) 1996* require revision to remove obstacles to innovative service delivery options and foster sustainability.

- Establishment of varying tender thresholds based on organisation size and turnover, or alternatively the ability for each Local Government to nominate and submit its tender threshold through its purchasing policy which is lodged with the Department for approval.
- Enhanced exemptions to competitive public tendering in areas of limited supply, and the establishment of the capacity for Local Government to issue closed tenders (non-public requests) in specialised areas.
- Foster regional cooperation and shared service delivery by creating new regulatory provisions which provide for the establishment of panel contracts, and regional buying groups.
- Establish regulatory capacity to directly source market suppliers in the instance that no tenders are received, or that no compliant submissions within 20% of Councils budget are received.
- Recognition of the advisory services, model documentation, training, and managed tender services of WALGA through its procurement program by enhancing the definition of (11) (2) (b) of Part 4 of the current regulations.

8. Capability

8.1 Overview

“Employing over 13,500 people in over 600 roles, the Local Government sector has a very large and continuing demand for a competent and diverse workforce. Council workers live and work in most Western Australia neighbourhoods and communities. The sector represents (in aggregate) the third largest employer in Western Australia (behind the State Government and the mining and resource sector).

The industry is routinely exposed to the same changing economic, social and demographic conditions as face other employers, especially in the context of the very strong labour market impacting WA at present. It is not unique in facing a range of acute skill shortages. The systemic challenge is to demonstrate that it can offer exciting and vibrant careers to future workers and employees.

The competition for labour from the resources industry is set to continue. A study by the National Institute of Labour¹ stated that, within Western Australia, the resource sector will need an additional 42,000 employees by 2015.

Many of the current workforce planning challenges are a result of the strong Western Australian economy and require short-term attraction and retention strategies. Other matters require a more strategic or long-term approach to address the prospective (and inevitable) loss of senior, experienced and long run employees (as will happen with the ageing of the current workforce). The industry must also acknowledge and address a set of risks which result from some of its own practices and a perceived lack of investment in the human capital of Local Government.”²

“The issue facing many Local Governments is not an unwillingness to adopt a more strategic approach to the way they do business, but having the capacity to introduce and maintain systems that improve decision making. This is a particular problem for Local Governments who are competing for specialist skills such as planning, engineering and building in a highly competitive marketplace. The problems associated with managing rapid growth are more pronounced in Local Government areas that are in transition from essentially rural to urban Local Governments.”³

Key among these structural problems is the lack of meaningful career paths within Local Government, and most particularly between regional and metropolitan locations. While large regional centres have the capacity to operate on a similar basis to larger metropolitan Local Governments, the disparity is most pronounced in smaller Local Governments in country locations and to a lesser extent evident in smaller metropolitan settings.

The operating environment for Local Government can be reasonably summarised as follows:

- Competition between Local Governments is corrosive in its effects as they are less likely to consider cooperative activity.
- These dynamics are aggravated by the competitive pressures of the external labour market, at least in the medium term.

¹ D. Lowry, S. Molloy and Y. Tan. *Staffing the Supercycle: The labour force outlook in the minerals resource sector 2005-2015*, National Centre for Vocational Education Research, Perth August 2006.

² SSS Panel, *In Your Hands, Shaping the Future of Local Government in Western Australia*, 2006, p. 59.

³ Adapted from Outer Metropolitan Growth Councils’ submission to SSS Panel

- Further, significant demographic change is likely to aggravate these effects in the longer term. Even without the liabilities attached to its current settings, Local Government will come under pressure as a result of the loss of its experienced workforce and the prospect of diminished supply of critical skills sets.
- This confirms the validity of observations that urgent attention is required to create a more sustainable platform for application of skills of various kinds to the delivery of the infrastructure and services provided by Local Governments.
- Larger Local Governments (Categories 7, 8 and 9)⁴ are able to provide clear career progression and adequate support to professional officers including clear and structured professional development programs.

The vulnerability of Local Governments is compounded if they do not focus on the professional development needs of their employees. In the absence of a systematic approach to professional development and skills renewal, Local Governments are placed at a competitive disadvantage in the broader labour market and by default reliant on the activities of various professional associations.

