

Local Government Reform in Western Australia - Ensuring the Future Sustainability of Communities

1 INTRODUCTION

The Minister for Local Government and Regional Development, the Hon John Bowler MLA, announced a review of structural and electoral reform on 5 October 2005. Terms of reference were provided to the Local Government Advisory Board (the Board), with a requirement for public consultation. The Board was initially given a due date of 10 February 2006 to report to the Minister, but the Minister subsequently approved an extension until 17 March 2006.

Terms of Reference

a) Structural Reform

The report should address the following issues and provide recommendations on:

- The objectives and need for structural reform and an assessment of how structural reform can enhance the future economic, environmental and social sustainability of Western Australian communities.
- Identification of approaches that can be adopted by councils in achieving structural reform, ranging from local government amalgamation through to resource sharing.
- Identification of impediments to structural reform including but not limited to legislation impediments and options to overcome these impediments, which should include but not be limited to legislative changes and provision of financial and non-financial support by the State Government.
- The identification of local governments where amalgamations may be the most effective and efficient method of achieving future economic, environmental and social sustainability.
- The identification of local governments where the issues of future economic, social and environmental sustainability are more appropriately addressed by approaches other than amalgamations. In particular, the issue of future sustainability of rural and remote communities should be recognised, as well as the increased costs of governance and coordination of services.
- The procedures and processes (legislative or otherwise) which need to be adopted to facilitate the implementation of the above changes.
- Any other issues that the Board may consider are relevant to structural reform, ranging from amalgamations through to resource sharing.

b) Electoral Reforms

The report should address and provide recommendations on:

- Eligibility to vote
 - Recommendations should address whether non-residents should be able to vote, or whether eligibility should be restricted to those on the State Electoral roll, and whether people based on the number of properties they own be entitled to more than one vote per ward.
- Voting
 - Recommendations should consider the case for retaining the current system of voluntary voting.
- Type of election
 - Recommendations should address whether all local government elections should use the in-person or the postal method, or whether to allow each local government to choose the election method.
- Voting system
 - Recommendations should address whether the current system of 'first past the post' voting should be maintained, or whether preferential or proportional representation should be introduced.
- Election of Mayor or President
 - Recommendations should address whether the current discretionary system of election of the Mayor or President should remain, or whether one uniform system be adopted.
- Frequency of ordinary elections
 - Recommendations should address whether the current four-year term is appropriate and, if not, what changes should be made, or whether an all-in/all-out system should be adopted.
- Conduct of elections
 - Recommendations should address whether the current methods of conducting elections should be changed.

c) Consultation

During the course of preparing the report, the Local Government Advisory Board (the Board) should consult with the Western Australian Local Government Association (WALGA) and Local Government Managers Australia (LGMA). In addition, the Board should invite submissions from individual local governments, as well as from the wider community.

d) Reporting Date

The Board report should be submitted to the Minister for Local Government and Regional Development no later than 10 February 2006.

1.1 ESTABLISHMENT OF THE LOCAL GOVERNMENT ADVISORY BOARD

The Board is constituted under section 2.44 of the *Local Government Act 1995* (the Act). Schedule 2.5 prescribes matters such as membership of the Board and powers of inquiry. The Board's major function is to assess proposals to change local government boundaries and their systems of representation and then make recommendations to the Minister.

This review is being conducted under section 2.45 (c), where the Board may carry out any other inquiries the Minister may direct.

Membership of the Board for this review was as follows:

Cr Charlie Gregorini OAM J.P. (Chairman);
Mr Quentin Harrington (Deputy Chairman);
Cr Helen Dullard OAM;
Mayor Ron Yuryevich AM RFD and
Mr Eric Lumsden PSM.

The Board's Deputy Members also participated extensively in the review, attending hearings and meetings as required: Mayor Paddi Creevey; Cr Laurie Graham; Dr Shayne Silcox and Mr Duncan Watson. Staff support was provided by Dr Chris Berry (Review Coordinator), Mr Andrew Main, Ms Adrienne Inch and Ms Victoria Nazer. In addition, the extensive support provided by many other officers of the Department of Local Government and Regional Development (the Department) in an analytical, research and administrative capacity is acknowledged.

Under clause 7 (7) of Schedule 2.5 of the Act, a member of the Board is disqualified from acting where the Board is considering or inquiring into a matter relating to a local government of which they are a member, employee and elector. Given the scope of the inquiry it was possible that most or all members could be disqualified from acting when certain areas were being considered. The Board therefore requested, and the Minister approved, a general exemption from this clause for members and deputy members for the inquiry. The *Local Government Advisory Board Disqualification Exemption Order 2005* was published in the Government Gazette on 4 November 2005.

1.2 CONSULTATION

In keeping with the terms of reference, the Board consulted with WALGA and the LGMA. The Board also invited submissions from individual local governments, as well as from the wider community. Ten public hearings were held around the State (Appendix 1), attended by several hundred people with presentations by over 100 individuals. Advertisements for the public hearings were placed, starting with *The West Australian*, on 2 November 2005 (Appendix 2). The review was also listed on the ConsultWA website, which lists WA government consultations and aims to encourage greater public participation in government decision-making. Some local governments also assisted by listing details of the review on their website or maintaining links to the Board's website for the review. The Board wrote to an extensive list of organisations to notify them of the review and to invite their input and participation, and many organisations took up the opportunity by lodging submissions with the Board.

The closing date for submissions was Friday, 23 December 2005. A list of the 233 submissions received can be found in Appendix 3. To complement the submission process, and to get an updated picture of the extent of resource sharing and regional cooperation, the Board conducted a survey of local governments in Western Australia. A list of the 89 respondent local governments can be found in Appendix 4.

The Board met with WALGA and LGMA separately on one and two occasions respectively.

1.3 VISION FOR LOCAL GOVERNMENT STRUCTURAL REFORM

The State Government's vision for WA is to create the best opportunities for current and future generations. The State Government will work to achieve this vision in local government having regard to the principles of respect, equity, reconciliation, sustainability, inclusiveness, fiscal responsibility and accountability.

The strategic focus of the Department is an increased capacity of our multicultural communities to develop good government, economic growth, social well-being and environmental sustainability.

The vision for structural reform of local government is therefore the enhancement of the future economic, environmental and social sustainability of WA communities through a robust, responsive and sustainable structure of local government. Through structural reform, the Government of WA can better position local government to be able to meet the needs of the community through this new millennium.

The vision for structural reform of local government is consistent with the State Government's vision for the Regions:

A VISION FOR THE REGIONS

Western Australian regional communities will have strong and effective local leadership and decision-making processes.

They will be healthy, safe and enjoyable places to live and work, offering expanded and improved educational and employment opportunities for their residents and a high standard of services.

Regions will have robust, vibrant economies based on the sustainable use of economic, social and environmental resources and a strong partnership approach within and between regional communities, industry and Government.

Source: Regional Policy Statement (Government of Western Australia 2003)

2 ROLE OF LOCAL GOVERNMENT

The 1997 National General Assembly of Local Government, convened by the Australian Local Government Association, proclaimed a declaration on the role of local government

“as a standard to which all Australian governments should aspire in their efforts to achieve a more effective democratic process and secure the environmental, social and economic wellbeing of their constituents.”

Local Government Advisory Board April 2006

It acknowledged as fundamental principles that local governments are elected to represent their local communities; to be a responsible and accountable sphere of democratic governance; to be a focus for community identity and civic spirit; to provide appropriate services to meet community needs in an efficient and effective manner; and to facilitate and coordinate local efforts and resources in pursuit of community goals.

The Declaration describes 12 roles and responsibilities for Australian local governments:

1. A partner in the federal system.
2. Responsive and accountable to the local community.
3. Provide good local governance.
4. Exercise local autonomy.
5. Provide leadership and advocacy.
6. Promote active citizenship at the local level.
7. Foster local identity and civic pride.
8. Secure community cohesion.
9. Local services delivery.
10. Facilitate community development.
11. Foster regional cooperation.
12. Adapt to change.

Local government thus plays a number of roles, among them governance, service delivery and facilitation, advocacy, community development, planning, regulation. It would be useful to consider these roles in terms of how they support the sustainability of communities.

Role	Application to Sustainability
1. Governance	Decision making frameworks for sustainable communities.
2. Service delivery and facilitation	Meeting community needs and enhancing sustainability.
3. Advocacy	Advancing the interests of the community and enhancing sustainability.
4. Community development	Developing community capacity for enhancing sustainability.
5. Planning	Planning for more sustainable communities.
6. Regulation	Regulating activities to protect community values and enhance sustainability.

2.1 ROLES AND FUNCTIONS

The breadth of local government functions appears to be increasing, an observation made by the House of Representatives Standing Committee on Economics, Finance and Public Administration (SCEFPA 2003 - known as the Cost Shifting Inquiry), and in some submissions to the Board. This increase in functions reflects a number of influences, including devolution of functions from State Government, as well as a local government response to changing community needs and increasing community expectations.

An important issue for this review is how this increase in functions is impacting on the sustainability of communities and local government. It may be the case that the continuance of some functions is unsustainable, and/or that any further extension of functions is only possible by obtaining access to new revenue sources.

An important function of local government is to support and enhance the sustainability of communities. However, taking this function in the broadest sense, in delivering all of the required outcomes and services, threatens the financial sustainability of local government. To the extent a local government has the resources, even funding basic services can be a threat to its sustainability.

The 'subsidiarity' principle requires lower levels of government to be responsible for matters best addressed at the lower levels of government. To some degree, this appears to be characteristic of the current system, although there is trend for higher levels of government to devolve functions down to local government without devolving the necessary revenue capacity.

An important dimension of the reform process thus concerns the roles and functions of local government. It is an axiom of administration and management that "form follows function". It is relevant then to consider the current functions and how those functions might change in future. The Structural Reform Advisory Committee developed a checklist of local government services and functions, and this provides a useful insight into the broad role of local government (Appendix 5).

There is diversity in local government across WA, and the functions and roles of local governments should reflect local community aspirations and what it is prepared to pay to obtain services. For example, Peppermint Grove residents enjoy a more personalised rubbish collection service, by having rubbish bins collected from the rear of their properties, and they are prepared to pay extra for this level of service. Many of the activities listed in the Appendix may not be applicable to smaller, country local governments. Indeed, some small rural shires are still functioning largely as the 'road boards' that were superseded in 1960. Clearly, there is no single definition of the current role of local government.

In some jurisdictions, the roles and functions of local government have been examined as part of the reform process. Indeed, according to the principle 'form follows function', the roles and functions ought to be defined before resolving the 'form' (i.e. the structural arrangements). A number of submissions have suggested that there is a need to review functions, and in particular, extend the role of local government into areas where it could effectively deliver an efficient service. Local governments would need adequate resourcing or funding to accompany any such transfer of functions. The fragmented nature of the local government structure, with many small local governments, is however a constraint on local government playing a wider role. The Board believes that while the roles and functions of local government need to be kept under review, the structure of local government should be the current priority for enhancing the sustainability of communities.

The tension between local and higher levels of government is not the only tension. As Dr Alan Fenna submitted to the Board, local government could be said to exist for two reasons, both important:

- Local management and delivery of local services (an economic dimension).
- Local control of local decisions, in particular local amenity decisions (democratic).

He suggested that it could be argued that the first of these favours larger scale local governments, the second smaller scale local government. This being the case, it is an important consideration for structural reform.

3 LOCAL GOVERNMENT OPERATING ENVIRONMENT

Local government in WA is a major industry, employing more than 12,500 persons, with a total operating revenue in excess of \$2billion (Table 1). Local government controls substantial major infrastructure assets, and has a net asset value in excess of \$12.4 billion (Back 2006).

Table 1 Local Government Revenue and Expenditure 2004/05

Total Rate Revenue	Total Operating Revenue	Total Operating Expenditure
\$869,000,000	\$2,067,500,000	\$1,802,400,000

Source: Information returns to the WA Local Government Grants Commission

The rates paid by residential householders are the largest component of the local government rate base, followed by commercial and agricultural rates (Table 2). The mining¹ and pastoral sectors are much less significant to the local government rate base overall, although they will be very important to specific local governments. It is understood that rate revenue has increased across the sector at about 6% per annum for the last five years.

Table 2 Local Government Rate Revenue 2004/05

Rates Levied	2003/04	%
Residential ²	\$489,198,414	61.6%
Commercial	\$135,284,487	17.0%
Industrial	\$56,273,743	7.1%
Mining	\$16,267,862	2.0%
Agricultural	\$95,457,751	12.0%
Pastoral	\$1,742,412	0.2%
Total	\$794,224,670	100.0%

Source: Information returns to WA Local Government Grants Commission

¹ The above figures are the rates paid on mining tenements, and do not include the figures for rates paid on GRV rated mining infrastructure and company owned housing etc. The Board notes the comparison of the above rating figures with the value of production: in 2004 the value of agricultural production was \$6.3 billion and for mining, oil and gas \$33.2 billion.

² A few councils reported all GRV rates as residential, and did not separately identify the commercial and industrial components.

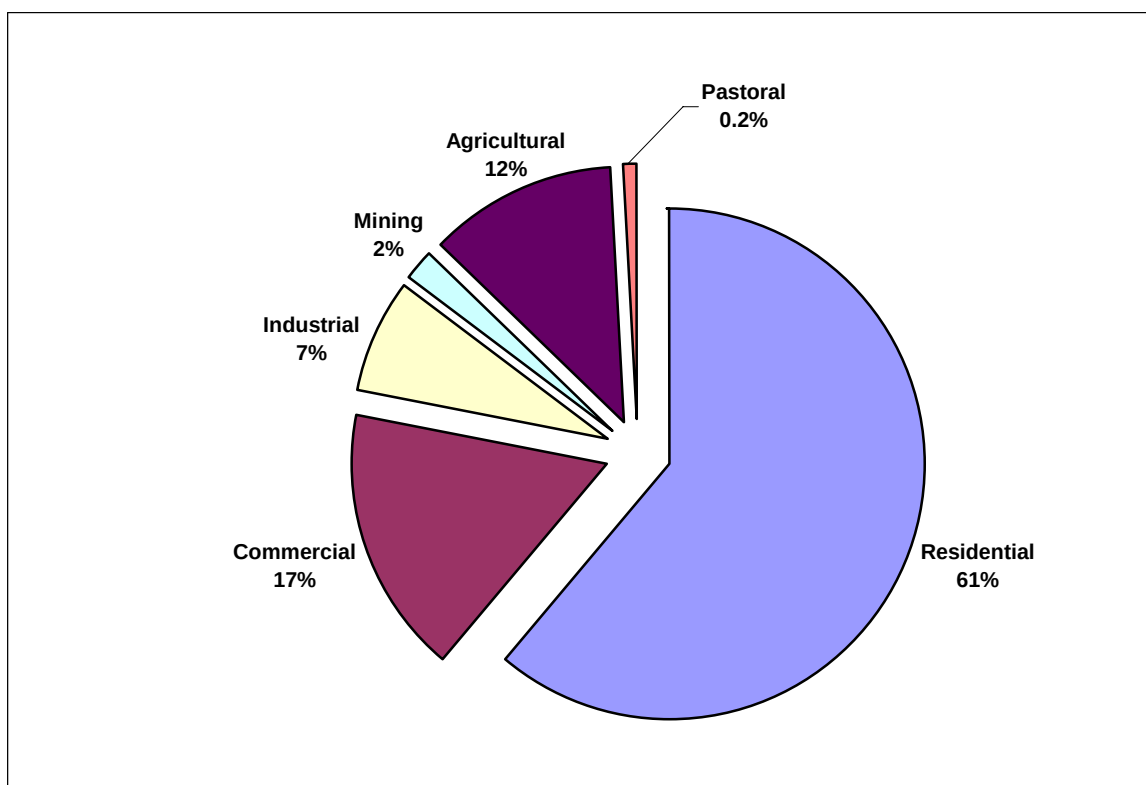


Figure 1 Total Rates Levied by WA Local Governments by Category 2003/04

Source: Local Government Information Returns to the WA Local Government Grants Commission

Note: Some local governments do not provide a breakdown of residential, commercial and industrial; so all GRV based rates are included under Residential.

Local government performs a range of roles, and this includes delivering services (or at least facilitating the delivery of services). The old descriptor was 'roads, rates and rubbish', but local government is much more complex and comprehensive today. Roads are still very important, particularly in rural areas, but services to people have increased in significance, relative to services to property.

Local government in WA is different, too, to local government in other states. WA has the highest per capita expenditure in the country for law and order and public safety, and for recreation and culture, and is second highest for transport. WA has the lowest per capita expenditure for housing, community amenities, and general public services³ (Table 3).

³ These differences may reflect different accounting treatments in each State, in respect to the allocation of administration costs to other functions.

Table 3 Local Government Net Expenditure per Capita by Function 2003/04 (\$)

Expenditure Category	NSW	VIC	QLD	SA	WA	TAS	NT	Average
General public services	145	89	217	109	86	145	500	185
Public order and safety	28	16	19	10	32	10	15	19
Education	1	8	1	0	6	0	5	3
Health	10	24	12	14	16	27	35	20
Social security and welfare	44	121	14	35	41	35	35	47
Housing and community amenities	206	149	384	151	136	413	340	254
Recreation and culture	124	145	126	128	194	137	140	142
Transport and communications	216	185	302	181	284	261	170	228
Other economic affairs	39	37	23	37	20	23	250	61
Public debt transactions	13	9	46	18	7	19	0	16
Other purposes	27	40	13	43	25	33	0	26
Total	870	832	1,183	747	862	1,103	1,536	1,019

Source: Australian Bureau of Statistics

The operating environment of local government in Australia today might be described for most local governments as being an uncomfortable squeeze between rising community expectations, increasing responsibilities and compliance requirements,⁴ constrained revenues and shortages of skilled staff. These issues have been highlighted by various authorities and reports, including the Commonwealth Grants Commission's (CGC) review of financial assistance grants (2001) and the Commonwealth's Cost Shifting Inquiry (SCEFPA 2003).

Local government in WA and elsewhere, is facing strong financial pressures in which it is unable to meet the increasing needs of the community it serves as well as managing the large amounts of infrastructure that will need replacing or renewing in the near future. The CGC review noted that local governments had identified five main reasons for financial stress in local government:

- "(i) devolution — where another sphere of government gives local government responsibility for new functions⁵;*
- (ii) 'raising the bar' — where another sphere of government, through legislative or other changes, increases the complexity of, or standard at which, a local government service must be provided, and hence increases its cost;*
- (iii) cost shifting — where there were two types of behaviour. The first is where local government agrees to provide a service on behalf of another sphere of government but funding is subsequently reduced or stopped, and local government is unable to withdraw because of community demand for the service. The second is where, for whatever reason, another sphere of government ceases to provide a service and local government steps in;*
- (iv) increased community expectations — where the community demands improvements in existing local government services; and*
- (v) policy choice — where individual local governments choose to expand their service provision."* (CGC 2001: 52-53)

The CGC noted local government claims that change in responsibilities had been occurring at an increasing rate (CGC 2001: 53), while Johnson claims community expectations of local government are also increasing at an exponential rate (Johnson

⁴ One participant suggested that there were 477 pieces of legislation and regulation to which local government must comply.

⁵ Functions can be taken away, but this has not been the trend.

2003). One consequence of this is the stretching of local government resources, and these can only be stretched so far, resulting in deterioration in local infrastructure, running down of reserves, lack of provision for asset replacement, and a reduction in the provision for major maintenance items (Johnson 2003).

The financial pressure on local government was a consistent theme among submissions received by the Board for this review from local government. For example, the Town of Cottesloe suggested that recognition needs to be given to the pressures placed on local government by higher levels of government, and that structural reform of itself would be incapable of solving the basic economic problems that reportedly confront many local governments. Similarly, the Shire of Dowerin submitted that *“local governments grappling to deliver affordable services to their communities with limited revenue streams in an environment where State and Federal governments continue to enjoy budget surpluses indicates that the scope of reform needs to be broader than just local government.”* One local governments CEO suggested to the Board at the Canning hearing that many local governments had tended to hide the impact of cost shifting by neglecting their infrastructure.

Finance is not the only problem. There are other operational and community problems as well. Some local governments struggle to recruit and retain appropriately skilled staff. Many local governments struggle to sustain their local community as populations shrink and businesses and government services are closed or downsized. This demographic stress compounds the financial stress of local government, as shrinking rate bases or a shrinking number of volunteers impact on the provision and maintenance of services and facilities.

Despite these problems, local government has paradoxically perhaps never been more important for the community, particularly in rural areas. Faced with such problems, the advocacy and lobbying role of local government has become more important, and local governments are taking on broader roles in service delivery and facilitation. Now, more than ever, local government is the sphere of government closest to the people. Some rural local governments suggested to the Board there was scope for them to take over local service management in health and education, provided there was appropriate and guaranteed state or federal government funding; this same observation has been made by the LGMA in NSW (2003). Local government needs to be able to respond to the changes in the governmental, social and economic context in which it operates.

While there has been structural reform in most Australian States, Kiss (2003) argues that despite these interventions and adjustments, local government has not been effectively reformed or positioned to meet the needs of the new millennium. In this current review, with its emphasis on sustainability, the Board seeks to position local government to be able to meet the needs of the community for the new millennium.

What does sustainability mean for local government and the communities they serve? This issue is addressed in the next section.

4 SUSTAINABILITY OF COMMUNITIES

The focus of the current review is the future economic, environmental and social sustainability of communities. It will be noted that the Board's Guiding Principles make no specific reference to sustainability, although the principle *matters affecting the viability of local government* does include some related components. It is interesting that the word 'sustainability' does not appear in the 1995 report of the Structural Reform Advisory Committee, the last general review of local government in WA, although the term 'viability' is used, and viability criteria for local governments were suggested. The direct application of sustainability to local government then appears to be a more recent phenomenon, although the concept of sustainable development traces its roots to the 1987 report of the World Commission on Environment and Development (the Brundtland Commission).

Threats to the Sustainability of Communities

The terms of reference for the Board's current review are explicit about economic, environmental and social sustainability, but related elements implicit in the terms of reference include:

- Community sustainability.
- Population sustainability.
- The financial sustainability of local government.
- The organisational or corporate sustainability of local government.

These concepts need to be put in context, and will be explored later in this report.

There was substantial support from participants for this review's emphasis on sustainability. The City of Gosnells submitted, for example, that an assessment of local government performance in relation to sustainability, particularly focusing on the appropriateness of the current structure to this end, would be a worthwhile outcome of the review.

Consistent with the State Sustainability Strategy (2003) and Government policy to integrate sustainability into all legislation, the Act provides for

- "(1) ...a system of local government by —
- (a) providing for the constitution of elected local governments in the State;
 - (b) describing the functions of local governments;
 - (c) providing for the conduct of elections and other polls; and
 - (d) providing a framework for the administration and financial management of local governments and for the scrutiny of their affairs.
- (2) This Act is intended to result in —
- (a) better decision-making by local governments;
 - (b) greater community participation in the decisions and affairs of local governments;
 - (c) greater accountability of local governments to their communities; and
 - (d) more efficient and effective local government.

(3) In carrying out its functions a local government is to use its best endeavours to meet the needs of current and future generations through an integration of environmental protection, social advancement and economic prosperity.”

The latter provision, assented to in November 2004, makes it clear that the functions of local government need to have regard to environmental outcomes. In carrying out their functions, local governments will need to use their best endeavours to meet the needs of current and future generations through integration of environmental protection, social advancement and economic prosperity. This means that, in essence, sustainability has become a function of local government. This function will be delivered to the community through the (legislatively required) plan for the future, which is essentially a strategic plan, with a framework based on the sustainability strategy.

4.1 STATE SUSTAINABILITY STRATEGY

Sustainability involves new ways of doing business in a manner that protects economic, social and environmental capital into the future. Premier Gallop, in an address to an International Sustainable Development conference in Fremantle in September 2003, stated that *‘sustainability requires that we develop new skills, new structures, new ways of doing things.’* This is an important message for this inquiry.

The Western Australian State Sustainability Strategy defines sustainability as

“... meeting the needs of current and future generations through an integration of environmental protection, social advancement and economic prosperity.”
(2003:12)

Notwithstanding the above definition, there is a lack of consensus on the definition of sustainability, and communities will generally contest the relative emphasis given to economic growth, social justice and environmental protection. Sustainability is subject to multiple interpretations within communities, and involves compromise and tradeoffs among economic, environmental and social outcomes. Sustainability involves:

- *“Balance and compromise among economic, environmental and social priorities;*
- *Refers to progress towards a preferred future, a relative concept;*
- *Definitions are socially contested, people have different priorities;*
- *Implies equity within society and future generations (intra/intergenerational).”*
(Cocklin and Alston 2003:3-4).

Key sustainability issues are different in different parts of the State. In the Wheatbelt Region of WA, for example, 4.4 million hectares are affected by dryland salinity, or at risk of further salinisation, and this could double over the next 50 years (Sustainability Strategy 2003:23). Salinity is now damaging built environments, including roads, buildings and gardens in country towns (Tonts 2005). In the metropolitan area, the major issues for sustainability are managing growth with concern for biodiversity, wetlands, water resources, waste management, air quality, and transport. For many coastal settlements, the challenge for a sustainable future is in managing growth. The State of the Environment Report (Government of Western Australia 1998) highlighted problems existing in land, water and air resource management. Issues such as dryland salinity, eutrophication of waterways and air pollution in urban areas highlighted deficiencies in management regimes of resource agencies and unsustainable practices. These trends are impacting on the natural capital available to the community.

The Western Australian State Sustainability Strategy, released in September 2003, was developed in response to these issues, and provides the foundations for the Board's review. The State Sustainability Strategy is centred on eleven principles:

"FOUNDATION PRINCIPLES"

Long-term economic health

Sustainability recognises the needs of current and future generations for long-term economic health, innovation, diversity and productivity of the earth.

Equity and human rights

Sustainability recognises that an environment needs to be created where all people can express their full potential and lead productive lives and that significant gaps in sufficiency, safety and opportunity endanger the earth.

Biodiversity and ecological integrity

Sustainability recognises that all life has intrinsic value and is interconnected, and that biodiversity and ecological integrity are part of the irreplaceable life support systems upon which the earth depends.

Settlement efficiency and quality of life

Sustainability recognises that settlements need to reduce their ecological footprint (i.e. less material and energy demands and reduction in waste), while they simultaneously improve their quality of life (health, housing, employment, community...)

Community, regions, 'sense of place' and heritage

Sustainability recognises the significance and diversity of community and regions for the management of the earth, and the critical importance of 'sense of place' and heritage (buildings, townscapes, landscapes and culture) in any plans for the future.

Net benefit from development

Sustainability means that all development, and particularly development involving extraction of non-renewable resources, should strive to provide net environmental, social and economic benefit for future generations.

Common good from planning

Sustainability recognises that planning for the common good requires equitable distribution of public resources (like air, water and open space) so that ecosystem functions are maintained and a shared resource is available to all.

PROCESS PRINCIPLES***Integration of the triple bottom line***

Sustainability requires that economic, social and environmental factors be integrated by simultaneous application of these principles, seeking mutually supportive benefits with minimal trade-offs.

Accountability, transparency and engagement

Sustainability recognises that people should have access to information on sustainability issues, that institutions should have triple bottom line accountability, that regular sustainability audits of programs and policies should be conducted, and that public engagement lies at the heart of all sustainability principles.

Precaution

Sustainability requires caution, avoiding poorly understood risks of serious or irreversible damage to environmental, economic or social capital, designing for surprise and managing for adaptation.

Hope, vision, symbolic and iterative change

Sustainability recognises that applying these principles as part of a broad strategic vision for the earth can generate hope in the future, and thus it will involve symbolic change that is part of many successive steps over generations."

State Sustainability Strategy (2003:29-30)

The above principles can be applied to any sustainability issue, and can also be applied, to a greater or lesser degree, to the current review. The State Sustainability Strategy also defines a set of visions for the practical application of these principles.

Box 1 State Sustainability Strategy: Sustainability Visions for Western Australia**“Governance**

Western Australia’s system of governance is world famous for responding to sustainability issues, implementing effective and financially responsible programs, supporting transparent and inclusive processes and reflecting the State’s globally significant responsibilities towards the land and its people.

Global contributions

Western Australia contributes to the solution of global sustainability issues particularly population pressures and poverty, climate change, threats to biodiversity, and oil vulnerability and in so doing creates significant local opportunities for new jobs in the rapidly growing sustainability economy.

Natural resources

Western Australia’s vast landscape and seascape, intricate web of biodiversity and other natural resources are conserved, managed and used sustainably for the common good, and the community is involved in management and planning processes that are transparent and visionary.

Settlements

Western Australia’s settlements are among the most attractive places to live in the world, constantly becoming more innovative and efficient in their use of resources and management and use of wastes while simultaneously being more liveable and equitable.

Community

Western Australian communities in cities and in regions have a strong sense of place and supportive networks receptive to the diversity of local needs, and through this can respond uniquely to the sustainability agenda.

Business

Western Australian businesses, large and small, are globally innovative and receptive, leading to the resolution of sustainability issues at home and abroad and achieving competitive advantage and prosperity.”

Source: State Sustainability Strategy (2003:32)

4.2 SUSTAINABILITY GOALS AND PRIORITY ISSUES FOR GOVERNMENT

The State Sustainability Strategy has six goals which together guide government action towards achieving the visions for a sustainable WA. The priority areas for sustainability in WA are listed under each goal. The domain and role of local government intersects across many of these goals and priority areas.

“Goal 1 Ensure that the way we govern is driving the transition to a sustainable future

- *Sustainability assessment*
- *Institutional change*
- *Embracing sustainability in government agencies*
- *Partnerships for action*
- *Planning for sustainability*
- *Sustainability in the regions*
- *Indigenous communities and sustainability*
- *Research and development for sustainability*
- *Measuring and reporting on sustainability*

Goal 2 Play our part in solving the global challenges of sustainability

- *Population, development aid and environmental technology*
- *Maintaining our biodiversity*
- *Responding to greenhouse and climate change*
- *Oil vulnerability, the gas transition and the hydrogen economy*

Goal 3 *Value and protect our environment and ensure the sustainable management and use of natural resources*

- *Sustainable agriculture*
- *Sustainable fisheries and aquaculture*
- *Sustainable forestry and plantations*
- *Sustainable mining and petroleum production*
- *Sustainable tourism*
- *Protecting drinking water and aquatic systems*
- *Sustainable coastal and marine environments*
- *Sustainable rangelands management*

Goal 4 *Plan and provide settlements that reduce the ecological footprint and enhance quality of life at the same time*

- *Managing urban and regional growth*
- *Revitalising declining centres and suburbs*
- *Sustainable urban design*
- *Integrating land use and balanced transport*
- *Managing freight and regional transport*
- *Preserving air quality*
- *Reducing waste and managing it as a resource*
- *Our water future*
- *Sustainable energy*
- *Conserving cultural heritage and landscapes and creating 'sense of place'*
- *Building sustainably*

Goal 5 *Support communities to fully participate in achieving a sustainable future*

- *Community services and development*
- *Housing and sustainability*
- *Sustaining healthy communities*
- *Education and community awareness for sustainability*
- *Sustainability through culture and the arts*
- *Sustainability through multiculturalism*

Goal 6 *Assist business to benefit from and contribute to sustainability*

- *Training and facilitation for sustainability*
- *Financial reform and economic policy for sustainability*
- *Eco-efficiency and industrial ecology*
- *Corporate social responsibility and industry sustainability covenants"*

Source: State Sustainability Strategy (2003:33)

4.3 SUSTAINABILITY ASSESSMENT

Given the principles, visions and goals of the State Sustainability Strategy, the challenge for the Board in assessing structural reform of local government is to enhance the sustainability of communities. In essence, the Board has been asked to examine local government through a sustainability lens. The sustainability assessment approach, outlined in the Strategy, was considered by the Board to be the appropriate approach. This however is a new and evolving concept, and

intended for a different type of purpose, so it was a challenge for the Board to develop and adapt this technique for a review of the type it was asked to undertake.

There are many techniques to aid decision-making that integrate social, economic and environmental factors and can incorporate the principles of sustainability, and there is no single preferred approach. The triple bottom line is also an interpretation of sustainability (Pope 2003). Sustainability assessment is emerging as a way to improve decision-making on major, complex or strategic projects with opportunities for public engagement and consultation. It only offers the potential to resolve apparently deep conflicts and minimise potentially harmful impacts and has the potential to provide clear, positive benefits. It is a new paradigm in assessment and therefore requires a new framework to be developed.

To be sustainable, settlements require integration of environmental, social and economic dimensions (Sustainability Strategy 2003:167). A sustainability assessment approach is about integrating social and economic issues with environmental concerns, working through the issues in a transparent way to find integrated solutions where trade-offs are minimised wherever possible.

There will always be some local impacts from any change that can alter the environment, the community and the economy. Assessment processes aim to ensure that these are managed and acceptable. Sustainability assessment goes beyond local changes and demonstrates how net benefit can be achieved in environmental, social and economic terms, as a total package.

There are of course some tensions in such an approach for local government structural reform. For example, changes to local government boundaries might be perceived as having a negative impact on sense of place or community. This may be real, or may be exaggerated, but ultimately some negative impact may be an inevitable trade-off against other environment or economic or other social benefits of a boundary change.

Box 2 Criteria for Sustainability Assessment

Promoting the positive

- Provides both short and long-term economic gain.
- Increases access, equity and human rights in the provision of material security and effective choices.
- Improves biodiversity and ecological integrity and builds life support systems.
- Reduces ecological footprint while improving quality of life.
- Builds up community and regions, 'sense of place' and heritage protection.
- Provides conservation benefit and net social economic benefit.
- Increases 'common good' resources
- Ensures there are acceptable levels of risk with adaptation processes for the worst scenarios.
- Brings change and a sense of hope for the future as it is linked to a broader strategic vision.

In this review, sustainability assessment involves gathering information about the impact of changes in local government structure against relevant sustainability principles and government goals. Once that information has been collected, an assessment can be made as to whether the change has an overall net benefit relative to other alternatives. It is recognised that some changes to local government structure may have an adverse impact on some sustainability principles and that some trade-offs are inevitable. In short, a structural reform will be acceptable as long as it does not compromise the government's ability to achieve sustainability outcomes and it has greater net benefit than alternatives when all relevant economic, social and environmental factors are taken into account.

The role of local government in sustaining local communities

The State Sustainability Strategy notes that local government plays a critical role in planning and decision-making for sustainability and many sustainability issues are best addressed at this level (2003:37). Chapter 28 of Agenda 21 considered the role of local authorities in supporting sustainability. This initiative has become known as Local Agenda 21 and has provided the framework and driver for much action by local government around the world. To date, 15 WA local governments have formally committed to a Local Agenda 21 process, including the Cities of Fremantle, Armadale, Mandurah, Nedlands, Subiaco, Stirling, Joondalup and Cockburn, the Shire of Serpentine-Jarrahdale and the Town of Cottesloe. Many local governments have also been actively involved in initiatives such as Cities for Climate Protection and the Perth Biodiversity Project.

The Strategy noted issues for local government included the development of planning legislation to enable sustainability principles and processes to be incorporated into statutory processes at the local level, and how Regional Councils could be used to address sustainability issues. The Strategy signals the importance of a regional local government approach for some issues, such as stormwater management in urban areas. The Strategy calls for projects to provide sustainability gains for country towns – to strengthen local economies, increase social capital, and make more sustainable use of existing infrastructure and services.

The process for implementation of the State Sustainability Strategy includes the Sustainability Roundtable, which includes significant input from local government. The Roundtable has facilitated Partnership Projects between local and State government, e.g. the Maddington Kenwick Sustainable Communities Initiative with the City of Gosnells and the Community Planning Strategy with the City of Swan. A State/Local Government Sustainability Partnership Agreement has been drafted, the purpose of which is to enhance the capacity of local communities, individually and collectively, to address and contribute to achieving community sustainability, through cooperation and collaboration between state and local government in addressing sustainability issues of common interest. A number of individual sustainability agreements have already been signed, including Albany, Geraldton and Joondalup, and an agreement has been drafted for Esperance.

Sustainability is a theme running through the *Network city*, the new strategic framework for guiding the development of the Perth and Peel region. This region is expected to have a population of about 2 million in 2021 (Western Australian Planning Commission 2005b). The Western Australian State Sustainability Strategy provides the context for the *Network city*, and the document aims to move to the next phase and establish clear, concise directions and objectives for the future. The

document acknowledges that the understanding of what is needed in order to create a sustainable city has changed since previous metropolitan strategies, so there is a need to plan for different outcomes. The plan is based on eight fundamental principles:

1. Manage growth by sharing responsibility between industry, communities and government.
2. Make fuller use of urban land.
3. Plan with communities.
4. Nurture the environment.
5. Encourage public over private transport.
6. Strengthen local sense of place.
7. Develop strategies which deliver local jobs.
8. Provide for affordable housing.

These are worthwhile principles for all local governments, not just those in the Perth and Peel Region, and their adoption by local governments would enhance the future economic, environmental and social sustainability of WA communities.

Sustainability has been adopted as an objective by governments in many jurisdictions. In the UK, the Office of Deputy Prime Minister (ODPM) has put a strategic emphasis on 'creating sustainable communities', guided by the Plan *Sustainable Communities: Building for the future* that was launched in 2003. It outlines a £38 billion programme of action for economic, social and environmental development in both urban and rural areas in England. The ODPM's aim is 'to create prosperous, inclusive and sustainable communities for the 21st century, places where people want to live, that promote opportunity and a better quality of life for all.' In this UK initiative, sustainable communities should provide decent homes at prices people can afford, good public transport, schools, hospitals, shops, and a clean, safe environment. People also need open public space where they can relax and interact and the ability to have a say on the way their neighbourhood is run. A detailed description of the components of sustainable communities, from ODPM, can be found in Box 3.

"Sustainable communities are places where people want to live and work, now and in the future. They meet the diverse needs of existing and future residents, are sensitive to their environment, and contribute to a high quality of life. They are safe and inclusive, well planned, built and run, and offer equality of opportunity and good services for all. Sustainable communities embody the principles of sustainable development, balancing and integrating the social, economic and environmental components of their community, meeting the needs of existing and future generations, and respect the needs of other communities in the wider region or internationally also to make their communities sustainable."

(ODPM 2006)

In a similar vein, the Victorian Local Sustainability Accord is a partnership agreement between the Victorian State Government and local governments on environmental sustainability. The Accord aims to increase the effectiveness of State and local environmental sustainability programs and foster more consistent development of environmental policies and legislation.⁶ The Accord establishes Local Environmental

⁶ See <http://www.dse.vic.gov.au>

Sustainability Priority Statements as a basis for funding local government environmental sustainability capacity, allocated under the Sustainability Fund.

Box 3 The Components of a Sustainable Community

Source: <http://www.odpm.gov.uk/>

(1) ACTIVE, INCLUSIVE AND SAFE – Fair, tolerant and cohesive with a strong local culture and other shared community activities.

Sustainable communities offer:

- a sense of community identity and belonging
- tolerance, respect and engagement with people from different cultures, background and beliefs
- friendly, co-operative and helpful behaviour in neighbourhoods
- opportunities for cultural, leisure, community, sport and other activities, including for children and young people
- low levels of crime, drugs and antisocial behaviour with visible, effective and community-friendly policing
- social inclusion and good life chances for all.

(2) WELL RUN - with effective and inclusive participation, representation and leadership

Sustainable communities enjoy:

- representative, accountable governance systems which both facilitate strategic, visionary leadership and enable inclusive, active and effective participation by individuals and organisations
- effective engagement with the community at neighbourhood level, including capacity building to develop the community's skills, knowledge and confidence
- strong, informed and effective partnerships that lead by example (e.g. government, business, community)
- strong, inclusive, community and voluntary sector
- sense of civic values, responsibility and pride.

(3) ENVIRONMENTALLY SENSITIVE - providing places for people to live that are considerate of the environment

Sustainable communities:

- actively seek to minimise climate change, including through energy efficiency and the use of renewables
- protect the environment, by minimising pollution on land, in water and in the air
- minimise waste and dispose of it in accordance with current good practice
- make efficient use of natural resources, encouraging sustainable production and consumption
- protect and improve bio-diversity (e.g. wildlife habitats)
- enable a lifestyle that minimises negative environmental impact and enhances positive impacts (e.g. by creating opportunities for walking and cycling, and reducing noise pollution and dependence on cars)
- create cleaner, safer and greener neighbourhoods (e.g. by reducing litter and graffiti, and maintaining pleasant public spaces).

(4) WELL DESIGNED AND BUILT - featuring quality built and natural environment

Sustainable communities offer:

- sense of place - a place with a positive 'feeling' for people and local distinctiveness
- user-friendly public and green spaces with facilities for everyone including children and older people
- sufficient range, diversity, affordability and accessibility of housing within a balanced housing market
- appropriate size, scale, density, design and layout, including mixed-use development, that complement the distinctive local character of the community
- high quality, mixed-use, durable, flexible and adaptable buildings, using materials which minimise negative environmental impacts
- buildings and public spaces which promote health and are designed to reduce crime and make people feel safe
- accessibility of jobs, key services and facilities by public transport, walking and cycling.

(5) WELL CONNECTED - with good transport services and communication linking people to jobs, schools, health and other services

Sustainable communities offer:

- transport facilities, including public transport, that help people travel within and between communities and reduce dependence on cars
- facilities to encourage safe local walking and cycling
- an appropriate level of local parking facilities in line with local plans to manage road traffic demand
- widely available and effective telecommunications and Internet access
- good access to regional, national and international communications networks.

(6) THRIVING - with a flourishing and diverse local economy

Sustainable communities feature:

- a wide range of jobs and training opportunities
- sufficient suitable land and buildings to support economic prosperity and change
- dynamic job and business creation, with benefits for the local community
- a strong business community with links into the wider economy
- economically viable and attractive town centres.

(7) WELL SERVED - with public, private, community and voluntary services that are appropriate to people's needs and accessible to all

Sustainable communities have:

- Well-performing local schools, further and higher education institutions, and other opportunities for lifelong learning
- high quality local health care and social services, integrated where possible with other services
- high quality services for families and children (including early years child care)
- good range of affordable public, community, voluntary and private services (e.g. retail, fresh food, commercial, utilities, information and advice) which are accessible to the whole community
- service providers who think and act long-term and beyond their own immediate geographical and interest boundaries, and who involve users and local residents in shaping their policy and practice.

(8) FAIR FOR EVERYONE - including those in other communities, now and in the future

Sustainable communities:

- recognise individuals' rights and responsibilities
- respect the rights and aspirations of others (both neighbouring communities, and across the wider world) also to be sustainable
- have due regard for the needs of future generations in current decisions and actions.

A recent (2005) House of Representatives Environment and Heritage Committee report on Sustainable Cities recognises the crucial role local government plays in the creation of sustainable cities, and makes an urgent call for sustainable urban development to be placed at the forefront of government agendas.

Triple Bottom Line (TBL) reporting is becoming an accepted approach for organisations to demonstrate they have strategies for sustainable growth. It focuses on decision-making and reporting which explicitly considers an organisation's economic, environmental and social performance. As such, TBL can be seen as both an internal management tool and an external reporting framework. The Global Reporting Initiative (GRI) provides social, environmental and economic indicators within sustainability reporting guidelines, and has emerged as the internationally accepted framework for sustainability reporting. It is widely supported by Australian organisations, including the City of Gosnells.