While strongly advocating functional reform, this paper supports maintaining existing representational arrangements⁵. The reasons for this conclusion are mixed but can be reasonably summarised as:

- The demonstrated successes of Local Government in harnessing democratic sentiment at the local level.
- The strengths of Local Government do not require that all services and functions be provided at local level. Regionally organised and managed service platforms delivering services at a local level build upon these existing strengths.
- There is insufficient evidence to support the proposition that existing representational arrangements are the core of the problems which present.
- It is evidenced that voluntary amalgamations do emerge from the affinities of interest based on regional considerations.
- As demonstrated through the enquiries undertaken to support the Services Section of this Plan; various forms of regionally based response are already in existence in WA and in other states.

A review of the comprehensive listing of functions and services provided by Local Government across WA reveals that they are all currently designated as being delivered through 'local' mechanisms. Exceptions to this pattern do exist, most notably with the various VROC and ROC structures. However, their existence is sporadic in nature and doesn't represent a systemic response to service delivery.

The majority of Local Governments have experience of some form of cooperative arrangement for the delivery of core services. However, these are frequently of an *ad hoc* nature. Interestingly they are also often driven by the imperative of gaining advantage in terms of human resource management which further substantiates the conclusion in the SSS Panel Report that workforce issues were likely to be the catalyst for significant change within Local Government.

The functional analysis reported above leads to a notional reallocation of current services, products and functions undertaken 'locally'. The emphasis in this Plan is upon the creation of economies of scale for delivery, not upon the amalgamation of existing Local Governments.

⁴ Salaries and Allowances Tribunal categories

⁵ Note that Action 34 anticipates Local Governments reviewing the number of Councillors required to exercise governance functions.

Amalgamations of Local Governments currently under capability constraints would not necessarily lead to a sustainable outcome. Amalgamations are blunt instruments, whereas cooperative arrangements can deal with more specific issues.

There is a tendency to assume that 'bigger is always better', This Plan does not subscribe to this view since:

- Some of the services and functions under consideration are viewed by constituents as core frontline service obligations of their Local Government, intrinsic to response to local need, and there is an expectation that they will be both managed and delivered at the local level.
- In some functional areas, mobilisation costs for plant and equipment over the distances involved in regionalised settings may prove prohibitive.

A priority in this Plan is the creation of an alternative platform for the application of capital and human resources to the delivery of the various functions in a more sustainable fashion. The underlying features of this reorganisation would be:

- No change to existing representational boundaries, at least in the short term. It is important to preserve the existing mandates of Councils and to maintain the status of Local Government as the most immediate, tangible and accessible sphere of Government. These settings are perhaps the strongest asset of Local Government and should not be revised until there is reasonable confidence in alternative arrangements.
- It is anticipated that voluntary amalgamations of Local Governments may well occur but this should not be driven specifically by service delivery considerations. After a new set of operational arrangements have been implemented and tested, the opportunity will then exist for a community to explore the adequacy of its representational arrangements and review these accordingly.
- A comprehensive review of the services and functions currently delivered through Local Government to determine whether they should more correctly and efficiently be delivered by another sphere of Government.
- The positioning of Local Government to press the State and Commonwealth Government to become more consistent and authentic in their dealings at the regional level. For example, the inconsistent service boundaries for all key State Government agencies undermines confidence in government's claim to a commitment to 'regionality'.
- In moving down this pathway it will be necessary for Local Government to 'walk the talk' and review its own commitment in order to make it a credible partner into the future. Local Government needs to demonstrate that it is a capable, effective and reliable partner for both State and Commonwealth Governments.
- The effective application of existing and emerging technologies to the provision of services through the combination of state-wide, regional and local services hubs.
- The retention of Local Government boundary arrangements which respect *communities of interest* as their cornerstones. While over time the tendency may be to voluntary amalgamations of existing Local Governments to represent *communities of interest* which emerge on regional criteria, the full effects of any transition is unlikely within the scope of this Plan and not necessary for the realisation of significant benefits.
- The shifting of a significant number of 'back-office' functions to the regional and state-wide level, dependent on the criteria of cost effectiveness balanced by accountability to the communities being served and supported. The decision on whether these arrangements are best served by 'in-house' regional structures, bureau services;

outsourced; or a combination of arrangements would be a matter for decision by participating Local Governments.

8.2 Workforce Planning

The change programme provides for the delivery of a variety of specific measures tailored to create more integrated and cohesive workforce planning. These specific measures could be engaged by particular Local Governments within their new regional collaborations.