Sustainability can also be considered a key aspect of good governance. Good governance has many components (accountability, responsiveness, participatory, equity and inclusiveness, effectiveness and efficiency (Municipal Association of Victoria 2004)). Many local governments are already showing governance leadership in implementing sustainability, including the implementation of sustainability assessment in urban planning, and the development of sustainability indicators. A Municipal Association of Victoria survey (2002) found 23 types of issue specific or general environmental strategies. Most widespread were plans for waste management, litter minimisation, roadside conservation and stormwater management, local conservation strategies, native vegetation mapping, open space, greenhouse strategies, and purchasing plans. Least common were environment management systems, state of the environment reports, wetlands policies, domestic wastewater plans, salinity plans and neighbourhood environment improvement plans. Metropolitan local governments (63%) were more likely to have developed overarching environmental strategies, compared to rural (15%), the cost of funding core environment staff being a major barrier.

The preparation of plans for the future by local governments in WA will complement local government activities in these areas, but the plans will not achieve sustainable outcomes on their own. To a large degree, the capacity of a local government to incorporate sustainability into their decision-making will be constrained by resources, particularly their financial capacity and human resources. Many urban local governments, which have the resources to do so, have already adopted the sustainability agenda, but this is much less so in rural areas. In rural areas, the delivery of natural resource management (NRM) on a regional basis to protect natural capital provides a framework for incorporating natural resource considerations into local government decision-making processes.

As has been remarked elsewhere, there is generally little correspondence between the geographic area of ecosystems and the boundaries of government institutions including local governments. This fragmentation of natural and local government areas is seen by some as preventing the required level of commitment to sustainable development (Jepson 2005).

As mentioned above, many local governments are already showing governance leadership in implementing sustainability, including the implementation of sustainability assessment in urban planning. The Town of Kwinana has a *Smart*

Growth Strategy. The City of Wanneroo's *Smart Growth Strategy* (2005), for example, adopts the State Sustainability Strategy approach of seeking an effective integration of environmental, social and economic goals. The strategy does not however necessarily foresee that this integration in itself will lead to the city being sustainable, given the reality that population will continue to grow at a significant rate for many years to come.

4.4 FINANCIAL SUSTAINABILITY OF LOCAL GOVERNMENT

Financial sustainability is a critical issue for local government, and is particularly topical, having been the subject of a study in South Australia in 2005, with studies currently underway in New South Wales, and recently commenced in WA under the auspices of WALGA. Key issues impacting on financial sustainability include local government revenue autonomy, debt levels and servicing, infrastructure maintenance and replacement requirements, and the impacts of cost shifting.

In general terms the SA inquiry (Financial Sustainable Review Board 2005) found that local governments have, in recent years, put community needs and demands for services ahead of their own financial sustainability and that this could not continue. That inquiry also found that local governments have very low net debts but extraordinarily large amounts of community infrastructure that is slowly decaying without the level of maintenance and renewal funding required. In aggregate, local governments spend less on the renewal or replacement of their existing assets than these assets depreciate each year, accumulated into an infrastructure renewal/replacement backlog that is estimated to be in excess of \$300 million for the past 10 years. Local governments with operating deficits currently or prospectively in excess of 10% of their rates revenue were, for the purposes of the Inquiry, classified as financially unsustainable. Thirty-three local governments in SA were classified as either unsustainable or vulnerable. These local governments account for just over 50% of the State's population. One local government finance expert believes there is evidence that this situation may be common to a number of states (Morton 2005). This situation is reflective too of the fact that local government as a sector has generally been reluctant to set its rates at higher levels that would allow it to be more sustainable in the long term (Johnson 2003). Another observer suggests that Australian local government is 10 to 15 years behind New Zealand, in terms of rigorous long-term financial planning and asset management (Sansom 2006).

The SA inquiry recommended a standard definition of 'financial sustainability':

"A council's long-term financial performance and position is sustainable where:

- (i) continuation of the council's present spending and funding policies;*
- (ii) likely developments in the council's revenue-raising capacity and in the demand for and costs of its services and infrastructure; and*
- (iii) normal financial risks and financial shocks altogether are unlikely to necessitate substantial increases in council rates (or, alternatively, disruptive service cuts)."*

The Independent Inquiry in NSW, due to be completed by April 20, 2006,⁸ has taken a broader approach, which includes financial sustainability, as well as surveys of community views of local government, an examination of the statutory obligations, along with the administrative capacity. This leads to the notion of organisational or corporate sustainability. A study of the present condition and management of infrastructure undertaken for the NSW sustainability inquiry found a \$6.3bn backlog in local government infrastructure. The survey also found:

- *“The infrastructure backlog is \$6.3bn, or 13% of total asset value.*
- *Councils require \$14.6bn over the next 15 years for asset replacement over and above maintenance requirements.*
- *This is double the rate of current expenditure.”* (Roorda 2006)

Premier Carr of NSW previously defined an unviable local government as one with fewer than 5000 residents and less than \$10M revenue per annum (Legislative Council of New South Wales 2003:11).

WALGA notes there is no evidence to suggest that a similar situation does not exist in WA. Further, the historic absence of any significant structural reform based on economy of scale theories would seem to indicate that the situation may, in fact, be statistically worse in WA (WALGA 2005). WALGA has commenced its own major research project on the sustainability of the local government sector in WA and has appointed an independent Governance Panel to conduct the study. It is expected that this report will be available by August 2006. This study's terms of reference are:

“to inquire into, report and provide recommendations to the Association (and State Government) on:

- *Contemporary social communities of interest, environmental catchments and economic clusters to help define the Local Government arrangements (both structural and functional) that would best facilitate sustainable service delivery;*
- *Local Government infrastructure assets, including compilation of a state-wide inventory of all such assets, their gross value, method of depreciation, replacement timing, cost of maintenance and other relevant matters identified by the Inquiry;*
- *The adequacy of existing Local Government funding mechanisms, such as rates, debt, fees and charges, fines and the desirability of mechanisms identified from other jurisdictions, such as developer levies, product sales, business activities or other mechanisms or trends identified by the Inquiry;*
- *The economic capacity of the existing Local Government structure to fund the service and infrastructure obligations it currently has and to recommend how any deficit might be addressed;*
- *Current and expected future labour market issues impacting on the sector and what strategies might be adopted to address these issues; and*
- *Recent and expected future demographic trends and their likely impact on the Local Government sector and associated strategies to deal with them.”*

⁸ The *Interim Report* of the Independent Inquiry into the Financial Sustainability of NSW Local Government was released on 3 March 2006, just as this report was being finalised.

The Board commissioned its own analysis of the financial sustainability of local governments in WA, and the findings of this study will be presented later in this report.

Asset management is a topical subject. A *Study into Infrastructure Asset Conditions in South Australia* (Burns et al 2001) found that most local governments will need to double their renewal spending now and provide for much larger renewal spending in the next 10-15 years. This will be difficult, given that community pressure is to keep rates low and to spend on new assets, rather than spend on maintenance or renewal of existing assets. *"A radical change in the way assets are managed is essential"* (Burns et al 2001). Some local governments have under-utilised and over maintained roads, maintaining them more out of custom than for current traffic need. Further, some single user roads should be seen as an opportunity for privatisation and a strategy for reducing infrastructure requirements (National Economics 2005).

Borrowing can be used to spread costs over the life of infrastructure and avoid renewal peaks and troughs. The low levels of debt raise concerns about intergenerational equity, particularly for long lived infrastructure assets. Low levels of borrowings can be inappropriate where projects are funded through rate increases and thus current ratepayers bear the costs of the benefits for future ratepayers. Debt financing allows the cost of such projects to be shared between present and future generations (Independent Inquiry into the Financial Sustainability of Local Government in NSW 2005).

The Board noted from its survey of local government that not all local governments have a strategic plan (despite this being a legislative requirement), and the extent to which local governments had developed long term financial plans, detailed management plans and asset management plans was quite poor across the industry.

Table 4 Local Government Forward Planning in WA

a. Strategic plan or long term forward plan								
Yes	%	No	%	No Response	%	In development	%	TOTAL
75	85%	13	15%	0				88
b. Long term Financial Plan (covering at least the next 10 years)								
Yes	%	No	%	No Response	%	In development	%	TOTAL
22	25%	62	70%	1		3	3%	88
c. Detailed business plan (covering between 3 and 5 years)								
Yes	%	No	%	No Response	%	In development	%	TOTAL
31	35%	52	59%	5	6%			88
d. Detailed asset management/replacement plan								
Yes	%	No	%	No Response	%	In development	%	TOTAL
51	58%	31	35%	4	5%	2	2%	88

Source: Local Government Advisory Board; Survey Results: Issues Related to Local Government Structural Reform; December 2005

Significantly, the percentage of local governments responding that they had an adequate financial base from existing revenue sources has increased from a similar survey undertaken by SRAC in 1995, although the percentage of local governments responding that the financial base would be adequate if financial assistance grants ceased or were dramatically reduced has remained at 20% overall.

Table 5 Survey Responses – Adequacy of Financial Base

1995	Adequate financial base from existing revenue sources				Adequate financial base if financial assistance grants ceased or were dramatically reduced			
	Yes		No		Yes		No	
Total	54	64%	31	36%	17	20%	67	80%
Metro	14	88%	2	13%	10	63%	6	38%
Country	40	58%	29	42%	7	10%	61	90%
2005	Adequate financial base from existing revenue sources				Adequate financial base if financial assistance grants ceased or were dramatically reduced			
	Yes		No		Yes		No	
Total	62	71%	25	29%	18	21%	67	79%
Metro	17	81%	4	19%	11	55%	9	45%
Country	45	68%	21	32%	7	11%	58	89%

Source: Local Government Advisory Board; Survey Results: Issues Related to Local Government Structural Reform; December 2005

In WA then, as for Queensland (Morton 2005), the quality of financial governance remains a significant issue requiring attention.

4.5 ORGANISATIONAL OR CORPORATE SUSTAINABILITY

Organisational sustainability can be defined as:

“building human capability and skills for sustainable high level organisational performance and for community and societal well being.” (Griffiths 2004)

Attracting and retaining skilled people is one of the major challenges in building sustainable regions (Standing Committee On Regional Development 2004). The Board is concerned about the sustainability of a number of local governments in WA, in terms of their ability to recruit and retain appropriately skilled staff, and consequently their ability to comply with legislative and financial reporting requirements. For example, the Shire of Yalgoo submitted to the Board that it struggles to attract and retain staff, and with staff continuity a constant problem it finds it difficult to comply with legislation. The Shires of Laverton and Menzies both noted difficulties in recruiting staff. The Department's Submission to the Public Accounts Committee Inquiry into Local Government Accountability in WA (2005) identified the lack of experience and knowledge of some employees and elected members as the most significant factor impacting on accountability and compliance in local government. Smaller regional local governments continue to face the challenges of attracting and retaining experienced staff, and this is a major issue (DLGRD 2005:36). There is an emerging human capital crisis in local government.

It is not just the compliance that is the issue, it is the ability of a local government to diagnose that it has financial or other problems that affect its viability. In a study of 'council failure' in NSW, it was found that local government size was unimportant to local government failure, but that it was more closely explained by other issues, including the lack of adequate quality professional staff, especially in rural and remote areas, the lack of adequate internal controls, and factional infighting (Murray and Dollery 2005).

It is possible for the Department to identify local governments with organisational sustainability issues, based on their inability to meet deadlines (reflected in constant applications for extensions of time to complete statutory functions) and poor financial performance (ongoing adverse financial trends identified through audit reports).

The common factors among such local governments include:

- Inability to attract suitably trained staff.
- High staff turnover at key times during the year.
- Uncommon accounting software.
- Heavy reliance on outside consultants.
- Adverse financial trends – deterioration in one or more of the financial ratios and/ or lack of reserve funds.
- Lack of internal controls.
- Problems with year end balancing.

The administrative capacity of local government, in relation to statutory obligations is one of the five major aspects of local government being examined by the current NSW Independent Inquiry. A previous NSW study found that 92% of respondent local governments reported skills shortages in their organisation or were aware of emerging or future skills shortages (Red Letter 2005). Similarly, the capacity to obtain required human resources is recognised as a sustainability indicator in the Local Government Association of Queensland Discussion Paper for the Size, Shape and Sustainability review (2005). Many local governments in that State have also experienced difficulties in attracting suitably qualified staff for senior positions across a range of disciplines, with rural and remote local governments experiencing difficulties in recruitment of suitably qualified personnel for CEO positions. The Paper suggests sustainability issues could include whether the local government can maintain current service levels to the community if staff and expertise cannot be recruited at reasonable cost, and whether the local government can continue in the long term to meet its statutory and accountability obligations to the community.

A recent study undertaken in WA noted similar problems, reflecting competition among local governments for staff, together with the loss of staff to the private sector (particularly the resource sector in the case of blue collar staff) and to the State Government. While a degree of staff turnover is inevitable due to need for career advancements and new careers, lifestyle changes and the greater remuneration available elsewhere, local government faces fundamental skills shortages (Centre for Entrepreneurial Management and Innovation 2005). Difficulties being experienced in the industry in recruiting staff were noted in a number of submissions to the Board for this review (for example, the Shire of Victoria Plains). In response to these issues, the Department, in partnership with the LGMA, developed the "Careers in Local Government" initiative in 2005.

The Board remains concerned however with the question of whether local government has a sustainable workforce, and believes many local governments will continue to be challenged by this issue. The Board notes that *"current and expected future labour market issues impacting on the sector and what strategies might be adopted to address these issues"* is included in the terms of reference for the recently commenced WALGA study.

4.6 POPULATION SUSTAINABILITY

The 2005 State of the Regions report devotes a chapter to population sustainability, which it defines as a population which, based on the critical demographic inputs of births, deaths and migration, would be likely to be maintained at current or higher levels (National Economics 2005). The economic, environmental and social sustainability of a local government or a community needs to be seen in the context of its population sustainability. For local governments with population growth in their communities, the primary facets of sustainability will be far more important. However, there are a large number of areas where demographic components point to a much less secure population size, which in turn places significant pressures on local economies and service provision (paradoxically this may be better for the environment). For example, 29 out of 44 local government areas in the Wheatbelt Region lost population during 1996-2001 (Western Australian Planning Commission 2005c:115). This important issue is discussed further below.

4.7 COMMUNITY SUSTAINABILITY

Community sustainability is a term used in the rural studies literature (eg Cocklin and Alston 2003), and there are difficulties in attaining consensus on what is meant by the term 'sustainable community', and the conditions needed to attain it (Cocklin and Dibden 2005). Using a framework of capitals (natural, human, social, institutional and produced)⁹ Cocklin and Alston suggest that a community that is running down its stocks of capital is not sustainable (2003:3). Local government is part of the institutional capital of communities. In urban areas, including Metropolitan Perth, the issues of isolation, family breakdown, poverty, unemployment and crime are perhaps the more critical ones for the social sustainability of communities. The importance of maintaining social, human, institutional and economic capital is slowly being accepted as an essential component in ensuring the sustainability of rural communities (Tonts 2005). A particular challenge is how to maintain, create or import the various forms of capital that combine to meet community needs (Stayner 2005:137).

This recognition is timely, given the profound social and economic changes that have already occurred in rural communities, including restructuring of agricultural and pastoral industries, as well as changes in the nature of public sector institutions and recentralisation of government services (Tonts 2000; Gerritsen 2000). Over a period of decades, farmers increased the size of their farms and got more productive, but this has also translated to a decline in population, and the closure of schools and reduction in other services, such that "*more productive agriculture comes to mean less productive and viable rural communities*" (McKenzie 2000). Agricultural restructuring has been disruptive and pervasive (Lawrence and Gray 2000).

Small towns that are highly reliant on broad acre farming for their economic survival are considered to be those most likely to be in decline. While some small towns may diversify their service base, many residents of small towns will continue to face ongoing pressure to shift to regional and urban centres (Levantis 2001). Some

⁹ These may include ecosystems, resources (both natural), knowledge, skills of individuals, ability to contribute to the life of the community (human), networks, values, trust, relationships, ability of the community to achieve community based outcomes, the social fabric that ties members of a locality to one another and to the place (social), the institutional structures and mechanisms present in a community (public, private, 3rd sector), as well as the produced capital -crops, manufactures, built environment, financial.

observers believe that the decline and eventual demise of many of Australia's country towns, particularly within the wool-wheatbelt, is an inevitable part of the modernization and urbanization of Australian society (Forth and Howell 2002). The service function of many rural towns has been eroded by the increased capacity and desire of local residents to access goods and services in larger centres. Due to the improved transport, people live in regional communities rather than small towns. While small towns were once relatively autonomous centres, this is no longer the case, with residents using their increased mobility to work, shop and access services in other centres (Forth and Howell 2002), and this makes it difficult for the smaller towns to remain economically and socially viable (Haslam McKenzie and Stehlik 2005).

Community sociologists suggest that these signals point to a future in which there will be fewer small towns along with perhaps strengthening of some large regional centres. *"Community life may be thought of as having being sustained through a natural process of amalgamation and readjustment of local identity to a broader spatial scale."* (Cocklin and Alston 2003: 205). Sustainability of one place is not independent of other places. Places exist in a multilayered context. The primary focus of loyalty and trust for most rural people is still very strongly localised. While the individual place-based community can be too small a unit for local government sustainability, the region is too large and psychologically remote and does not mean enough to people to be a focus of loyalty. A way forward could be scale between region and community, i.e. socially defined clusters of adjacent place-based communities which already have, or could easily develop, a stock of social capital. Local government is an important form of institutional capital, being a focus for communities to direct their energies in support of sustainability, but it is at risk of control by established elites and the spatial arrangement of administrative boundaries often need to be reconsidered (Cocklin and Alston 2003).

Most people identify with and participate in a mosaic of geographical communities and communities of interest. Boundaries of communities can rarely be accurately defined and communities constantly interact with each other. There may be communities within communities. For many people there is an ambiguity in what is their community. Many large non-metro centres are surrounded by smaller centres. People may do some of their shopping and primary schooling in the small centre, but travel to the larger centre for major items or for secondary schooling. Being simultaneously part of several communities is a common experience. For many people it is not the locality where they happen to reside that provides their primary experience of community life (Black and Hughes 2001).

It is the changes of the above nature, coupled with the general trend of movement to the coast (the so-called 'sea change'), that necessitate some consideration of the structure of local government.

5 SUSTAINABILITY ISSUES FOR LOCAL GOVERNMENT

The sustainability issues identified above have direct implications for local governments. A related question is one of 'what constitutes a sustainable local government?'. What structures are needed to enable local governments to provide sustainable services and other functions for their communities? We will come back to these important questions.

5.1 FINANCIAL SUSTAINABILITY OF WA LOCAL GOVERNMENTS

To assist the Board's investigations of the financial sustainability of local governments, consultants were invited to undertake an analysis and report on the financial position of local government in WA, at a whole of industry and individual local government level. This analysis was to include an examination of financial sustainability based on key financial indicators, with reference to applicable industry standard benchmarks, including but not limited to an assessment of operating results, debt, asset consumption, capital outlays in relation to depreciation, and cash/asset-backed reserves. While the Board required an analysis of the financial position of all local governments in WA, a detailed commentary of the current financial position of 48 local governments for the financial years 2000-01 to 2004-05 was requested.¹⁰

Information collected by the WA Local Government Grants Commission (WALGGC) on behalf of the Australian Bureau of Statistics was to be the primary source of information, supplemented by the actual financial reports for the 48 'review' local governments. The following extracts and conclusions from that report are particularly noteworthy.

a) Maintaining fixed assets

If assets are being maintained and replaced in an efficient and effective manner then the level of net assets should maintain its value.¹¹ Details recorded in the annual financial reports provide information for asset costs or valuations and the accumulated depreciation associated with those assets. By considering the level of accumulated depreciation relative to the asset cost (as a percentage) the level to which assets are depreciating is established. The higher the percentage means the older and/or reduced value of the asset to the local government. The trends show a steady decline for all property classes.¹²

Property, Plant and Equipment					
Indicator (average)	2001	2002	2003	2004	2005
%Buildings Depreciated	24.08%	24.67%	25.56%	25.35%	26.86%
%Furniture and equip Depreciated	65.05%	66.85%	67.08%	68.88%	68.56%
%Plant equipment Depreciated	44.02%	46.71%	46.64%	46.96%	47.87%
	-----	-----	-----	-----	-----
All Property, Plant and Equipment	27.79%	28.34%	29.18%	29.43%	30.20%

¹⁰ An invitation to tender was sent to 4 consultants (BDO Consulting, Grant Thornton, Hall Chadwick and Ron Back) on 6th December 2005. Tender submissions were received from two organisations, and Mr Ron Back was the successful tenderer.

¹¹ The amounts disclosed in financial reports do not provide details of new assets versus the renewal of existing assets so the total asset pool can only be considered. However, trends over a period will identify the gross change in values and will alert of a potential problem to the long term operations of a local government.

¹² The reduction of the asset value, as measured by the change in the written down values of assets, for the 48 local governments in the review group was 9.5 % for the five year period 2001 to 2005. If this was extrapolated across the whole industry it would result in a reduction of all fixed assets over the period in excess of \$1 billion including infrastructure assets in excess of \$800m.

Infrastructure

Indicator (average)	2001	2002	2003	2004	2005
%Road Infrastructure Depreciated	27.91%	28.49%	28.86%	30.51%	30.21%
%Drainage Infra Depreciated	26.27%	27.74%	28.90%	30.24%	32.09%
%Footpath Depreciated	30.79%	29.90%	30.43%	31.89%	34.69%
%Airport Depreciated	43.20%	44.18%	45.95%	47.47%	49.73%
%Recreation Depreciated	24.78%	25.85%	27.76%	30.58%	32.19%
%Other Infrastructure	26.44%	30.07%	31.53%	31.66%	34.42%
All Infrastructure	27.96%	28.65%	29.16%	30.77%	30.51%

By dividing the net value of the assets by the annual depreciation expense the expected useful life remaining in the assets is established. They have been calculated for the following classes.