The objective is to achieve uniformity of strategic approach by the sector without imposing or expecting universal or consistent outcomes. Again a regional platform seems best suited to the achievement of these outcomes. For example, the burgeoning resources industry in the Pilbara has already had massive impact on the regional labour market. These impacts in the MidWest and Kimberley are growing.

Action 27: That Local Governments develop regional workforce planning processes for the Local Government sector in collaboration with Regional Development Commissions (RDCs).

By engagement with the roll out of regional workforce planning efforts, the Local Government sector would be achieving a multiplicity of outcomes:

- The compilation of a Local Government industry-wide workforce planning instrument gradually provided through regional efforts, the nature of which are sensitive to the interplay of competitive forces within regions and across the State.
- An opportunity to shift Local Government from its current introspective focus to one which scans for a fuller range of opportunities and threats. In these terms 'industry-wide' becomes inclusive of all competitive forces across industry in general.
- An ability to understand the impact of demographic changes in relation to the attraction and retention of labour, particularly in regional locations.

In the absence of regionally based workforce planning, Local Government is restricted to making more coherent its own efforts to attract and retain the required skills sets. This can best be achieved by the pursuit of a variety of interventions primarily aimed at increasing the supply of labour.

The demographic change across the community and competition across the economy indicate that these efforts to increase labour supply will be necessary on an ongoing basis in any event.

From the demand side the only meaningful intervention lies with the shift to regional and state-wide application of skills to designated functions within Local Government. In the absence of this shift, the existing underlying dynamic of competition between Local Governments will erode the will to engage with collaborative activity.

8.3 Building Councillor Capability

The SSS Panel Report⁶ preferred mandated training of Councillors following their election. It concluded that mandatory training prior to election would restrict the supply of candidates.

⁶ SSS Panel Report, p. 62.

This proposition was tested with the sector through the consultation process with the conclusion that mandating of training does not have the support of the sector. However, the principle of improving the capability of Councillors in a professional development context was widely supported. It is a matter of responding with measures which support and encourage this outcome.

Currently some Local Governments pay for the professional development efforts of Councillors, but the practice is not uniform. Given that Councillor capability is critical to the governance capacity of the Local Government sector, the practice of Local Governments supporting professional development of Elected Members should be the industry standard.

Action 28: That the *Local Government Act 1995* be amended to require Local Governments to resource the participation of Councillors in professional development.

The specifics of the professional development efforts should be based on the four core units listed in Action 29 and in addition, all of the professional development modules should be reviewed to address strategic planning issues and their relationship to long term asset management and planning.

Action 29: That Councillors be encouraged to undertake the following four core units for professional development in the Councillor's first term:

- Legal responsibilities
- Finance
- Corporate Governance/Ethics
- Sustainable Asset Management or Land Use Planning, with the selection dependent on the extent to which asset management is a core function of the Local Government concerned.

Action 30: Councillor professional development modules to be developed to incorporate strategic planning issues and their relationship to asset management and long term financial plans.

The holding of Information Days for prospective candidates is a past practice which has fallen into disuse. Localised efforts are in place by individual Local Governments but there has been a decline in more systematic arrangements. It is also noted that these events were previously funded by the DLGRD.

Action 31: That the Department of Local Government and Regional Development provide information sessions for prospective candidates.

A number of the professional development initiatives proposed are relatively informal in nature. As with information sessions for prospective candidates, the holding of weekend forums for new Councillors was a regular activity until the mid 1990s. Others, such as mentoring are already in place in some Local Governments as local initiatives which have demonstrated their worth.

Action 32: That 'New Councillor Weekends' be re-established.

8.4 Support for Professional Development Efforts

While the professional development of Councillors is an area requiring attention, it becomes particularly relevant when Local Government is considering a shift in its strategic alignment and

organisation. A number of the Actions proposed in this Plan will generate a new set of expectations and performance requirements.⁷

For example a shift to regional platforms for service delivery and infrastructure management may require changes in governance arrangements, and the associated roles and responsibilities of Councillors. It may also involve a shift in the number of Councillors delegated between strictly 'local' and 'regional' service platforms within a grouping of Local Governments.

In the context of these prospective changes it is important that the professional development arrangements match the anticipated demands upon Councillors (and officers). It is also appropriate that the Plan anticipate the possible shift in allocation of governance responsibilities and resources between local and regional arrangements. In this environment, no single template for change can be applied. However, scope and support for the direction of change should be enabled.

A number of these supporting arrangements should encourage the take up of professional development opportunities necessary to match capability with the demands of new roles as they emerge.