Buildings - year useful life	35.62	34.40	34.13	34.54	35.41
Furniture/Equip - years useful life	4.51	4.10	4.38	4.34	8.04
Plant - years useful life	6.35	5.97	6.22	6.28	6.07
Infrastructure - years useful life	33.81	35.36	32.89	35.66	34.29

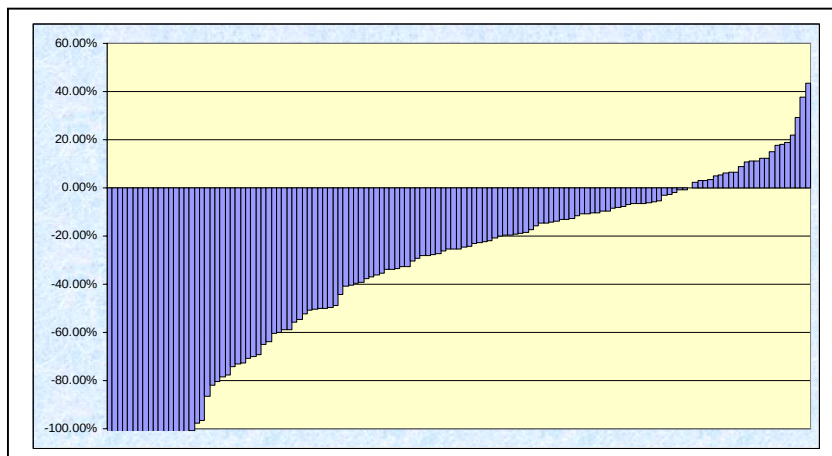
The decline in asset values over the period will require adjustment in due course and have a substantial financial impact on local governments. The maintenance and improvement of local government infrastructure is the greatest threat facing the fiscal sustainability of the industry.

b) Debt

Local government debt has risen by 45% from 2002 to 2005; from \$199m to \$288m. However, whilst debt levels have increased the level of cash backed reserves has maintained a similar growth, rising to \$520m in 2005. Of the 142 local governments only 10 local governments have not used debt as a financing option between 2002 and 2005. It can be expected that as local governments come to terms with ageing infrastructure in an economic climate of relatively low interest rates, the use of debt will increase.

c) Operating surplus

In 2005, some 100 local governments of the 134 that were analysed, recorded a gross operating surplus. When adjustments for extraordinary items, capital contributions and profit or loss on the disposal of assets are made, only 48 local governments show a net surplus. The graph shows the net operating result for the period 2002 to 2005. The extent of local governments presenting a loss was 114 of the 134 in the calculations. The magnitude of the number of affected local governments is too great to ignore.



The pressure of funding operating demands is also reflected in the increased trend in the amount of rates and WALGGC grants required to fund the net operating demands over the period (funding ratio). There is a concern that even with greater than CPI increases in the growth of rate revenue the operational needs of local governments are consuming more and more of the rates/grants throughout the industry.

“In general terms the local governments are not generating enough revenue to meet their operating demands and provide a sufficient level of funds to maintain the assets under their control.”

d) Sustainability Ranking

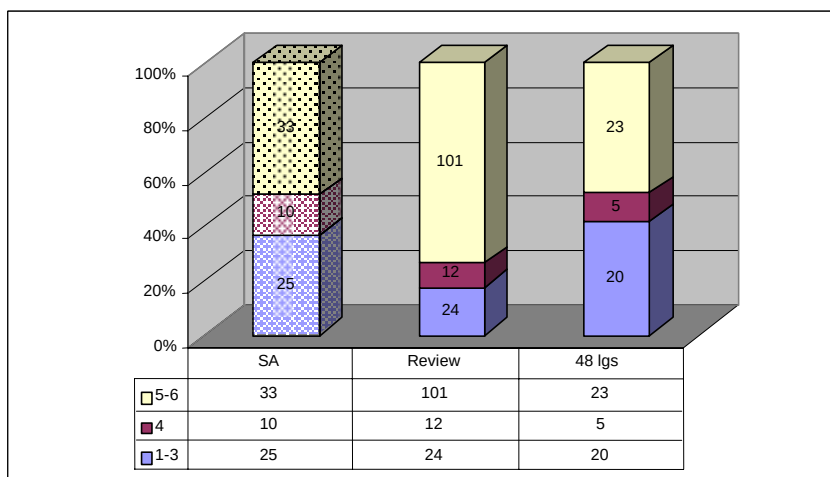
A sustainability ranking based on net operating results was applied as part of the process used by the Financial Sustainability Review Board (2005) in the SA Inquiry. As part of this review that process has been applied to the operating results for WA local governments.¹³

The ranking is based on the SA Inquiry model and excludes from the operating result abnormal items, profit or loss on the disposal of assets and contributions/grants for the acquisition of assets. The result represents the recurrent operating result for the year. This is then expressed as a percentage of rates. The result is then categorised as follows -

<u>Operating Surplus/(Deficit) Ratio</u>		<u>Result</u>
category 1:	very substantial margin of comfort	>15%
category 2:	substantial margin of comfort	5% to 15%
category 3:	moderate margin of comfort	0% to 5%
category 4:	minimum margin of comfort	0% to -7½%
category 5:	vulnerable	-7½% to -10%
category 6:	unsustainable	< -10%

The graph below shows the outcomes of assessing WA local governments on the sustainability ranking scales as applied in the SA Inquiry. The results of the comparison in most cases show a best off position for the WA local governments concerned.

¹³ Unlike the process used in SA, no attempt has been made to adjust the WA information by adding an interest charge to reflect the “capital backlog” of those local governments. This backlog is particular to individual local governments and there is insufficient information to reliably estimate the backlog amount based on the asset details contained in the reports.



The moderate or sustainable groupings (1-4) show a correlation between the SA groupings and the review group of 48 local governments. However, using the same technique as applied in SA will likely see less WA local governments in this category. The likely outcome of a similar process used in SA will in all probability result in a relatively poor result for WA local governments.

A cautious approach is required in drawing conclusions from this information. Caution needs to be exercised with the ranking of local governments according to the net operating ratio without complete validation and testing of the information used to formulate such an opinion. Too many issues were present in the details provided in the annual return to the WALGGC that can give rise to an incorrect ranking. Nine major information issues that could potentially result in an incorrect assessment of a local government's performance were identified. The incorrect interpretation in classifying financial transactions or the accounting treatment for depreciation can result in a local government being incorrectly ranked. This in turn can present to the community an incorrect perception of the local government's fiscal performance. Until the information is more reliable, it is not in the industry's best interest to badge particular local governments as sustainable or unsustainable.

However, what is clear is that a significant proportion of local governments in WA are faced with major issues associated with generating enough revenue or reducing expenses to maintain services and provide sufficient funds to renew their asset base.

e) Conclusions

Subject to the above qualification there is however an emerging trend that a very large proportion of local governments in WA are not in a position to provide sufficient funds to meet their operating demands and maintain the value in their existing asset base.

"In conclusion, this report has confirmed the long held perception that the local government industry in WA has a task before it in addressing the competing needs of the community, ageing assets and the financial resources to undertake the task. Some local governments are managing to meet the needs within their financial capacity. The challenge for the industry is to seek ways to preserve the asset base to enable them to continue to deliver the services and facilities to their respective communities. Service delivery will always be a debatable topic in establishing the ideal size and shape of a local government.

Issues of viability have been before the industry for many years and local communities continue to rise to meet their particular challenges. Local governments continue to survive. Financial sustainability is one of a number of factors that may influence the shape of local government in the future; however it should not be the guiding factor in determining local government structures.”
(Back 2006: v)

These findings support the need for structural reform of local government in WA to enhance the future economic, environmental and social sustainability of WA communities.

5.2 POPULATION SUSTAINABILITY OF WA LOCAL GOVERNMENTS

There are two important aspects of population sustainability, being the trend in numbers of people resident in an area, and the demographic composition of the population. These are not new issues of concern for local government; the report *Country Towns: a future or a funeral*, prepared by a local government association working party in 1990, was a response to concerns about the decline of rural populations and the loss of country services (CSCA/CUCA 1990).

A recent Western Australian Planning Commission (WAPC) publication *Western Australia Tomorrow 2005* contains population projections for local government areas 2004 to 2021. The forecasts are based on anticipated changes to natural increase, immigration and interstate and intrastate migration. Local economic intelligence and multiplier effects from known development projects (such as the major nickel project in Ravensthorpe) were used to adjust the underlying assumptions. The projections have a number of limitations. For example, the population estimates are most reliable at regional level, and get less reliable for smaller population areas. Projections do not reflect all possible economic scenarios, and the WAPC advises that it is inadvisable to put too much weight on the long-term forecast.

Noting the limitations, it is still instructive to examine the projections in detail. While many areas have an ageing population and a history of declining fertility rates, the WAPC model makes the assumption that declining population is not sustainable over the long term and that eventually a point of stability is likely to eventuate. Five clusters of local governments are identified:

- High growth shires (5).
- Typical growth shires (22).
- Slight growth shires (42).
- Stable population shires (46).
- Decline then stabilising shires (23) (Table 6) – where insufficient new migrants have not replaced migrants who have moved out (2005a:118).

Table 6 Population Decline Shires Based on WAPC Population Projections to 2021

Beverley (S)	Corrigin (S)	Goomalling (S)	Lake Grace (S)	West Arthur (S)
Boyup Brook (S)	Cranbrook (S)	Kellerberrin (S)	Narrogin (S)	Wickepin (S)
Bruce Rock (S)	Dumbleyung (S)	Kent (S)	Pingelly (S)	Yilgarn (S)
Carnamah (S)	Dundas (S)	Koorda (S)	Trayning (S)	
Coolgardie (S)	Gnowangerup (S)	Kulin (S)	Wagin (S)	

Source: WAPC 2005c

The WAPC projections are consistent with the findings of the recent State of the Regions report (National Economics 2005). According to the demographic stress indicator developed in the report, a number of WA local governments are under extreme pressure to sustain their population. The 'stressed' local governments are characterised by high out-migration and their share of population aged 15-55 (i.e. 'productive' or working aged) is falling significantly.

"The continued likelihood of out-migration coupled with a strong decline in working age population points to an inability to sustain current population levels. The economic and social issues that these regions are likely to face as the workforce continues to shrink further exacerbate the problem."

(National Economics 2005)

Just as the Board's deliberations on this review were coming to an end, the ABS released the 2005 population estimates, and 51 non-metropolitan local governments again had reductions in the estimated population. Clearly, the problem of declining populations will be around for many local governments for some time. A loss of population is a loss of human capital (Tonts and Black 2003).

The State of the Regions report lists the 15 most stressed local governments in Australia, and this list features the WA local governments of Koorda, Ashburton, Sandstone, Carnamah, Trayning, Yilgarn, Cue, Coolgardie, Dundas, Leonora, and Meekatharra (11 of the 15 local governments).

Table 7 Demographic Stress: Most Stressed in WA with Australian Ranking
(Higher number=lower ranking = more demographic stress)

Local Government	Rank Australia (out of 628)	Rank WA	Local Government	Rank Australia (out of 628)	Rank WA
Meekatharra (S)	628	142	Wandering (S)	552	106
Leonora (S)	627	141	Coorow (S)	549	105
Dundas (S)	626	140	Mount Marshall (S)	547	104
Coolgardie (S)	625	139	Narrogin (S)	546	103
Cue (S)	624	138	Wagin (S)	545	102
Yilgarn (S)	623	137	Katanning (S)	541	101
Trayning (S)	621	136	Mount Magnet (S)	539	100
Carnamah (S)	620	135	Peppermint Grove (S)	535	99
Sandstone (S)	619	134	Mukinbudin (S)	532	98
Ashburton (S)	616	133	Kojonup (S)	530	97
Koorda (S)	615	132	Three Springs (S)	528	96
Kent (S)	613	131	Mullewa (S)	525	95
Tammin (S)	610	130	Menzies (S)	522	94
East Pilbara (S)	609	129	Corrigin (S)	519	93
Wiluna (S)	608	128	Claremont (T)	510	92
Wickepin (S)	606	127	Westonia (S)	509	91
Gnowangerup (S)	602	126	Cottesloe (T)	507	90
Kondinin (S)	601	125	Bruce Rock (S)	503	89
Dumbleyung (S)	600	124	Laverton (S)	499	88
West Arthur (S)	599	123	Quairading (S)	497	87
Lake Grace (S)	589	122	Wongan-Ballidu (S)	482	86
Perenjori (S)	580	121	Geraldton (C)	472	85
Yalgoo (S)	579	120	Cunderdin (S)	459	84
Victoria Plains (S)	578	119	Kalgoorlie/Boulder (C)	455	83
Morawa (S)	577	118	Pingelly (S)	438	82
Boddington (S)	576	117	Manjimup (S)	437	81
Boyup Brook (S)	570	116	Williams (S)	422	80
Kulin (S)	569	115	Kalamunda (S)	415	79
Cranbrook (S)	566	114	Brookton (S)	414	78
Kellerberrin (S)	565	113	Collie (S)	402	77
Jerramungup (S)	564	112	Armadale (C)	401	76
Narembeen (S)	559	111	Bridgetown-Greenbushes (S)	378	75
Mingenew (S)	557	110	Dowerin (S)	359	74
Goomalling (S)	555	109	Subiaco (C)	345	73
Wyalkatchem (S)	554	108	Nedlands (C)	341	72
Nungarin (S)	553	107			

Source: National Institute for Economic and Industrial Research (NIEIR) 2006 (personal communication)

Similarly, the report suggests that most of the local government areas in the Great Southern/Wheatbelt region are no longer viable places for families to move. The bottom 10 local governments in Australia for family attraction include Nungarin, Cue, Carnamah, Dumbleyung, Dundas, Trayning, and Kent.

The Board has obtained the complete set of scores for demographic stress from the report's authors, and Table 7 lists the 71 local governments in WA with the greatest demographic stress (i.e. those ranked 71 to 142, being the most stressed), as calculated by the National Institute for Economic and Industrial Research (the

Australian ranking is also shown). These levels of stress prompt a question: How many of these local governments have developed plans, or will have the capacity to cope with their declining and ageing populations? It is likely that many local governments identified above will need to develop appropriate responses, and these may include local government structural reforms. That these communities have been so resilient and cope with such changes reflects perhaps the high levels of social capital that frequently resides within them (Productivity Commission 2003) although other observers suggest that there has never been a more important and urgent time to increase social capital in rural areas (Alston 2002).

On a similar note, the Productivity Commission, in a report on the economic implications of an ageing Australia (2005), found there was wide variation in demographic change at the regional level. Coastal areas, in particular, already have higher concentrations of older people and are projected to 'age' rapidly. Ageing of the population will place increasing pressure for local governments through an imbalance between expenditure and revenue growth. Given the disparity in ageing across regions, some areas are also likely to face significant pressure on infrastructure planning and provision. The use of a number of human services is significantly age-related, including health and aged care; home support services, financial support to aged care facilities, local community transport; and a range of cultural and recreation services. While local government is not the *primary* provider of key aged-related services such as health or aged care, the ageing of the population is likely to result in increasing demands on the resources of local government. These increasing demands are likely to be more pronounced in rural and remote areas and areas of social and economic disadvantage. The ALGA submission to the Productivity Commission suggested that local government would face increasing pressures to upgrade or modify infrastructure, which may not have been built with consideration of ageing population (ALGA 2004). A recent editorial in the Sydney Morning Herald has taken this point further, suggesting that while Australia is over governed, as the population ages and the tax base narrows, the country cannot afford the luxury of overgovernance on the present scale (10 February 2006).

Population decline, and ageing populations, are not the only problems. Affordable housing may mean that the decline of some country towns may stabilise, by attracting economically disadvantaged families to a particular town (Forth 2000). Some rural towns have some new incoming residents, but these often are 'forced relocators' who move out of the city by necessity, and are often low income earners on income support, unemployed or single person households. The movement of these forced relocators, together with aged people seeking an enhanced lifestyle, is adding pressure to local government for service support (Alston 2005).

There are also issues of population sustainability in urban areas, although there may be some urban variation on the themes noted above. These include, for example, the ageing of the population and the associated impacts on revenue and service requirements. For example, the City of Wanneroo acknowledges that the rate of population growth, with changes in age structure and the cultural diversity of its residents, poses significant challenges in the management of current and future demand for housing, quality infrastructure and economic opportunities as well as the impact on the natural environment (2005).

The 'sea change' phenomenon, the rapid growth of coastal areas driven by high levels of internal migration from metropolitan or inland areas, is also having a major impact on many communities, threatening coastal environments and bringing serious social implications (National Sea Change Taskforce 2004). Some rural local governments are being transformed as their inland towns decline while coastal settlements expand. This is not a recent phenomenon, for the same trend was noted in the southwest of WA in the 1990 report *Country Towns: a future or a funeral* (CSCA/CUCA 1990:18).

Sea change communities have a higher median age, higher unemployment, and a higher proportion of low-income households than the general population. The City of Mandurah faces an influx of 35 new families each week. It would be fair to say that while large local governments like the City of Wanneroo struggle with the resource ramifications of population growth and 'sea change', there are many other coastal local governments that would be seriously challenged. Small local governments often lack sufficient professional staff to manage the multidimensional nature of the rapid changes occurring in coastal areas, and there is an urgent need for a cooperative approach between local governments at regional and sub-regional levels to pursue effective settlement strategies (National Sea Change Taskforce 2004).

To summarise the above discussion, the Board's preliminary findings might be summarised as follows:

- Some local governments are facing severe demographic pressures that are threatening community sustainability.
- Some local government are facing staff recruitment and employment pressures that are threatening organisational sustainability.
- Some local government are likely to have financial deficiencies and difficulty in meeting long-term infrastructure funding needs.

Structural reform of local governments will not be a panacea for the sustainability issues faced by local government and communities. This would take perhaps a combination of managerial, functional, jurisdictional and financial reform. The Board does believe however that structural reform would make the local government system more effective, and in the longer term facilitate community sustainability. Local government is often the largest employer in rural communities, so structural reform has to be undertaken in a sensitive manner, which does not further undermine the sustainability of communities. It may be a case of changing the structure of local government from one that is constraining sustainability to one that is enabling sustainability.

To return then to the critical question raised earlier, what constitutes a sustainable local government?

The Board believes a sustainable local government can be defined as a local government which

- a) Has a stable or growing population into the medium term (i.e. the next 15 or 20 years).
- b) Has the ability to engender and maintain an appropriate sense of community.
- c) Has the ability to understand and identify community needs and respond in a timely manner to efficiently provide or facilitate an appropriate level of services to meet community needs.
- d) Has the ability to show leadership and be flexible and respond to changes in needs and operating conditions.
- e) Has a revenue base which is able to fund current and future service and infrastructure needs, and maintain their infrastructure and other assets at an appropriate standard.
- f) Is able to attract enough candidates from the community to constitute an elected council, which can then provide effective governance and representation of the communities it serves.
- g) Is able to recruit and maintain appropriately skilled staff with normal rates of staff turnover.
- h) Has the capacity to develop and apply strategies and plans, and influence government policy, to protect and enhance local environments.
- i) Has the capacity to develop and apply strategies and plans, and influence government policy, to foster local economic development.
- j) Has the capacity, including by working in partnerships, to develop and apply strategies and plans, and influence government policy, to deliver social justice and equity and protect and enhance social capital.

With more work, an index of local government sustainability might be developed using the above elements.

The NSW Sustainability Health Check (Sustainable Futures 2005) is a useful tool. It seeks to raise awareness and encourage the analysis and review of local government policies, systems and practices in a sustainability framework. Sustainability is seen as a way of approaching issues and challenges and making decisions based on the best available information, and taking action now that does not remove options or prevent future generations from taking actions. It requires synthesis or integration of a triple bottom line approach. The Sustainability Health Check is a checklist of strategic questions, benchmarks or indicators, targeting core areas of sustainability focus within local government organisations.

6 GUIDING PRINCIPLES FOR STRUCTURAL REFORM

While not a formal inquiry, the Board's guiding principles are relevant to the general consideration of structural reform. Under the Act, the Board must consider a range of prescribed matters when undertaking a formal inquiry. These include:

- a) Community of interest.
- b) Physical and topographic features.
- c) Demographic trends.
- d) Economic factors.
- e) The history of the area.
- f) Transport and communication.
- g) Matters affecting the viability of local governments.
- h) The effective delivery of local government services.

The Board applies these factors to the issues of boundary definition, ward representation and the structure of local government.

The Board recognises the diversity of local government in WA. There will be circumstances that justify a departure from a principle within the prescribed matters, or when it will not be possible to apply one principle without departing from another principle. It would be rare for a single factor alone to justify change or the status quo. In nearly all cases, a combination of factors is needed to determine the most appropriate assessment by the Board.

Relating these principles to the sustainability focus for this inquiry, gives rise to the following categorisation:

Social sustainability

- Community of interest
- Demographic trends
- The history of the area

Economic sustainability

- Economic factors
- Transport and communication
- Matters affecting the viability of local governments
- The effective delivery of local government services

Environmental sustainability

- Physical and topographic features

As has been discussed earlier in this report, sustainability brings with it a range of other considerations that are also relevant to this review.

6.1 THE VIEWS OF LOCAL GOVERNMENTS ON THE BOARD'S GUIDING PRINCIPLES

As part of a survey of local governments conducted for the current review, respondents were asked to rank the Board's principles in order of importance for determining boundary change. There were 89 survey responses received (mainly local government CEOs) and based on the average ranking the following results are of interest.

Table 8 Survey Responses: Ranking of Guiding Principles

Guiding Principle	Average	Overall Rank
Communities of interest	2.2	1
Effective delivery of LG services	2.7	2
Matters affecting the viability of LGs	3.4	3
Economic factors	4.3	4
Transport and communication	5.3	5
Demographic trends	5.6	6
Physical and topographic features	5.9	7
The history of the area	6.4	8

Source: Local Government Advisory Board; Survey Results: Issues Related to Local Government Structural Reform; December 2005

The results are quite decisive, and broadly in agreement with the Board's own views. This industry rating is important and will inform the Board's current and future reviews.

The following describes the Board's interpretation of each of these factors, presented in the rank order above. (The text is extracted from a document Guiding Principles available on the DLGRD's website.)

a) Community of interest

The term community of interest has a number of elements. These include a sense of community identity and belonging, similarities in the characteristics of the residents of a community and similarities in the economic activities. It can also include dependence on the shared facilities in an area as reflected in catchment areas of local schools and sporting teams, or the circulation areas of local newspapers.

The external boundaries of a local government need to reflect distinct communities of interest wherever possible. Neighbourhoods, suburbs and towns are important units in the physical, historical and social infrastructure and often generate a feeling of community and belonging. The Board believes that wherever possible, it is best not to divide these units between local governments.

b) The effective delivery of local government services

A broad range of factors can be relevant to the effective delivery of local government services and these are often directly relevant to those that also affect the viability of local governments. They include:

- The size and geographical spread of the population.
- Management effectiveness and efficiency.
- The availability of staff expertise.
- Appropriate infrastructure and equipment.
- Customer satisfaction and feedback.

The elected and administrative arms of local government need to be accessible to the residents of a community. Whilst electronic information transactions are increasing, there is still a need to provide for direct contact between the community and the local government administration.

The Board believes it is essential that the boundaries of a local government should appropriately cover the service area of that local government. Situations where there are 'free-riders', or use of a local government service by residents of another area, are inevitable, but for efficient and effective service planning and provision this situation needs to be minimised. This effect may lead to examples of local governments with false impressions of their financial viability, as they provide minimal services but rely on those provided by neighbouring local governments.

c) Matters affecting the viability of local governments

In general terms the Board will have regard to:

- Revenue base.
- Assets and liabilities.
- Population size and the geographical spread (current and future projections).

A local government needs to be able to raise sufficient funds from its own resources to administer its district and to carry out the basic local government functions and a range of other discretionary functions.

The viability of a local government should not be judged by its population alone without reference to the mix of residential/commercial/industrial/agricultural rate capacity in the district to ensure viability. The Board does not believe it is necessary to specify a minimum population or minimum income requirement, since this will vary according to the circumstances of the local government.

General purpose grants are a vital component of the revenue base of many local governments. However, being heavily dependent on grants can increase the vulnerability of a local government through the loss of control over revenue and significant exposure to changes in funding policy. Reliance on grants needs to be minimised to ensure financial autonomy.

Each local government also requires sufficient resources to access the professional skills required to deliver effective and competitive services though they do not need to be employed by a single local government. Sharing professional staff with other local governments and contracting out are other viable options.

The current environment of micro-economic reform (including competition policy, performance measurement and customer focus) requires local governments to keep in touch with the economic and management developments associated with these reforms to remain effective and competitive. The Board will examine budgets and financial information to gain an understanding of the current and future financial health of a local government. Other data relevant to viability will be sought where appropriate, for example, from the Road Management System (ROMAN).

d) Economic factors

Economic factors can be broadly interpreted to include any factor that reflects the character of economic activities and resources in the area. This may include the industries that occur in a local government area, the rates paid by different sectors, and the distribution of community assets and infrastructure such as road networks. In the Board's view, some boundaries between rural and country urban local governments are somewhat artificial. The local economy of the town may be largely tied to the primary industry activities of the surrounding areas, while the rural residents depend on the town for their goods and services. The external boundaries of a rural local government should recognise the economic and social interdependence of town and country, and have regard to other boundaries such as regional and State and Federal electoral boundaries and areas of regional cooperation.

e) Transport and communication

Whilst communications are increasingly conducted by electronic means, transport linkages and the road and rail systems in particular, are still very important in WA. The transport linkages between towns or areas (including port access, neighbouring towns, railways and major roads) may be a significant barrier to movement and therefore an appropriate boundary between local governments.

f) Demographic trends

WA is a State experiencing significant on-going population growth. Some local governments have the potential to benefit from this growth, and increase and diversify the local rate base. However, this also means that at the local level many communities have grown or are growing beyond the established local government boundaries. The fragmentation of what is essentially one community into two or more local government units creates problems in service planning and coordination, both for local government and also for State and Federal governments.

Several measurements of the characteristics of human populations, such as population size, and its distribution by age, sex, occupation and location provide important demographic information. Current and projected population characteristics will be relevant as well as similarities and differences between areas within the local government.

In relation to population changes, local governments are required to review their wards and representation every eight years. The Board expects that each local government will attempt to have similar ratios of electors to councillors across the wards of its district. Local governments will need to outline their reasons in situations where this is not appropriate (for example, where representation for a small community is important).

g) Physical and topographic features

The external boundaries of a local government need to be clearly identifiable, and in many cases physical and topographical features are appropriate identifiable boundaries.

Physical and topographic features may be natural or man-made and will vary from area to area. Water features such as rivers and catchment boundaries may be relevant considerations in establishing boundary alignments. Beach suburbs, coastal plain and foothills regions, parks and reserves may be relevant, as may other man-made features such as railway lines or freeways.

In natural geographic regions land use, environmental and transport systems may be integrated but the local government structure may be fragmented between two or more local governments. The Board supports local government structures and boundaries that facilitate the integration of human activity and land use.

h) The history of the area

The history of an area can be a relevant consideration, although the Board believes that in the majority of cases this will not be a primary justification for changing or retaining local governments and local government boundaries.

The nature of historical ties between communities is important to understand, irrespective of where the local government boundaries lie. A community within a local government may have a strong historical identity; alternatively there may be strong historical links between two or more communities in adjacent local governments. It is important to note that historical identity is not necessarily lessened if an area does not have its own local government. The historic town of Guildford within the Shire of Swan is an example of where the historical identity of a townsite can be maintained within a much larger local government.

6.2 COMMENT REGARDING SUBMISSIONS RECEIVED BY THE BOARD

The Board advertised its public hearings and call for submissions widely around the state, including via newspapers and the Internet. It also wrote to many organisations to invite their participation in the review. Some 233 submissions to this review were received, a large majority of which supported the need for some structural reform in local government. The importance of a strong and robust system of local government to ensure the future sustainability of communities was widely acknowledged. There was a diversity of views as to how reform might be progressed. Many submissions, including some from local governments, recognised the need for some amalgamations to occur in various regions around the State. Submissions also discussed a range of other approaches to structural reform, with particular reference to the problems of rural areas, and the need to protect vulnerable communities including country towns.

The Board also heard presentations from 140 people at the ten public hearings that it conducted. The above comments also describe the information presented to the Board at the hearings, although there was perhaps a greater emphasis on preserving the status quo in specific areas. There were participants who observed that Australia was over-governed and questioned the need for three tiers of government. There were calls too for local government to return to core issues, and a call for a broader review of local government because the problems of local government were beyond fixing by boundary change.

At the public hearings the Chairman encouraged participants to follow up their participation in the review with a written submission. He encouraged local government representatives to look at what would be best for communities in the long term.

7 THE NEED FOR AND OBJECTIVES OF STRUCTURAL REFORM

The Board's terms of reference for this review required it to address:

- **The objectives and need for structural reform and an assessment of how structural reform can enhance the future economic, environmental and social sustainability of Western Australian communities.**

In this section of the report, a brief history of local government in WA is presented, as well as a description of the current structure, and a review of structural reform in Australia. It concludes with a consideration of the need for and objectives for structural reform in WA.

7.1 A BRIEF HISTORY OF LOCAL GOVERNMENT BOUNDARIES¹⁴

From the first European settlement of the State of WA in 1829, it took about eighty years for a system of local government to develop which comprehensively covered the physical territory of the State. In 1871 legislation was passed which laid the foundations for a comprehensive system of local government, and there were seven municipalities and 21 road districts. Municipalities had broad local government

¹⁴ This section of the report is adapted from a Background Paper issued by the Board in 1997.
Local Government Advisory Board April 2006

functions, much like our present local governments, but road districts had limited functions only, being primarily the care and control of local roads.

The first group of local governments created in 1871 were subdivided and redrawn over the years, through a process which involved petitions from residents in outlying portions of the district who felt their area was not receiving the necessary attention from their Board. Initially the Roads Act did not provide for wards to be created, but even when a ward system of representation could be put in place, many communities, after initially forming progress associations, saw the creation of a separate board for their own district as the best way forward.

Many local government areas in WA (including many metropolitan, agricultural and goldfield authorities) were constituted during the period of significant population growth in the gold rushes of the 1890s. The period 1900 to 1930 saw considerable changes in rural local government in WA, due to the redistribution of population brought about by the decline of the goldfields and the emergence of the wheat belt. In the goldfields, sixteen municipalities and road boards were dissolved as populations declined below viable levels. These municipalities and road boards were absorbed by surrounding districts. It was a different story altogether in the expanding wheatbelt where 33 new road districts were created between 1900 and 1930. As agricultural settlement moved further eastwards, local government followed. As soon as an area could show it was capable of furnishing sufficient revenue to carry the necessary administration and undertake works needed for the district, it could be constituted a road district.

A typical example: Kojonup Road District established 1871, subsequently divided up by:

- Creation of the Broomehill Road District (1892).
- Creation of the Tambellup Road District (1905).
- Creation of the Cranbrook Road District (1926).

By the early part of the century the fabric of WA's local government structure was fully established. The number of municipal governments in the State peaked in 1909 at 147. There have been dissolution of local governments and establishment of new local governments since that time, such that the current number is 142. In the post-war period, relatively few local governments have been established: Tammin (1948), Mandurah (1949), Kwinana (1953), Coorow (1962), Exmouth (1963), Jerramungup (1982), and Ngaanyatjaraku (1993), plus Cambridge, Victoria Park and Vincent in 1993, City of Albany in 1998, and Joondalup in 1998.

The fragmentation within the local government system has been a recurring issue of concern. As early as 1918 there was a Public Works Department investigation into desirable amalgamations, the first of many state government initiated reviews of the structure of local government. An academic, writing of local government in metropolitan Perth in the late 1940s, noted that the areas of local governments followed no guiding principles, were irregular in shape, and the costs of local government were increased by the arbitrariness of the boundaries (Jones 1950).

Major inquiries into the structure of local government have included:

- 1947** Royal Commission on Municipal Boundaries (chair: Rosman) (looked at five country urban situations, recommended reduction in number of units).
- 1953** Departmental Report on Boundaries (White) (looked at metropolitan boundaries, recommended reduction to 11 or 19).
- 1968** Local Government Assessment Committee (Mathea) (looked at Statewide picture, recommended reduction from 144 to 89).
- 1972** Local Government Boundaries Commission (Heron) (looked at metropolitan boundaries, recommended reduction from 26 to 18).
- 1974** Royal Commission on Metropolitan Municipal Boundaries (Johnston) (looked at metropolitan boundaries, recommended reduction from 26 to 18).
- 1996** Structural Reform Advisory Committee (SRAC) (Park)

The 1972 and Johnson 1974 reviews both concluded that a population of 40,000 was necessary for reasonable economy and efficiency.

The net effect of all these inquiries, directly or indirectly, has been a relatively small number of structural changes and amalgamations (largely voluntary, but with some strong persuasion in some instances), eg: Busselton (Municipality and Shire) and Collie (M and S) (1951), Balingup (S) and Greenbushes (S) (1970), and Marble Bar, Nullagine, Tableland, and Ashburton to form the Shires of East and West Pilbara in 1972. The Town and Shire of Albany merged in 1998 to form the City of Albany. There have been 18 local governments abolished since 1945.

By the early part of the last century, the fabric of WA's local government structure was fully established. To a significant degree the same local government boundaries remain in place today. While there has been considerable debate for decades about the efficiency and appropriateness of our local government structure, overall there has been relatively little change, notwithstanding dramatic demographic, social and technological changes, and changes in the role of local government, causing one observer to remark that he had *"difficulty in accepting that boundaries which were originally created in circumstances which no longer exist, should be forever preserved"* (quoted in Soul and Dollery 2000).

Many local governments were first established in the horse and buggy days of the late 19th and early 20th century, and their boundaries have changed very little despite unquestionably wide-ranging economic, social and technological changes. Over that time, however, local governments have also become more outward looking and prepared to share resources and work collectively and cooperatively with their neighbouring local governments. This in part reflects a response to the recommendations along these lines of the 1996 SRAC report, although the same Committee's recommendation regarding local governments examining the potential benefits from voluntary unification has resulted in almost no boundary changes.

In the Issues Paper released for this review it was suggested that there was a need to review the structure of local government in WA, to ensure the system is robust and sustainable, and can meet the challenges of the future. Many participants in the review agreed that there is a need to review the structure; indeed, some respondents said the need for such a review was urgent and overdue. The Property Council of Australia, for example, advocated the amalgamation of small local governments.

Reference is often made to the significant structural reform that has occurred in states such as South Australia, Victoria and Tasmania, in contrast to the more stable local government structure in WA. Other states have undergone reform. This leads to the questions: Does WA need local government structural reform? What might be the appropriate changes to local government for WA?

7.2 THE CURRENT STRUCTURE OF LOCAL GOVERNMENT IN WESTERN AUSTRALIA

In 2006 there are 142 local governments in WA. All of the state (excepting a few minor areas), is part of a local government area. Local governments vary enormously in size, from 1.5 km² to 378,555 km², and in population from as little as 130 to over 180,000. Eight metropolitan local governments have populations below 15,000. However, only seven local governments outside of the metropolitan area have populations greater than this figure (Table 9).

For non-metropolitan local governments, the median population is 1400, and 67 local governments have populations less than 2000. Many of the smaller local governments have limited revenue bases, with 22 local governments reporting own-source revenues of less than \$1M, and 42 local governments with rate revenues less than \$1M in 2004/05.

Table 9 Population Size of WA Local Governments 2005

	0-2,000	2,000-5,000	5,000-15,000	15,000-30,000	30,000+	Total
Metropolitan	1	0	7	7	15	30
Country	67	20	17	5	3	112
State	68	20	24	12	18	142

Source: Regional Population Growth, Australia and New Zealand, 2004-05 (ABS Cat. no. 3218.0)

The average population of a local government in WA is the lowest of any State, although the average area is the highest of any state (Table 10). While caution must be taken in using a simplistic approach of looking at the number of local governments, it is the case that WA has around 23% of the total number of local governments nationally (Table 11). While it would be expected that because of the size of the State and dispersion and diversity of its dispersed population and communities, WA would have more local governments than the State's 10% population share, the number of local governments does appear 'excessive' in comparison to other States (Department of Treasury and Finance submission). To some degree, this finding reflects the structural reforms that have occurred in other states, and that have not yet occurred in WA.

Table 10 Inter-State Comparison of Local Government Size 2003/04

State	Population	Area (sq kms)	No. of Local Governments	Population per Local Government	Area per Local Government (sq km)
New South Wales*	6,731,295	708,050	175	38,465	4,046
Victoria	4,972,779	227,440	80	62,160	2,843
Queensland	3,882,037	1,751,021	157	24,726	11,153
Western Australia	1,982,204	2,487,130	142	13,959	17,515
South Australia*	1,534,250	155,918	74	20,733	2,107
Tasmania	482,128	68,991	29	16,625	2,379
Northern Territory*	199,913	60,864	64	3,124	951
TOTAL	19,784,606	5,459,414	721	179,792	40,994
New Zealand	4,035,461	268,680	74	54,533	3,631

Source: Department of Transport and Regional Services (2003-2004) and Australian Bureau of Statistics (2003-04)

NZ Source: www.localcouncils.govt.nz

* The area for New South Wales, South Australia and Northern Territory refers to incorporated area only. For example, the land area of South Australia is 983,482 sq kms; only 15.85% of the State is incorporated in local government areas.

The number of local governments has subsequently reduced in NSW to 152.

Table 11 Number of Local Governments per State 2004/05

	NSW	Vic	Qld	WA	SA	Tas	NT
Pop. Below 2,000	3	0	26	65	10	2	1
Pop. Below 1,000	0	0	13	39	1	1	0
Pop. Below 500	0	0	8	13	0	0	0
Total Local governments*	152	79	126	142	68	29	8
Smallest Local government Pop.	1389	3191	292	150	950	877	1165

Source: Regional Population Growth, Australia and New Zealand, 2004-05 (ABS Cat. no. 3218.0)

Taking this point further, there are considerably more small local governments in the Perth metropolitan area compared to Australia's other capital cities (Table 12). There are 15 local governments with populations less than 30,000 in the Perth metropolitan area, compared to only nine others in the six other capital cities combined.

Table 12 Number of Metropolitan Local Governments by Population Size 2004

	WA	NSW	VIC	QLD*	SA	TAS	NT	AUST
120,000 +	2	16	15	7	1		0	41
90,000 to 120,000	4	4	7	0	3		0	18
60,000 to 100,000	3	9	7	0	3		1	24
30,000 to 60,000	6	12	2	2	7	4		32
15,000 to 30,000	7	1	0	0	3		2	13
less than 15,000	8	1	0	0	2		0	11
Total	30	43	31	9	19	4	3	139
Average	48,588	98,420	116,150	248,952	55,679	43,669	36,162	92,411
Median	29,796	75,870	118,951	135,579	42,925	46,729	22,445	70,976
Largest	181,079	278,532	174,426	957,010	153,496	50,257	69,958	957,010
Smallest	1,679	13,911	54,543	52,303	7,093	30,961	16,084	1,679

Source: Regional Population Growth, Australia and New Zealand, 2004-05 (ABS Cat. no. 3218.0)
Gold Coast included in metropolitan Brisbane

Inner Perth is one area consistently identified as being in need of reform. This was the case in the previous boundary inquiries conducted in WA in the 1960s and 1970s. More recently, for example, the Cost Shifting Inquiry (SCEFPA 2003) recognised a number of geographical areas with the potential to undertake major structural reform, citing, in WA, inner Perth and local governments of the sheep/wheatbelt (SCEFPA 2003: 84) The LGMA submission to the Inquiry agreed *“certainly there are areas where amalgamation of local governments will make them more viable units.”*

Small local government is sometimes held up as the ideal for local government. Putnam, for example, believes small decentralised government is more able to engage with its community, so he thinks small is better, although he does see some purposes where bigger is also better. But small is a relative concept. Some respondents to this review cited Professor Percy Allan's (2003) article “Why smaller councils make sense?” Professor Allan presents a case for smaller local governments, but it has to be understood that he is writing from NSW, where the average local government population size is three times larger than WA, and the median population size five times larger than WA. The ‘ideal’ ‘small’ local governments Professor Allan suggests for metropolitan Sydney are in the population range 20,000 to 100,000. He also suggests that bigger local governments are less economical and less responsive; again NSW with 15 local governments with populations greater than 100,000 is different to WA which only has three local governments of this size. Allan's suggestions for small local governments could therefore be said to have limited application to local government in WA, where there are many local governments with populations smaller than the ideal cited by Allan, including some in the metropolitan area. Nor is population an exclusive criteria or measure of size; land area is important in non-metropolitan WA. The Cities of Belmont and Subiaco suggested the use of resident population was too simplistic and that the Board consider the concept of ‘visiting population’ (i.e. the number of people that come in to a local government area to work or access services).

7.3 STRUCTURAL REFORM IN AUSTRALIA

All states have addressed or are addressing structural reform. It is useful to review the experience of other states, although there are some differences of opinion concerning the outcomes of the reforms undertaken.

Local government in Victoria underwent radical reform in the mid 1990s, with the number of local governments reduced from 210 to 78. The Victorian reforms were multifaceted, including not just boundary changes and amalgamations but compulsory competitive tendering and contracting out. The system previously had acknowledged problems with boundaries and efficiencies, with some local governments not evolving far from their original roads board status. Since the reforms, the sector in Victoria has in general thrived, and is far more vibrant and effective than in 1992 (Hill 2003). The amalgamation part of the change package was well received, at least by the community. The new entities can address major issues impacting upon their communities, and can be more strategic, employ more diverse professional staff, engage in serious social, economic and environmental planning, and their capacity to advocate for communities is substantially enhanced (Hill 2003).

In South Australia, the most significant structural change in that state's history occurred in the mid 1990s. Structural reform was a key initiative of the State Government's objective to strengthen the capacity of local government in the state, particularly given the potential in rural SA for local government to adopt a stronger, more positive regional approach to economic development. A Ministerial Advisory Group reported in 1995, recommending a reduction in the number of local governments to just 34, from 118. This was considered too drastic a change. The Local Government Boundary Reform Board commenced operations in January 1996, employing facilitators to bring local governments together in a voluntary process. By 30 September 1998 the Board had reportedly delivered:

- A reduction in the number of local governments from 118 to 68.
 - Recurrent savings conservatively estimated at \$19.4m per annum¹⁵.
 - One-off estimated savings of about \$3.9m.
 - Additional capacity for improved and consistent planning decisions across the combined local government areas.
 - Improved approaches to managing environmental issues.
 - Greater resource bases at the disposal of amalgamated local governments.
 - Additional capacity for local government to improve the range and quality of services and to participate in the development of the SA economy.
- (Local Government Boundary Reform Board 1998).

A former Executive Director of the SA Office of Local Government has written that *"there is no doubt ... that the reduced number of councils has strengthened the local government sector as a whole"* (Proctor 2002:5). She also notes that there are different schools of thought about the real long-term benefits of reform, but cites a study by the Centre for Labour Research (2001) at the University of Adelaide which found a range of benefits arising from the mergers:

¹⁵ This estimate of savings was derived from the affected councils (Proctor 2002).

- Better planning for local government activities.
- More services.
- Better use of capital equipment.
- Better technology.
- Economies of scale.
- More expertise.
- Customer service focus.

Subsequent writers have disputed the recurrent savings claimed for South Australia and Victoria (Dollery and Crase 2004:274). Some participants in this review have expressed support for the approach used by South Australia in achieving reform, of employing facilitators and providing funds for local governments to identify and implement their own preferences for change, yet within a known timeframe. This was seen as giving the local governments the opportunity to get together and come to their own arrangements.

In Queensland, which had a number of local government amalgamations in the 1990s, particularly in regional cities, the Local Government Association (LGAQ) has initiated a process of structural reform. It released a Discussion Paper in March 2005 *Size, Shape and Sustainability of Queensland Local Government* to assist discussion and debate by member local governments on shared services, regional cooperation and voluntary boundary change. The LGAQ is opposed to forced amalgamations, but according to CEO Greg Hallam the paper “*is honest and intellectually rigorous enough to acknowledge that in some cases voluntary amalgamations might be the answer.*” The Discussion Paper outlines the factors driving the need for structural change in local government and identifies the various structural change options open to local governments, including resource sharing through service agreements, joint enterprises and joint arrangements as well as amalgamation and boundary change. The paper also contains a self-assessment tool for local governments to review their sustainability. To assist the process, the State Government created the Regional Collaboration and Capacity Building Program, providing funding of \$25 million over five years to assist neighbouring local governments to work together to explore the feasibility of providing joint facilities or services.