Existing mentoring arrangements within Local Government are almost entirely informal in nature. This can lead to the appearance of cliques and factions when the driver is the need for relatively inexperienced Councillors to gain knowledge and experience in their roles. Formalised mentoring should become a feature of Local Government and it is again preferable that the arrangements be on a regional level.

Prospective mentors should be respected for both their role and associated training needs. A variety of Mentor Training packages are currently available for adaptation and tailoring to Local Government settings.

Action 33: That formal mentoring arrangements and professional development be established to support new Councillors and be delivered on a regional basis.

Action 34: That Local Governments be encouraged to undertake regular reviews of the number of Councillors required to conduct the governance functions required.

Change in the number of Councillors allocated to designated responsibilities, and an increase in the level of competence and responsibility demanded of their role suggests that remuneration arrangements be should be adapted accordingly.

8.5 Councillor Allowances and Entitlements

The Association has previously called for the WA Salaries and Allowances Tribunal (SAT) to be given the responsibility for establishing the range of fees and allowances for elected members, with each Local Government having the ability to set a fee within this range and with the Tribunal also to be required to update the fees and allowances on an annual basis.

This perspective has been reinforced in the research and feedback in this Plan and is reflected in Action 35.

Action 35: That the *Local Government Act 1995* be amended to give responsibility to the Western Australian Salaries and Allowances tribunal for establishing the range of fees and allowances for elected members, with each Local Government having the ability to set a fee

⁷ Hence the selection of recommended core areas for professional development in Action 29.

within this range. The Tribunal to be required to update the fees and allowances scales on an annual basis.

8.6 Workforce Development

The Building and Construction Industry Training Fund (BCITF) provides a useful model of an industry wide response to skill development. That Fund and its associated industry levy is the product of statute. This was considered necessary to ensure contributions from a large number of employers, often of small size. The Fund has been largely successful in attaining its objectives and is now a well established feature of the industry.

A number of the workforce development proposals, including those addressing the professional development needs of Councillors will require a sustainable source of funding.

An Industry Training Fund based on a modest contribution by all Local Governments seems a worthy first step to create a source of revenue for capability building. It is from this source that funding for initiatives such as the professional development of Councillors could derive. It is essential that all training efforts be heavily informed by the workforce planning process advocated through Action 27.

Action 36: That a discussion paper on the creation of an Industry Training Fund be produced.

A wide variety of measures aimed at exposing students to the prospects of careers in Local Government should be explored. A number of innovations have been tested by Local Governments in their efforts to attract and retain workforces across all skill categories and demographics. Much remains to be learned from this accumulated experience to inform the flow of proven initiatives across the sector.

Action 37: That an appropriate Local Government 'work experience' programme be developed and other relevant labour market interventions be explored.

Any effort by training institutions to engage with Local Government is currently largely driven by the circumstances and needs of the institutions. This causes arrangements to be unstable and unreliable from the perspectives of Local Government. The existence of an Industry Training Fund would likely cause a significant shift in these dynamics in favour of Local Government.

However, independent of progress with the Training Fund, the Local Government sector should develop a strategy for influencing the major training institutions to become more responsive to the needs of Local Government. The target group should include key regional training providers and not just metropolitan based universities and colleges.

The pre-existing industry training advisory body in WA has not functioned for some years. Consequently the available training packages under the Australian Quality Training Framework are managed nationally. While there is a range of innovative training arrangements in place in other states (especially NSW), there is no recent history of systematic engagement with the issues by Local Government in WA.

Action 38: That a discussion paper on the creation of an Industry training Council focused on the needs of Local Government be produced.

With significant demographic change, especially in rural and remote Local Governments, the most stable population groups for the future were the regional and local Indigenous communities. A number of innovative measures for engagement with Indigenous employees have been initiated by individual Local Governments. There are current efforts underway in the Kimberley and Pilbara in terms of closer engagement with the indigenous populations in those regions.

The roll-out of the Bilateral Agreement on Indigenous Services, particularly as it applies to the delivery of municipal services to indigenous communities presents significant challenges for Local

Government. The pilots underway in the Pilbara and Kimberley may be particularly useful in this context. For example, consideration could be given to Local Governments overseeing the creation of Indigenous enterprises in order to generate the prospect of contracting them to provide a variety of services, including infrastructure maintenance and support. Consideration should be given to the possible alignment of the regional service needs with the regional Indigenous presence to enhance the sustainability of the Indigenous community's engagement with any initiatives created.