In July 2003, the NSW Minister for Local Government wrote to the 172 NSW local governments calling on them to review their position and to consider how they may more effectively and efficiently deliver local government services and facilities to local communities, and to submit their proposals by 31 August 2003. Subsequently there was considerable discussion and debate on reform occurring across the State and the majority of local governments lodged proposals. Proposals were referred to the Local Government Boundaries Commission for examination or to independent facilitators to undertake a regional review process. A regional review process would consult on the local government proposals submitted affecting a region, and develop a suitable reform proposal for referral to the Boundaries Commission for examination and report. By March 2005 this process had resulted in the number of local governments in NSW reducing by 20 to 152.

The General Purpose Standing Committee of the NSW Legislative Council also conducted an inquiry into local government amalgamations in 2003 and found no conclusive results re larger local governments providing economies of scale that may be applied universally. However, the Committee did acknowledge that

amalgamations do have the potential to provide efficiencies and economies of scale, particularly if a small local government is struggling to provide basic services, although the extent that any efficiencies would be obtained would depend on the local circumstances.

The terms of reference for a previous Inquiry into eight local governments of inner Sydney placed an emphasis on structures for the provision of efficient local government services and facilities. The Inquirer, Professor Kevin Sproats, found that the momentum for reform had been lost with the move to a voluntary approach, for the experience showed that local governments were unable to voluntarily advance the reform process in any substantial way. Local governments used the policy of no forced amalgamation as a pretext for inertia and self-interested preservation. Sproats felt it was counterproductive to leave local government reform in the hands of local governments, and concluded that the local government structures in inner Sydney should be recast (from eight to four local governments) to provide fewer, better resourced, more strategically focused local governments (Sproats 2001).

Local government in Tasmania, after experiencing significant reforms in the early 1990s, has been relatively stable since. The Northern Territory has also had a reform agenda, geared towards regionalisation of (indigenous) local governments, resulting in some amalgamations, such as in the Tiwi Islands.

The Federal Government has supported the structural reform initiatives of the states because:

- *“It wants to build local government's capacity to serve its community. In general, larger councils have a more secure and adequate financial base, are better able to plan and to contribute to economic development, are more effective community advocates, and interact more effectively with government and business. Small rural councils in Australia's inland face a multitude of challenges including depopulation, low rates, deteriorating infrastructure and demand for better services. Merging can bring greater financial strength and stability to these rural councils.*
- *It wants councils to deliver value-for-money services to local communities. Structural reform delivers economies of scale and allows councils to employ a wider range of professionals, so they can offer a wider range and higher quality of service.*
- *Without change, councils face the possibility of an ever-diminishing role as individual services are contracted to the private or voluntary sectors, while other concerns, such as the environment, are addressed by special interest groups or agencies. These changes can undermine local democracy and reduce service integration”* (National Office of Local Government Annual Report 2000-01).

7.4 THE NEED FOR AND OBJECTIVES OF STRUCTURAL REFORM

The WA Government's Functional Review, chaired by Michael Costello (Functional Review Taskforce 2002) made reference to the need for reform to local government in WA. The WA Government itself has embraced the recommendations of the Functional Review. The decision by the former Minister for Local Government and Regional Development, the Hon John Bowler MLA, to have the Board conduct this Inquiry into Local Government Structural and Electoral Reform can be seen as part of the Government's response to the Functional Review.

In the Board's Issues Paper released for this review it was suggested that there was a need to review the structure of local government in WA, to ensure the system is robust and sustainable, and that it could meet the challenges of the future. Many participants in the review agreed with this position, supporting the view that there is a need to review the structure of local government. Some respondents said the need for such a review was urgent and overdue. Some local governments are facing severe demographic pressures that are threatening community sustainability. Some local government are facing staff recruitment and employment pressures that are threatening organisational sustainability. Some local government are likely to have financial deficiencies and difficulty in meeting long-term infrastructure funding needs. Given the submissions, and in consideration of the current structure of local government in WA, the changes that have taken place in other jurisdictions, and the need to ensure the future sustainability of communities in WA, the Board has concluded that there is an urgent need for structural reform of local government in WA.

Local government boundaries are often poorly related to the physical environment (i.e. catchments) and to regional economic systems. *"The problem with historical boundaries is that they often do not accord with the opportunities and challenges presented by contemporary economic change and current environmental management concerns"* (Daly 2000).

Many participants in the review made suggestions for the objective of structural reform of local government in WA. LGMA submitted that the objective should be to provide for the development and implementation of governance structures and processes that will ensure the long-term economic, environmental and social sustainability of local government and the communities they represent and serve. Other suggestions were:

- City of Geraldton - to facilitate such changes as necessary and appropriate to build a system of sustainable local government that meets the needs of communities.
- Shire of Victoria Plains - to provide good governance, infrastructure; community services and facilities to foster sustainability for the ratepayers at reasonable cost while preserving sense of belonging.
- Shire of Katanning - to produce strong resilient local governments that can attract resources to area and maintain infrastructure and services at high standard.
- Shire of Beverley - to strengthen local communities and ensure sustainability.
- Department of Sport and Recreation - *'local government should be aiming to be the provider of critical services having the greatest impact on the quality of life within their communities'*.
- Koorda community member - Enhancing the sustainability of communities.
- Lesmurdie Ratepayers Association - to reduce costs, be more efficient.
- A country Mayor (Northam) - to eliminate duplication.

The Board considers all these to be valid objectives, but will interpret broadly the requirements of the terms of reference to enhance the future economic, environmental and social sustainability of WA communities.

For local governments to embrace structural reform, there needs to be some degree of self-assessment by local governments. The Local Government Association of Queensland Discussion Paper for the Size, Shape and Sustainability review is a tool for local governments to do just that. The tool is built on assessment criteria within the State's Local Government Act, addressing financial and resourcing indicators, community of interest measures as well as planning and growth indicators. The self-assessment is meant to provide the basis for local governments to evaluate the potential for structural reform and the appropriate options (LGAQ 2005). To facilitate the process the paper includes a review framework including:

Step One – exploring options and possible review partners.

Step Two – information gathering, research and analysis.

Step Three – community engagement process.

Step Four – local governments determining a structural change option.

The LGAQ suggests that the savings made from structural reform do not necessarily mean that local employment opportunities will be reduced. The efficiency gains can be reinvested in improved services and facilities which may have multiplier effects for local employment and investment (LGAQ 2005:5).

The next section of this report considers the second element of the terms of reference for this inquiry, concerning the possible approaches to structural reform that can be adopted by local governments.

8 OPTIONS FOR STRUCTURAL REFORM

The Board's terms of reference for this review require it to address:

- **Identification of approaches that can be adopted by councils in achieving structural reform, ranging from local government amalgamation through to resource sharing.**

For the purposes of this review, the classification of models of municipal governance presented in this section is based on that used by Dollery and Johnson (2004). This classification has been used, with amendment, by LGMA (in their submission to the Board) and elsewhere, and is supplemented with variations identified in other sources.

Numerous local governments, including the Shire of Chapman Valley and Town of Bassendean, stated at the hearings and in their submissions that a State like WA was not suited to a "one size fits all" approach. The Board agrees with this comment, and notes that the eight models presented here will suit different circumstances and different local governments. The models considered include:

- 1) Existing Small Local Governments.
- 2) Resource Sharing.
- 3) Regional Organisations of Councils.
- 4) Area Integration / Joint Board Model.
- 5) Virtual Local Government.
- 6) Agency Model.
- 7) Amalgamated Large Local Governments.
- 8) Major Boundary Change.
- 9) Community Consultation Mechanisms.

8.1 EXISTING SMALL LOCAL GOVERNMENTS

Dollery and Johnson (2004) describe local government as the lowest level of government vested with expenditure and revenue raising power, yet enjoying a high degree of political and operational autonomy, although constrained by revenue constraints and burdened by cost-shifting.

When Dollery and Johnson (2004) identify existing small local governments as a model of governance, they could be basically describing the status quo in WA. While there is tremendous diversity among the 142 local governments in WA, in terms of population, area and revenue, the majority of the existing local governments could be classified as small, on the basis of their population and revenue. There were 102 local governments in WA with population less than 10,000 (72.5%) (based on estimates of resident population for 30 June 2005), and in the 2003-04 financial year there were 98 local governments (69%) with revenues less than \$10 million. Given the average population (14,156) and average revenue (\$13.7 million) of local governments in the State, these might be considered small local governments.¹⁶

A structure built on so many small local governments has advantages and disadvantages (Box 4). On the one hand, the existing local governments could be said to offer a fragmented yet potentially robust system of local government, in that there is strength in diversity, communities are often quite strongly attached to their local local government, and the system might encourage innovative and responsive solutions to local problems. Smaller local governments can be subject to closer scrutiny, and experience greater pressures to deliver more efficiently (Dollery and Crase 2004). Representatives of smaller local governments told the Board that smaller local governments needed to be more innovative to survive (such as taking up gravel cartage contracts), could respond quickly to needs, operated with less 'waste', and could build social capital and draw on community contributions from higher volunteering rates.

Conversely, the smallness of many local governments can be a weakness of the system, with many local governments lacking sufficient resources and staff expertise to do little more than offer a limited range of community services or maintain declining community infrastructure.

While some observers would defend the status quo, one commentator has argued for the creation of a greater number of small local governments (Allan 2003). The writer seems to favour a US style system of a patchwork of many metropolitan local governments, but enhanced through the use of joint service centres. Allen contends that the evidence supports a view that bigger local governments are less economical and less locally responsive, such that rather than amalgamate small local governments, the larger metropolitan local governments should be broken up into smaller political units. On this basis, some of Perth's largest local governments (i.e. City of Stirling), could be split up to make smaller local governments, and a small number of submissions to this review addressed this possibility. This included several submissions from Stirling - based groups and residents, including one who undertook a phone survey of 160 Stirling residents, finding that 57.5% believed the City was too large, and 53% agreed that the City should be split.

¹⁶ Many councils small in population or revenue are however extremely large in land area (for example, Shire of Menzies, population 353, area 128,000 square kilometres).

The findings of a 1999 study of 'strategic factors in local government performance' are of some interest, offering a mixed view on the success of small local governments. This study found that some small metropolitan local governments (Peppermint Grove, Mosman Park, Claremont, Cottesloe, Subiaco, Fremantle, East Fremantle) have been successful in achieving high financial autonomy, but this is said to have come through higher residential rates rather than local government efficiency (Chia and Newman 1999:20). The same study suggested that the levels of community service provision are at the most basic level in the local governments of Claremont, Peppermint Grove, Mosman Park, Cottesloe, East Fremantle and Serpentine-Jarrahdale. Small local governments have generally achieved financial autonomy through high residential rates, restricting the level of local government services, or a combination of both (Chia and Newman 1999:20).

How might the existing smaller local governments ensure the future sustainability of communities? A number of the local governments named above (for example, Claremont, Mosman Park, Subiaco) submitted to this review that they were sustainable local governments, and cited their closeness to the community.

A Shire President submitted to the Board that *"the grants system subsidises inefficiencies among the small local governments"*. Another observer has remarked that the problem local governments *"are encouraged to remain because they are propped up by federal money ... the regular drip feed of external support mechanisms ... while someone else pays the bills, true reform will not be forthcoming"* (Daly 2000). This is said to reduce enormously the capacity of local government to act as an agent to improve the economic and social well being of rural Australia.

Retaining the status quo is therefore an option to be considered, but on its own it does nothing towards achieving structural reform, and this was established earlier in this report as being essential to ensure the future sustainability of communities in WA.

The advantages and disadvantages listed below are generalised for small local governments. Not every small local government will enjoy the advantages, nor necessarily suffer the disadvantages.

Box 4 Advantages/Disadvantages of Existing Small Local Governments¹⁷

	ADVANTAGES	DISADVANTAGES
Finance and Resources	• Possibility of maintaining high level of volunteerism.	• Limited opportunity to achieve operational economies of scale and scope. • Limited capacity to attract specialist human resources. • Limited opportunity to operate on a fully commercial basis. • Lack of economic strength due to narrow or small rate base and need for above average rates. • Limited ability to maintain infrastructure.
Organisation and Services	• Allows local governments to continue to have differing levels of service. • Enables customer service focus.	• Duplication of depots, offices, technology, plant and equipment. • Does not generate operating cost savings, reduce staff and overhead duplication and resource utilisation efficiencies. • Limited range of services provided.
Community and Representation	• Maintains existing arrangements for representation. • Maintains historical entities.	• Higher number of elected members leads to higher governance costs.

8.2 RESOURCE SHARING

Resource sharing is defined as any arrangement where a local government body cooperates with another body or bodies to share financial, human or physical resources to achieve common objectives (Department of Local Government (NSW) 1995). Such arrangements are quite common in local government, with around 80% of local governments in WA resource sharing to a greater or lesser degree. Cost savings is one of the primary motives for resource sharing, with other reasons including expanding the range and quality of services available to a community in a local government area. Resource sharing would also help local governments overcome skills shortages in key areas.

Many such arrangements have emerged informally and spontaneously, reflecting local initiative and knowledge of the prospects of cost savings and applied to specific projects or general activities. Resource sharing on an *ad hoc* basis, whenever and wherever the perceived need arises, is the most limited and flexible alternative to municipal amalgamation (Dollery and Johnson 2004). Resource sharing on a case-by-case basis avoids political pitfalls of more formalised arrangements, since no formal and long-term agreement has been made to agglomerate all local government functions. It is an opportunity to test for economies of scale in service areas, and if benefits are not generated the sharing experiment can be abandoned (Dollery and Marshall 2003). While *ad hoc* resource sharing generally lacks a formal legal basis, section 3.68 of the Act recognises the legitimacy of regional resource sharing and or contracting out of services by local government.

Professor Kevin Sproats, giving evidence to the Legislative Council of NSW Inquiry into local government amalgamations (2003), noted there were limitations with resource sharing. For example, when there is an uneven number of resources, there will be little benefit in entering into an arrangement with a local government that does

¹⁷ This format for evaluating structural reform models is based on that used in the Local Government Association of Queensland's *Size, Shape and Sustainability* discussion paper (2005).

not have services and infrastructure. He concluded that some of the quoted benefits of resource sharing are not achievable in practice.

As mentioned earlier in this report, the Board conducted a survey of local governments in WA, mirroring somewhat a survey undertaken by the SRAC committee in 1995. According to the survey responses, the percentage of local governments who report sharing of resources has increased slightly from 1995 to 2005, from 72% to 80% (Table 13).

Table 13 Survey Responses – Resource Sharing

	1995				2005			
	Yes		No		Yes		No	
Total	64	72%	25	28%	69	78%	19	22%
Metropolitan	6	40%	9	60%	13	62%	8	38%
Country	58	78%	16	22%	56	84%	11	16%

Source: Local Government Advisory Board; Survey Results: Issues Related to Local Government Structural Reform; December 2005

The resources shared most commonly involve outside plant and equipment and health and building services staff (Table 14), as well as a diverse range of other staff such as CEO, planner, ranger, landcare officer, human resources officer, community development officer, waste management officer, information technology officer, crime prevention officer. Other resource sharing occurred with facilities, training, auditors, dog pounds, and airport management.

Table 14 Survey Responses – Resources Shared

	Total	Metro	Country
Outside plant and equipment	35	7	28
Office equipment	5	1	4
Community facilities	6	4	2
Health/building services	47	3	44
Engineering staff	16	4	12
Planning staff	19	4	15
Data processing services	3	2	1
Other staff	33	7	26

Source: Local Government Advisory Board; Survey Results: Issues Related to Local Government Structural Reform; December 2005

While resource sharing can be a useful strategy for local governments, it is not universally practised. Where local governments were not resource sharing, a range of reasons for not doing so was reported, including distance and lack of opportunity, poor regional relationships and 'paranoia' among neighbouring local governments. A number of local governments indicated resource sharing was not necessary, while others were currently examining options for resource sharing.

Amongst other things, resource sharing is a way that local governments can 'hire – in' staff. The converse side is where local governments hire out staff to other local governments (33% of respondents). Positions hired out included planner, ranger, health/building, engineer, landcare, human resources, community development, and pool manager. Employment of staff on a shared basis/group scheme was slightly more common (42% of respondents). Positions employed on a shared basis were similar to those hired out: planner, ranger, risk manager, health/building, recreation,

environmental, landcare, coastal, administrative, human resources, information technology.

A significant number (61% of respondents) indicated that they had plans to enter into new resource sharing arrangements. Areas for future resource sharing (for those not already resource sharing) included plant, waste, staff generally, planner, ranger, resource manager, health officer, technical officer, accountant, and 'to be determined'. In an innovative development in NSW, local governments in the Hunter region have got together to establish a records repository (NSW Legislative Council 2003).

In submissions to the Board, resource sharing received substantial support, with the Shire of Denmark going so far as suggesting that it should be compulsory for all local governments, and it being described by the Shire of Woodanilling as a 'win-win' for participating local governments. Capel and Dardanup councils supported resource sharing and/or regional cooperation as the preferred alternative to boundary change. The sharing of CEOs was seen as feasible by many respondents (indeed it is currently happening, in the case of the Shires of Broomehill and Tambellup), but not generally desirable, as it possibly leads to conflicts of interest. The Shire of Collie suggested that if the CEOs are shared, then why not just amalgamate the local governments! More attention appears to be being directed to sharing backroom functions, particularly as there are shortages of skilled staff, but in doing so, as elsewhere, there was a need for arrangements to be formalised to minimise risks. Some respondents were wary of resource sharing, suggesting that it provided only 'short term comfort' and was not conducive to good local government. Certainly resource sharing is not without disadvantages. For example, some employees may find it difficult to serve two or more organisations/employers. There is also the potential for the recipient local government to feel that priority is given to the 'owner' of the local government service.

One respondent suggested that there was a need for studies on the cost benefits of resource sharing. This is out of scope for the current study and is in any event up to individual or groups of local governments to consider on a function or service basis in the context of their relative circumstances.

It is generally the smaller country local governments that lack the resources and would benefit from outsourcing additional resources. In light of this, the City of Stirling suggested that there was scope for more formalised metropolitan – country local government service support models, where country local governments can be supported (at cost) by larger metropolitan local governments. This would particularly apply in corporate service areas such as training, information technology, internal auditing, strategic planning, economic development and marketing. Such arrangements already exist, with the City of Belmont supporting the Kojonup and Cocos (Keeling) local governments in statutory and strategic financial advice and statutory planning, and the City of Canning supporting Ngaanyatjaraku and other local governments (Wiluna, Chittering, Goomalling, Cue) with accounting or other financial services, and undertaking swimming pool inspections for the Town of Vincent and the building licences function for South Perth. The City of Melville has a cooperation agreement with the Shire of Quairading, as do the Shires of Kalamunda and Goomalling. The City of Stirling's suggestion of formalised metropolitan – country local government service support has merit and the Board believes other local governments should consider if this is an appropriate model.

Resource sharing is not simply for smaller local governments. Despite the division of 1998, the Cities of Wanneroo and Joondalup still work together under a service delivery agreement that sees Wanneroo manage the waste collection and road gangs that cover both areas, while Joondalup manages the information technology and the library systems for both cities. With new information technologies, there is certainly a capacity to share information more widely.

Such inter-local agreements have advantages in flexibility and capacity to expand the level of cooperation, or for local governments to withdraw. Inter-local agreements flourish not because of cost savings, but because they appeal to values of reciprocity, cooperation and general neighbourliness (Seroka 2005).

Clearly, resource sharing is already a common and accepted strategy for local governments. The Board believes that local governments should continue with this strategy to enhance their capacity to support sustainable communities, and that all local governments should seek out new and further opportunities for resources to be shared. In doing so, however, the other models of structural reform cannot be ignored. It is likely that resource sharing will complement the implementation of all other forms of structural reform, including amalgamations.

Box 5 Advantages/Disadvantages of Resource Sharing

	ADVANTAGES	DISADVANTAGES
Finance and Resources	• Opportunity to achieve operational economies of scale and scope. • Allows a local government to specialise in particular function/service. • Spreading of costs and risks. • More efficient use of resources. • Financial savings releases funds for other services. • May enhance capacity to attract specialist human resources. • May be opportunity to operate on a fully commercial basis, resulting in further efficiencies. • Flexibility, local governments able to enter arrangements easily.	• Limits economies of scale to functions where resource sharing is practical. • May involve injection of working capital. • May involve direction through a joint council. • Competition for resources, as local governments may want same resources at same time. • Flexibility, local governments able to exit arrangements easily. • Some employees may find it difficult to serve two or more organisations/employers.
Organisation and Services	• Potential for operating cost savings, reduced duplication and resource utilisation efficiencies. • Opportunity for more flexible work practices. • Increases customer service focus and management autonomy. • May produce a 'purchaser/provider split'. • May rationalise operating infrastructure such as depots, offices, technology, plant and equipment. • Allows local governments to continue to have differing levels of service.	• Requires implementation of a joint enterprise/partnership / service agreement between the local governments, including service levels. • May involve setting up of a separate organisation structure to manage the shared resources with own compliance and reporting costs. • Potential for agreement/contract disputes. • May not provide sufficient long-term certainty for a local government to gear-up in terms of staff/resources.
Community and Representation	• Local governments remain as independent entities. • No impact on arrangements for representation. • May establish clear management responsibility for day-to-day activities.	• May cause loss of direct control by councillors over shared operations, as policy and management decisions need to involve all participating local governments.

8.3 REGIONAL ORGANISATIONS OF COUNCILS

Regional Organisation of Councils (ROCs) are voluntary groupings of local governments (also commonly referred to as VROCs), formed by groups of local governments to promote cooperation, and as cooperative ventures with a consensus approach to common problems at a local level (Bellamy et al 2003). ROCs are seen as providing a range of benefits to participating local governments, including information exchange, joint/common policy development, coordination of activities, cost saving through joint purchasing and tendering, and resource sharing. They can also play a critical political role as a regional lobbying group.

VROCs are seen to offer to local government a far less bureaucratic means than amalgamation of seeking to be more effective, while maintaining the valued character of local identity and representation, and in some cases, autonomy of decision-making (Bellamy et al 2003). Marshall et al (2003) identified core activities of VROCs:

- Advocacy of the needs of the region to state and federal levels of govt and broader community.
- Lobbying of state and federal governments for financial assistance and other benefits for the region.
- Improved relationships with intergovernmental actors.
- Fostering cooperation between member local governments in relation to common problems and issues.
- Advancing the interests of the region.

As regional lobbyists, ROCs carry greater weight with State and Federal governments and their submissions tend to be more thoroughly researched and better argued. ROCs also offer other governments a single point of contact for agencies such as health and housing. ROCs offer a framework for providing a stable long-term structure for regional governance, particularly where they evolve from the bottom up (Dollery and Marshall, 2003).

ROCs have been in existence in parts of WA for some decades. For example, the South West Local Authorities Management Group (now known as the South West Group) was established in 1983. ROCs generally do not have a formal legal status, but they can progress to this as regional councils under the Act (see below). While ROCs are therefore not legally binding, a local government can walk away from such an arrangement. Some participants may see this as an advantage, but it can also be seen as a limitation on the extent to which the ROC can make solid achievements. The critical attributes for success of a ROC are said to be commitment, teamwork, regional vision, trust, openness, communication, leadership, and willingness to cooperate.

The Board's survey of local governments in WA asked local governments if they were members of voluntary regional group of councils. According to the survey responses, the percentage of local governments involved with voluntary regional groups has increased significantly between 1993 and 2005, from 25% to 57% in 1995, and to 83% in 2005¹⁸ (Table 15). This compares favourably with an ALGA

¹⁸ Councils that reported they were not a member of a regional group in 2005 included:
Local Government Advisory Board April 2006

survey in 1997, which found that more than 50% of local governments nationally participate in VROC (Bellamy et al 2003). Another survey of ROCs clearly indicated that many local governments believed they represented a worthwhile investment capable of reaping substantive returns for the region and individual local governments (Dollery et al 2005). Regional cooperation and development, and waste management are the primary focus of regional groups in WA (Table 16).

Table 15 Members of a Voluntary Regional Group of Councils

	1995 (90 responses)	2005 (82 responses)
	Yes	Yes
Metropolitan	16	22
	100.0%	100.0%
Country	35	51
	47.3%	77.27%
Total	51	73
	56.7%	82.95%

Source: Local Government Advisory Board; Survey Results: Issues Related to Local Government Structural Reform; December 2005

Table 16 Functions of Regional Groups

Function	1995 (number of responses)	2005 (number of responses)
Health/Building Control	3	4
Business Enterprise/ Economic Development	2	2
Environment NRM	2	4
Housing	2	0
Library services	3	3
Planning and development	3	0
Radio services	2	0
Regional cooperation/ Development	26	7
Resource sharing/ Information exchange	7	7
Waste Management	16	13
Other	6	13
TOTAL	72	45

Source: Local Government Advisory Board; Survey Results: Issues Related to Local Government Structural Reform; December 2005

The funding basis for the regional groups included equal or proportional contribution by members, per capita contributions, self-funded/user pays, and grant funding. Most of the groups employ staff (62% of responses), with the regional group or VROC CEO or alternatively a local government CEO being responsible for the management for the staff.

The main reasons for local governments to join a regional group were economic, social and community development, access to funding and waste management. Other reasons included cost or resource sharing, purchasing and tendering, NRM, planning, lobbying, administrative efficiency and economies of scale. Most local government respondents (64%) considered the regional group to be successful or very successful (Table 17). No respondents felt that their regional group was unsuccessful, although for some it was too early to make a judgement. The reasons for partial success of the regional groups are also of interest, although the local governments reporting such reasons were low in number (Table 18). Reasons for not joining a formal group included scepticism about the benefits and the absence of opportunity, with specific reasons including the fact that the existing informal group was working well, and a regional town suggesting smaller local governments felt threatened by a regional group (Table 19). A number of local governments indicated a formal regional group was under investigation¹⁹, for such purposes as waste management, corporate services, NRM, aged care, land development, and general services.

Table 17 Success of Regional Group

	Metro	Country	Total	
Very successful (exceeded expectations)	7	8	19	24.7%
Successful	9	21	30	39.0%
Partly successful	1	13	14	18.2%
Unsuccessful	0	0	0	0.0%
Too early to judge	2	12	14	18.2%

Source: Local Government Advisory Board; Survey Results: Issues Related to Local Government Structural Reform; December 2005

Table 18 Reasons for Part Success of the Regional Group

	Total
The grouping is newly formed	5
A lack of consensus among members	4
Insufficient administrative support	5
Legislative restrictions	1
Inequitable/insufficient contributions by members	2
Other (distance, lack of commitment, overstretched CEOs)	2

Source: Local Government Advisory Board; Survey Results: Issues Related to Local Government Structural Reform; December 2005

Table 19 Reasons for Not Joining a Formal Regional Group

	Total
Cost	2
Poor regional relationships	3
Lack of opportunity	7
Sceptical of benefits	9
Concerns of loss of identity	3
Other	9

Source: Local Government Advisory Board; Survey Results: Issues Related to Local Government Structural Reform; December 2005

¹⁹ Capel, Coolgardie, Corrigin, Cuballing, Dalwallinu, Goomalling, Irwin, Kondinin, Mandurah, Mosman Park, Peppermint Grove, Quairading, Wongan-Ballidu, Victoria Park
Local Government Advisory Board April 2006

An example of a regional local government group being formed is the Yarra Yarra Regional Council to deal with natural resource management and to provide better catchment level governance in the Yarra Yarra Lakes catchment area. Given the powers conferred to Land Conservation District Committees (LCDCs) under the *Soil and Land Conservation Act 1945*, including the power to strike a rate, it is hoped that a single LDC for the catchment could streamline this process through the regional council. At this stage, three Shires that control 77% of the Yarra Yarra catchment have indicated their strong support for the concept. The Yarra Yarra Regional Council is not considered a perfect solution but the best fit that can be achieved within the legislation framework available.

From the Board's survey of local governments it is possible to identify and map the existing regional groups in WA (see Figures 2, 3 and 4 following). From these maps (bearing in mind that not all local governments responded to the survey), it is apparent that there are some major gaps in current regional arrangements. The arrangements in the northern part of the Wheatbelt tend to be more formalised than those in the southern portion, with many local governments in the southern portion not being in any regional group. It is apparent that some larger local governments, which contain regional or sub-regional centres, are not within such arrangements, notably Katanning, Merredin and Narrogin.

There are numerous examples of successful ROCs in WA.

- Cooperative arrangements undertaken by the Western Suburbs Regional Organisation of Councils (WESROC)²⁰ have yielded a broad range of outcomes, including regional studies, programs and initiatives, cooperation on service delivery and lobbying on a regional basis. While the local governments put a strong emphasis on maintaining local identity and local democratic structures, this has not prevented them from undertaking many initiatives to achieve administrative and service delivery efficiency improvements. Some 29 examples of regional cooperation have been progressed, including a regional library system, dog pound, combined depots, and local emergency management. The strength of the current approach is that there is no regional staff and no regional overhead, and members can assess proposals and join in or choose not to participate (Goode 2005).
- The North East Wheatbelt ROC (NEWROC) is based on seven member shires committed to resource sharing and working cooperatively²¹. Formed in 1994, and featured in the 1996 SRAC report, NEWROC has realised numerous benefits in NRM, staff sharing and training, regional planning, grant funding and strategic planning. It has also achieved cost savings through bulk purchasing, group tendering and the use of a common auditor. During the course of the review the Board met with NEWROC representatives in Trayning and was impressed with its achievements.

²⁰ Members are Claremont, Cottesloe, Mosman Park, Nedlands, Peppermint Grove, Subiaco

²¹ Members are the Shires of Wyalkatchem, Koorda, Mt Marshall, Trayning, Nungarin, Mukinbudin, Westonia

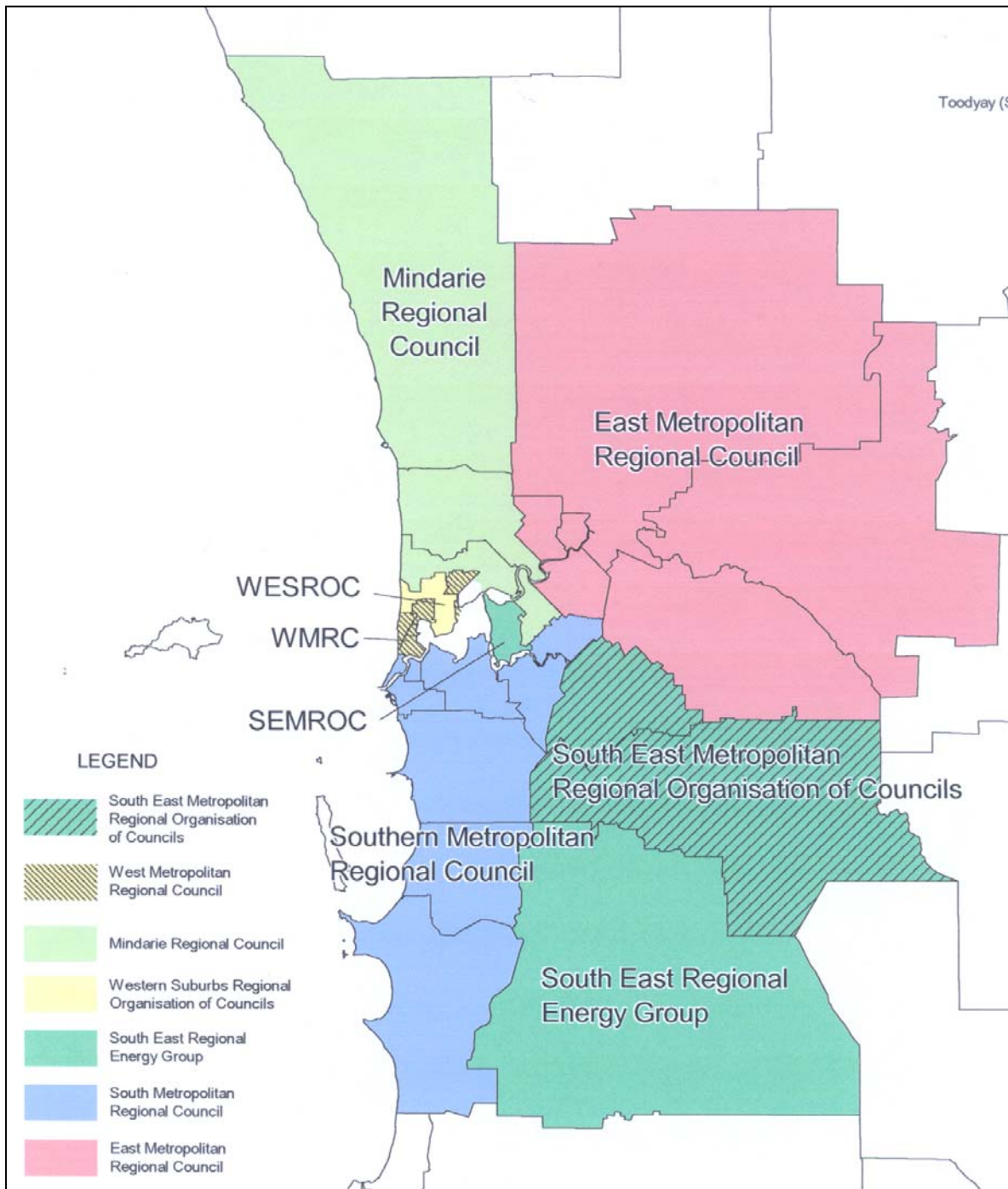


Figure 2 Metropolitan Region Existing Regional Local Government Arrangements as Reported in the Board's 2005 Survey

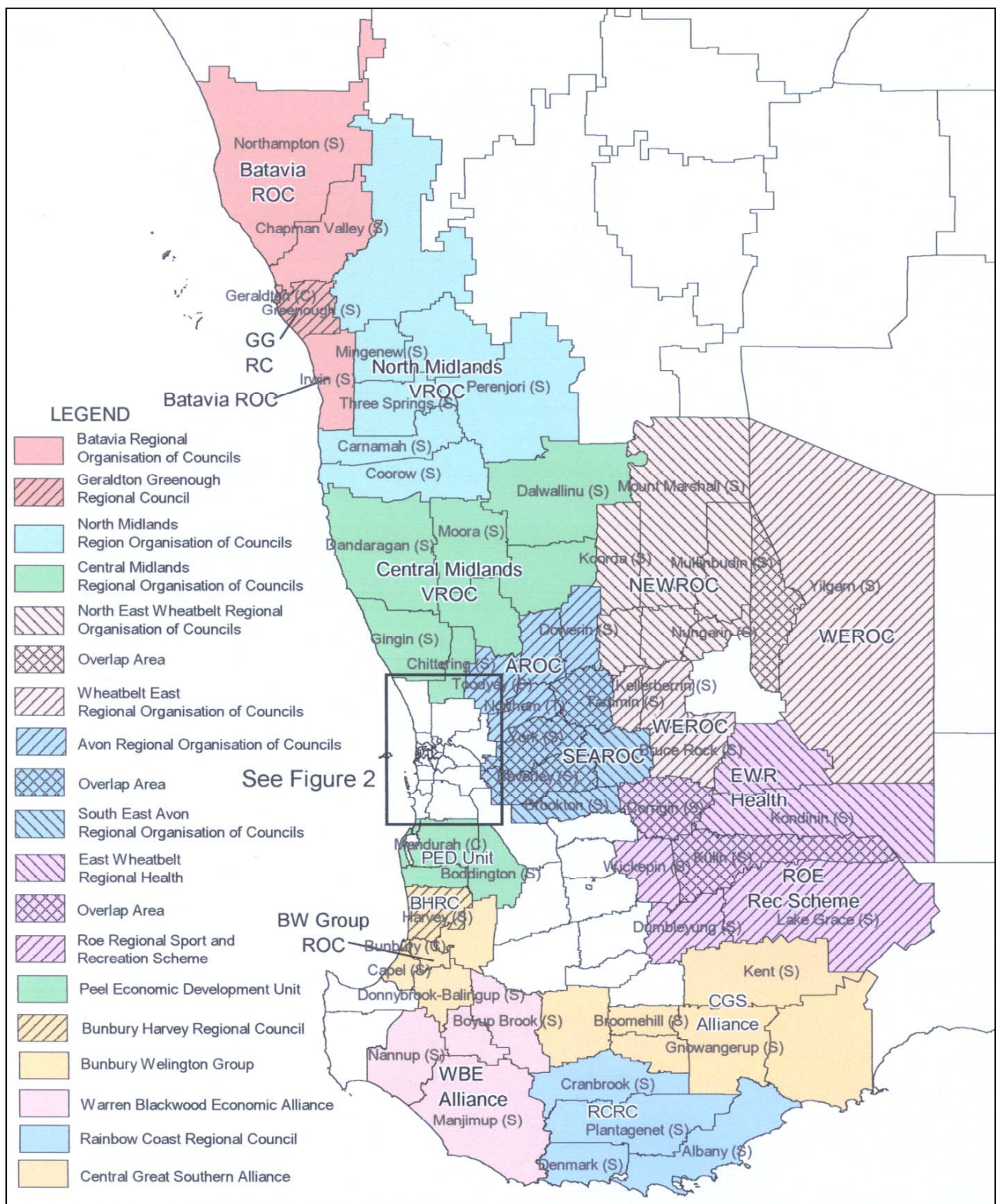


Figure 3 Mid West/Wheatbelt/South West/Great Southern Existing Local Government Arrangements as Reported in the Board's 2005 Survey

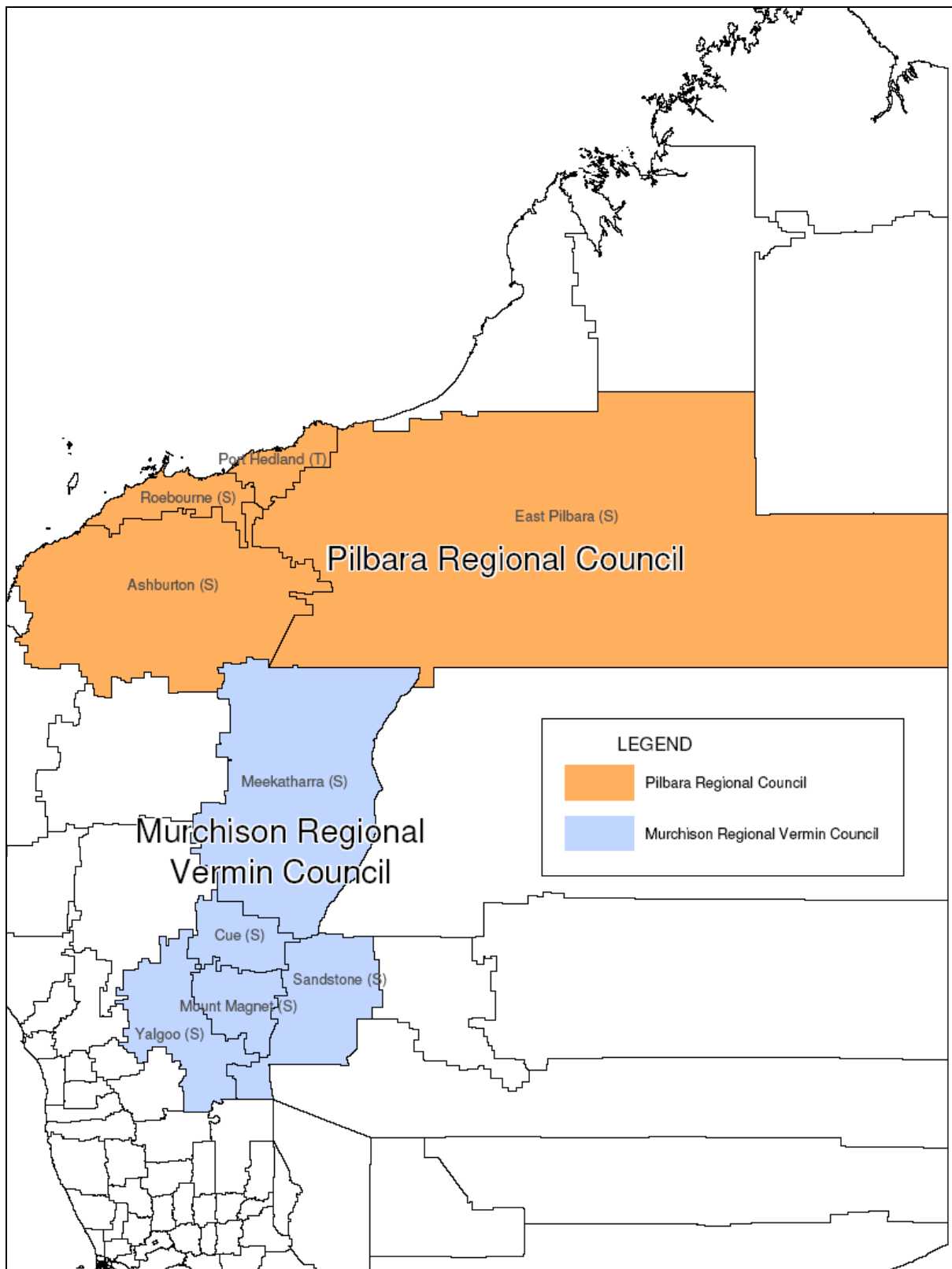


Figure 4 Pilbara/Murchison Existing Regional Local Government Arrangements as Reported in the Board's 2005 Survey

- The North Midlands Voluntary ROC is comprised of seven local governments.²² Its success to date has made members realise that to maximise the benefits available from a regional organisation, they needed to put in place a formal structure, and they are now in the process of forming a regional council. The local governments have indicated their in principle agreement to providing \$500,000 over four years, to enable the regional local government to be established. It will employ a CEO and appropriate support staff.

The Regional Council, provided for by sections 3.61 to 3.68 of the Act, can be considered as a statutory ROC. Section 3.61 allows for two or more local governments, with the Minister's approval, to establish a regional local government, for any purpose consistent with the Act or any other Act. Section 3.62 provides for the regional council to be a body corporate with perpetual succession and a common seal, with a governing body and a council formed under the establishment agreement consisting of members from participating local governments. The establishment agreement is subject to the approval of the Minister.

The potential for Regional Councils was introduced with section 329 of the *Local Government Act 1960*. Perhaps the oldest regional council is the Murchison Region Vermin Council, gazetted on 13 December 1963, comprising the Shires of Cue, Meekatharra, Mt Magnet, Sandstone and Yalgoo 'for the purpose of the rehabilitation and maintenance of the No 1 vermin fence'. Many of the regional councils were initiated for the purposes of waste management, but for some regional councils their areas of activity have increased, with the EMRC extending its role into safety, environmental management and economic development. Examples of regional councils currently operating in WA include the Eastern Metropolitan Regional Council (EMRC) (featured in the 1996 SRAC report), Mindarie Regional Council, Geraldton-Greenough Regional Council and Bunbury Harvey Regional Council²³. A major advantage of regional councils is the ability to coordinate finances for the provision of large-scale projects, and in providing a focus for local government in liaising with State and Federal Governments (City of Nedlands 1999:20).

The Department of Housing and Works advised the Board that in response to the difficulties experienced by many local governments in obtaining qualified building surveyors, the proposed new Building Act provides considerable flexibility to local government to consider resource sharing through regional groups.