Action 39: That WALGA seek to work with the State Government to develop a training fund specifically designed to work with Indigenous communities increasing the pool of employees.

9. Conclusion

“The End of the Beginning”

In conclusion, this Plan provides a way forward for the Local Government sector which is working through issues of relevance to sustain their place within the three spheres of government in Western Australia.

Acknowledgement is given to the extensive involvement of the sector itself and the expansive work of the Consultants who worked with the WALGA team to understand and identify the issues that have created the economic, financial, social, cultural and environmental issues for Local Government today.

The Plan highlights the current critical window of opportunity available to the sector to wrestle with the complexities of viability and sustainability, and in many cases to take a leap forward and work within new frameworks developing new relationships and new structures - perhaps in ways that have not been done before.

The WALGA Taskforce pursued an agenda that ensured open dialogue with members who were often grappling with problems and issues that were new with no clear way forward. The Plan highlights the Vision Statement that became a guiding beacon for the project:

“Local Government will implement and maintain a governance model that integrates effective service delivery (on a regional basis) with appropriate political representation (on a local basis).”

The Plan notes that the achievement of change will entail significant ongoing leadership and commitment in order to understand the problems before Local Government and to examine both a systematic and disciplined approach to dealing with these issues, while also examining creative and innovative ways to deal with them. These issues are addressed in five chapters within the Plan:

- leadership for change
- finance
- revenue
- services
- capability.

Repeatedly in the Plan, the fiscal imbalance impacting upon Local Government and associated increasing cost transfers and service demands are raised as key issues requiring debate and resolution.

Local Government stands poised at a critical point in time with structural reform providing a significant opportunity by advocating Local Government’s role as a catalyst for change in an uncertain future.

Finally, it might be best expressed by this quote from the submission that the Local Government Manager’s Australia made to the process:

“The creation of this voluntary reform Plan has entailed significant effort from a wide variety of contributors over an extended period. The integrity of each stage in the process has been jealously guarded to demonstrate WALGA’s respect for those efforts. However, it is correct to observe that it represents the “end of the

*beginning” of the reform process for Local Government as a sector. It remains for all stakeholders to assess their level of commitment to the change processes advocated and their willingness and ability to support implementation of the many initiatives contemplated”.*¹

¹ Quote drawn from LGMA submission 20 June 2008

10. Sustainability Checklist

Does your Local Government:

FINANCIAL PLANNING AND MANAGEMENT					
		Yes	No	Comment	Review Date
1	Have a 5 Year Strategic Plan in place, with a supporting 5 Year Financial Plan and Asset Management Plan				
2	Publish a 5 Year Community Infrastructure Plan, linked to the financial plan				
3	Ensure debt management indicators are published and consistent with Industry benchmark ratios				
4	Have an industry standard asset management system in place, against which performance is regularly monitored				
5	Apply whole of life costing principles to major capital projects				
6	Re-value all assets in accordance with industry best practice				
REVENUE RAISING					
7	Apply the WA Local Government Cost Index as the basis for calculating cost movements to be reflected in its revenue collection strategies				
8	Adopt best practice processes as the basis for its rate setting (as outlined in Section 6.2.1 of <i>The Journey</i>)				
9	Fully cost functions and services used as the basis for setting fees and charges				
10	Review fees and charges annually for cases of revenue leakage				
11	Explore the use of trading entities to secure service delivery and revenue collection				
SERVICE DELIVERY					
12	Advise Council of alternative service delivery options with an overview of the implications for the community of each when reviewing and approving the Local Government's Strategic Plan, business or operational plans				
13	Measure and report increasing community satisfaction with service delivery in its Annual Reports				
14	Measure and report reducing environmental impact resulting from activities				

		Yes	No	Comment	Review Date
15	Regularly benchmark performance against contemporary Local Governments				
CAPABILITY AND WORKFORCE DEVELOPMENT					
16	Include a documented Human Resource Plan as a feature of your Strategic Plan				
17	Prepare a workforce planning strategy in consultation with other local governments within a regional network				
18	Benchmark salary costs against Industry Standards				
19	Provide funding for professional development and training for all employees and Elected Members to increase skills and knowledge				
LEADERSHIP					
20	Actively engage in sector reform processes and discuss their implications with other local governments within your region				
21	Have a process to review this Sustainability Checklist annually				