The WA State Sustainability Strategy (Government of Western Australia 2003) notes the need for local government to establish regional partnerships with the State Government, and notes *"there are already three good models of Regional Councils"*: the Eastern Metropolitan Region of Councils, NEWROC, and the Pilbara Regional Council. *"Regional Councils have been able to develop the staff and capacity to make significant contributions on policies for sustainability."* *"The main link will be at the professional officer level where capacities are greatly expanded through regionalising. Political representation on Regional Councils can ensure that local democratic processes are extended into these areas of government to provide the*

²² Members are the Shires of Coorow, Mingenew, Morawa, Mullewa, Perenjori, Carnamah and Three Springs

²³ The Great Southern Regional Council was gazetted in 2002 and disbanded in 2005 after the withdrawal of Albany reduced the waste volume available to the regional council to justify a viable landfill site.

necessary local and regional flavour." (2003:57) Regional Councils were originally set up to manage waste as it was obvious that each local authority (especially in the city) could not have its own landfill site nor could a recycling centre be established in each locality. Regional partnerships were required. The same issue now confronts local government on many of the sustainability issues : natural resource management issues (especially landcare, drainage and coastal issues), settlement issues (especially transport, growth management, air quality, waste, renewable energy location and heritage) and community issues (especially location of community services, social housing, health and education).

Respondents to the Board's Issues Paper had diverse comments about the role of regional councils.

- The role of the regional council does not need to increase (ex-Mayor Subiaco).
- The role of the regional council can be increased if members are amenable (Cottesloe).
- Local governments should be embracing regional councils (Chapman Valley).
- Regional councils should be able to expand their functions more simply (Augusta-Margaret River).
- Regional councils should focus on 'high level activities' (Geraldton).
- Regional councils are not supported (Katanning).
- Regional councils should be built from the bottom up (Bridgetown-Greenbushes).
- Regional councils should concentrate on delivering services in a cost effective manner, not to determine the services which should be delivered (Fremantle).

There were also concerns about the added costs (particularly where the regional council is not involved in self-generating revenue sources such as waste management) and bureaucracy associated with regional councils, points made by Toodyay, Harvey, Victoria Plains and Narrogin Shires. The requirements for regional councils under the Local Government Act have been viewed as too rigid, and this is said to have led to an increase in the number of VROCs (City of Nedlands 1999:4). There are also concerns as to the basis of representation within a council; there is a view that a member local government which bears a greater financial risk should have a greater voice over the direction of resources (ibid 51). Two community members suggested that the community should have the capacity to directly elect members of a regional council.

Like other models for local government structural reform, there are advantages and disadvantages with these regional forms of governance. ROCs are said to be capable of creating horizontal networks that:

- Foster regional capacity building in terms of professional expertise.
- Promote the emergence of stable and coherent policy making processes responsive to, and representative of, local needs.
- Provide an economic infrastructure that reduces transaction costs and encourages business enterprise.

- Represent an archetype of municipal government superior to alternative forms of structural reform like amalgamation, with significant economic and financial advantages over competing models (Dollery, Johnson, Marshall & Witherby 2005).

Regions with cohesive networks are more able to respond flexibly to changing circumstances. A 2002 survey of ROCs clearly indicated that many councils believed they represented a worthwhile investment capable of reaping substantive returns for the region and individual local governments. Four critical factors underpinning their success were identified: (Dollery et al 2005)

- Close relationships between staff, built on trust, shared values, understanding, commitment.
- Growth from the bottom up, tailored to local needs, responding to local requirements.
- Directly accountable for its actions, stemming from the statutory base of participating local governments.
- A voluntary organisation, respecting the autonomy of member local governments, sharing power, using negotiation and compromise to achieve acceptable outcomes.

The example of Riverina ROC (REROC) is provided by Dollery et al (2005). REROC formulates policy in relation to matters such as regulatory proposals, social and environmental planning, and preparation of guidelines for regional activities. REROC has generated for its member local governments savings estimated at \$4.5m over 5.5 years, as well as reduced duplication of effort, joint tendering, regional lobbying, and resource sharing. The WESROC review (Goode 2005) also cites the Riverina ROC study, which *“gained many of the benefits enjoyed by very large municipal areas while at the same time preserving the local autonomy and sense of identity of its members”*. After examining the positives and negatives of service delivery alliances, regional councils and resource sharing/VROCs, the WESROC review goes on to suggest that a well-structured ROC is a much more efficient method of achieving local governance reform (Goode 2005).

There are substantial opportunities for local government to use a regional organisation to tap into the advantages that new communications technologies offer. The Goldfields-Esperance Country Zone of WALGA is one group that is doing so. It is working on a shared service/ backend processing model to deliver corporate service to nine local governments in the region. The focus initially will be on corporate services, such as human resources, finance, and information technology, but could be extended later to other core services of local government, particularly for those that are hard to be delivered effectively and efficiently because of the shortage of skilled staff (Fletcher 2006). This servicing model is founded on the use of broadband to transmit and process data between local governments and the processing centre (in Kalgoorlie). It is estimated savings in the vicinity of \$500,000 per annum could be made available among participating local governments to redirect into core local government services. While this would be welcomed by participating local governments, a view was expressed by one of the likely members that they did not necessarily want to export their jobs to the regional centre.

The sharing of back room services, as proposed by the City of Kalgoorlie Boulder for the eastern goldfields local governments, is based on the WA Government's Shared

Corporate Services Project. A review of the State's public sector found that there were wide ranging and diverse corporate services processes and systems. Examples included the 21 finance systems and 12 payroll systems in use within the largest 49 agencies. Many smaller agencies were also found to be operating below a scale that supports cost efficient processing or the retention of specialised people in high value support roles. There was significant duplication of overheads, including supervisory positions, Information Communication Technology (ICT) infrastructure and systems maintenance (Functional Review Taskforce 2002). The Board believes that these findings would perhaps be typical of the local government sector as well.

The review found there were considerable benefits, both financial and non-financial, to be achieved through a whole of government approach to corporate services delivery. These included greater opportunities for sector-wide strategies, enhanced career development opportunities and greater cost efficiencies from aggregation, standardisation and process simplification, particularly from the adoption of common ICT platforms and operating environments. Following on from these findings, the Shared Corporate Services Project will see the establishment of three Shared Service Centres as one-stop shops for finance and human resources services, providing corporate support to clusters comprised of nearly all State Government agencies.²⁴

In New Zealand, a shared services approach has succeeded in giving advanced communications solutions to smaller local governments that would otherwise be unable to fund such services. One example of this is the call centre run by Palmerston North City Council that handles after hours calls for eight other local local governments (Casci 2006). Shared services approaches to back office functions based on new technologies are also being used to generate greater efficiency in local government in the United Kingdom (Audit Commission 2005). The WA Structural Reform Advisory Committee also suggested this sort of approach in 1996, but the technology available in many rural areas has been a constraint.

These types of initiatives are consistent with the recent UK Audit Commission finding that the greatest potential for more efficient local government was through increased partnership working, with the potential for savings in a range of areas, including for example in the administration of revenues. Partnership working, either within the public sector or with the private sector, offers local governments the greatest potential for efficiency savings if they are prepared to overcome the perceived barriers (Audit Commission 2005). The Cost Shifting Inquiry (SCEFPA 2003) concluded that local government efficiencies could be improved through a mixture of changes that may include partnerships, regional cooperation and or amalgamation. It noted the established ROCs and other regional bodies, which had demonstrated a capacity to be involved in regional planning, and delivery of Federal and State programs, should be utilised by the Federal Government in a partnership approach on national priorities.

ROCs offer a framework for providing a stable long-term structure for regional governance (Dollery and Marshall, 2003). *"While we do not have formalised structures of government at the regional scale, it has become clear that many of our tasks of governance need to occur at this scale"* (Bellamy et al 2003).

²⁴ For more details, see www.functionalreview.dpc.wa.gov.au and www.oss.wa.gov.au

Professor Kevin Sproats, giving evidence to the 2003 NSW Legislative Council Inquiry into local government amalgamations, confirmed this view, describing the challenge in dealing with the governance issues that need to be dealt with at the regional level, and the governance issues that need to be dealt with at the local level. Sproats was, however, doubtful about the ability of ROCs to address service overlaps and inequalities, suggesting that there was a need for a clearer framework, as well as policy and/or legislative foundations.

Not all ROCs succeed. Some are unable to generate trust and create productive networks, such that it may be that different frameworks of regional governance are suited to particular localities. The record of VROCs in regional planning and problem solving is poor, and protection of local interest and the requirement for consensus limits progress (Bellamy et al 2003). While small local governments lack sufficient professional staff to manage the multidimensional nature of rapid change in coastal areas, the challenges in planning and management brought on by the sea change phenomenon, there is an urgent need for a cooperative approach between local governments at regional and sub-regional levels to pursue effective settlement strategies, yet few local governments have yet established processes for regional collaboration on these issues (National Sea Change Taskforce 2004).

Clearly, VROCs are already a common and accepted strategy for local governments in WA. The Board believes that local governments should continue with this strategy to enhance their capacity to support sustainable communities, and that all local governments should seek out new and further opportunities for participation in VROCs. In doing so, however, the other models of structural reform cannot be ignored. It is likely that VROCs will complement the implementation of all other forms of structural reform, including amalgamations. VROCs will still be needed after amalgamations (Dollery and Marshall, 2003)

Box 6 Advantages/Disadvantages of VROCs

	ADVANTAGES	DISADVANTAGES
Finance and Resources	• Opportunity to achieve operational economies of scale and scope. • Opportunities to operate on a fully commercial basis, resulting in further efficiencies. • Improves ability to attract specialist human resources. • Functions can expand to other areas. • Can be financially efficient if no dedicated regional staff are required.	• Requires creation of an additional management structure. • May involve injection of working capital into the joint enterprise. • Without a dedicated secretariat, relies heavily on CEOs.
Organisation and Services	• Participation is voluntary. • Potential for operating cost savings, reduced duplication and resource utilisation efficiencies. • Opportunity for more flexible work practices. • May produce a 'purchaser/provider split'. • Opportunity to rationalise operating infrastructure such as depots, offices, technology, plant and equipment. • The flexibility allows local governments to continue to have differing levels of service, and to choose to opt in or out of specific projects. • Regional identity assists intergovernmental negotiations.	• Voluntary aspect not suited to the long term. • Susceptible to withdrawal by local governments. Requires joint agreement between the local governments. • May involve setting up a separate organisation structure to manage activities. • May incur compliance obligations and costs, and have difficulty with liability and insurance issues. • Informal ROC unable to call tenders or employ staff.
Community and Representation	• No impact on arrangements for representation. • Suitable vehicle for implementing NRM.	• Loss of connections to community. • Possible concerns over lack of control of service provided by another local government. • Loss of direct control by local governments over shared operations, as policy and management decisions need to involve all participating local governments.

8.4 AREA INTEGRATION/JOINT BOARD MODEL

A joint board model has recently been developed by the Shires Association of NSW (2004), as a contribution to the renewed structural reform debate in that State. The model is based on retaining the existing local governments with their current boundaries, but with a single employing body with shared administration and joint operations, overseen by a joint board of elected members. This is comparable to the regional council, but the joint board model goes a step further by combining all operations of the constituent local governments. In doing so, the combined operations harness any scale economies, scope economies and other benefits that come from a larger organisation, yet maintain political areas small enough to provide the appropriate scale for effective representation and sense of community.

This is essentially similar to the Integrated Local Area Council (ILAC) model outlined in the 1996 SRAC report, which itself was derived from 'The Urban Parish Model: an alternative approach to local government amalgamation' (Thornton 1995). This model seeks to resolve the dilemma of small local governments which enable effective representation but perhaps do not use resources efficiently, and larger local governments which use resources efficiently but have difficulty enabling effective representation. The ILAC model, developed by the Town Clerk of a small local government in metropolitan Adelaide, was considered by the Ministerial Advisory

Group in South Australia, but was not favoured by the Group since it was not a true amalgamation of local governments. An amendment to the Local Government Act in South Australia enabled this 'parish council' model to be adopted. The model essentially brings a federalist alternative approach to restructuring, consisting of area-wide councils (with broad functions) and local councils (with local functions), which to some extent can be summarised as 'plan large, deliver small'. According to Thornton (1995), this approach is the best of both worlds for efficiency and representation.

ROCs are not former ALGA Executive Director Graham Sansom's preferred option, given their dependence on the personalities involved, and the potential for high levels of conflict. Giving evidence to the Legislative Council of NSW Inquiry, he stated, *"The only way you can even out the financial inequalities and service delivery inequalities is by moving to a more broadly based organisation in a geographic sense ... perhaps a two tier arrangement to maintain sense of community, (and play a community management role) at the same time address the obvious service delivery problems"* (2003:92). A two tier approach is implicit in Professor Sproats' evidence to the same inquiry:

"the big challenge for local government structural reform is how, at the one level, to deal with governance issues that have to be dealt with at a regional level, and how, at the other level, to deal with governance issues that need to be dealt with at the local level. They are different issues" (Legislative Council of NSW 2003:87).

This model would see the existing local governments retained as community level councils, and is particularly suited to the rural/country urban/small metropolitan local government context. The upper level integrating council, with two councillors from each member local government, would employ the CEO, who would be CEO for the joint as well as each constituent local government. There may be, for example, other senior managers for community development, engineering and works, planning, economic development, and administration. Each member local government would receive appropriate executive and administrative support, and host a service centre. The model could also be considered applicable in the context of the larger metropolitan local governments, where the existing local governments could be retained as the area-wide regional council, employing the CEO, and management team for the business units, coupled with smaller community or parish council type groups to provide enhanced local representation.

The advantages and disadvantages of the area integration / joint board model are outlined in Box 7, derived from information presented by the Shires Association of NSW (2004), Thornton (1995) and SRAC (1996). One advantage of the model is that the constituent local governments would continue to enjoy full autonomy, determining the range and level of services to be provided, but the Shires Association of NSW (2004) says that over time these would be rationalised.

It is worth repeating what the SRAC committee had to say about this model:

"The Committee is of the view that all councils should investigate the Integrated Local Area Council model as a means of enhancing efficiency, effectiveness and community representation. The Committee believes metropolitan local governments, both large and small, should consider this model. For the larger

councils, it provides a mechanism for reactivating the focus on the needs of smaller 'local' areas while maintaining a large but effective corporate structure. For the smaller councils, it facilitates economies of scale through the sharing of administrative and operational resources, while maintaining independence in political choice and representation. It has the potential to be reasonably easily 'dissolved' if it is found to be unworkable, or to proceed to a full amalgamation if this proves to be desirable. Most metropolitan councils are already members of a regional council.... Ongoing developments in communications and information technology further enable the practical application of this model." (1996:24)

The latter point about communications technology was prescient, given the Goldfields-Esperance model, which capitalises on the technology now available.

The area integration / joint board variations on this model revolve around the ownership of assets, with the joint board variation holding that each member local government would retain ownership of all assets, whereas transfer of assets to the joint board is envisaged under the area integration model (Dollery and Johnson 2004). Under either of these arrangements, it may be possible to reduce the number of elected members on each constituent local government. The Shires Association of NSW (2004) estimated for a hypothetical model involving three local governments with a total population of 18,000 that cost savings of nearly \$2M would be generated through reduction in senior management and non-senior staff costs, reduction in councillor numbers, savings on purchases of materials and contracts, and reduced depreciation via reduced duplication of assets. Improving the financial sustainability of councils is one objective of this model.

There was relatively little comment about this structural reform model in the submissions to the review received by the Board. LGMA likened this model to the recent arrangement between the Shires of Kellerberrin and Tammin for the joint appointment of a CEO and sharing of other staff. The Shire of Northampton, however, proposed a 'locality style' local government for Kalbarri, with its own budget and members and place Manager, with the Shire of Northampton still providing services to the town. The Shire believes this option would provide increased autonomy to the Kalbarri community, and if the arrangement did not work it could be either progressed up to full local government status, or be reversed entirely. The Board believes that this may well be a suitable model for local governments that have diverse communities like the Shire of Northampton, but there is a range of operational and legal issues (eg delegations, staffing) to be considered before it can be applied.

The Board, like the Structural Reform Advisory Committee, is of the view that the area integration / joint board model, or a variation on it (such as an increased role for existing regional councils), is worthy of consideration by local governments in WA, both large and small.

Box 7 Advantages/Disadvantages of Area Integration/Joint Board Model

	ADVANTAGES	DISADVANTAGES
Finance and Resources	• Opportunity to achieve operational economies of scale and scope. • Opportunities to operate on a fully commercial basis, resulting in further efficiencies. • Improves ability to attract specialist human resources. • Functions can expand to other areas.	• Requires creation of an additional management structure. • CEO carries heavy burden for all areas, has many masters.
Organisation and Services	• Potential for operating cost savings, reduced duplication and resource utilisation efficiencies. • Opportunity for more flexible work practices. • Increases customer service focus and management autonomy. • Produces a 'purchaser/provider split'. • Opportunity to rationalise operating infrastructure such as depots, offices, technology, plant and equipment. • Allows local governments to continue to have differing levels of service. • Regional identity assists intergovernmental negotiations.	• Requires agreement between participating local governments. • Involves setting up of a separate organisation structure to manage activities. • Incurs compliance obligations and costs. • Susceptible to withdrawal by local governments.
Community and Representation	• Nominal impact on arrangements for representation.	• Loss of connections to community. • Possible concerns over lack of control of service provided. • Loss of direct control by local governments over joint services.

8.5 VIRTUAL LOCAL GOVERNMENT

A further extension or variation on the joint board model, the 'virtual local government' model, has been proposed by Professor Percy Allan (2003). The model recognises that small local governments might provide better decision making on the appropriateness of services since they are closer to the people, while larger local governments can enjoy economies of scale in service provision. The virtual local government model thus combines the most attractive features of small and large local governments and consists of two main elements: small elected councils are linked through a joint secretariat, 'shared service centre' and service delivery is contracted out, to other governments or the private sector, with variations in services likely according to the policies and requirements of the participating councils.

Allan (2003) seems to favour a US style system, of a patchwork of local governments, with more rather than fewer metropolitan local governments. While an increase in the number of local governments could be construed to increasing service inefficiencies, these are maintained by the use of joint service centres, which would contract out service delivery. This gives rise to a 'handy shamrock structure' that is best for flexibility; it is not a big bureaucracy, comprising professional full time staff, and part time contractors. As well as being small in the numbers of directly employed staff, the virtual council can also be small in terms of the numbers of councillors. Without amalgamating, local government can achieve efficiencies through service centres and competitive sourcing, essentially a purchaser-provider split. There is however a need for the rights and obligations of local governments and service centres to be spelled out in some detail in a formal performance agreement (Dollery 2003).

It is said that it is possible under this model for a metropolitan local government to remain small and still efficiently provide public services by contracting out services, rate collection, engineering or legal advice (Dollery 2003).

Virtual local governments have their ardent opponents, who argue that such local governments would have insufficient revenue to provide major infrastructure. Furthermore, where an adjoining larger local government provides major infrastructure, such as an aquatic centre, there would be cost shifting to the larger local government, since the residents of the smaller virtual local government would be 'free riders' who use those facilities without meeting their full cost. A larger number of local government entities would exacerbate accountability problems. As many problems in metropolitan areas tend to be regional questions, such as traffic management, solving these problems could become intractable where a multitude of local interests might prevail over regional ones (May 2003:91).

There are no known examples of 'virtual local governments' in WA, or indeed Australia. There was relatively little comment about this structural reform model in the submissions to the review received by the Board. The Board is not convinced that this model is appropriate for WA, although it is up to local governments to make their own assessments of the applicability of this option.

Box 8 Advantages/Disadvantages of Virtual Local Governments

	ADVANTAGES	DISADVANTAGES
Finance and Resources	• Economies of scale in service provision. • Possibility of maintaining high level of volunteerism.	• Insufficient revenue to provide major infrastructure. • 'free riders' using facilities without meeting their full cost.
Organisation and Services	• Allows local governments to continue to have differing levels of service. • Enables customer service focus.	
Community and Representation	• No impact on arrangements for representation. • Maintains historical entities.	• Accountability is blurred by the plethora of entities. • Difficult to solve regional issues.

8.6 AGENCY MODEL

Local government is a creature of the state. One view is that local governments are service delivery agencies of state governments, albeit with a high degree of autonomy over their functions, and that the state government is ultimately responsible to the efficacy of service arrangements in local government.

Under an agency model for local government, services would be managed and delivered by state agencies that have appropriate expertise, but with locally elected councils advising on service level and composition. Councillors could focus on identifying what the community wants, and the public servants on the most efficient service delivery systems (Dollery and Johnson 2004). Like other models, there are advantages and disadvantages for local governments and communities. On the one hand, uniformity of service provider could lead to economies of scale, and increased purchasing power, but on the negative side, the local council has effectively surrendered operational control of local service. Furthermore, the people employed to deliver the services are less likely to be resident locally.

The agency model at this stage is only a model. No local governments in WA are operating under this model, and nor does the Board believe it is likely to be a preferred model. There was relatively little comment about this structural reform model in the submissions to the review received by the Board. The Board is not convinced that this model is appropriate for WA, although the Board recognises it is up to local governments to make their own assessments of the applicability of this option.

Box 9 Advantages/Disadvantages of the Agency Model

	ADVANTAGES	DISADVANTAGES
Finance and Resources	• Uniformity of service provider could lead to economies of scale. • Increased purchasing power. • State funds used to provide services.	• State would seek to contain local costs.
Organisation and Services	• Allow local governments to continue to have differing levels of service.	• Communities are captive to large state bureaucracies. • State may impose greater uniformity in services. • Local council has effectively surrendered operational control. • People employed to deliver services less likely to be resident locally. • No case studies to consider.
Community and Representation	• No impact on arrangements for representation. • Maintains historical entities.	• Local representatives may have little impact on actual service delivery. • Potential for dispute over service preferred and services delivered.

8.7 AMALGAMATED LARGE LOCAL GOVERNMENTS

The amalgamation of local government to create larger local governments is a structural reform model that has been practised and advocated by many local government boundary reviews, both in Australia and overseas. It is specifically mentioned as a possible option in the terms of reference for the current review. Therefore, the Board cannot ignore it as an option, although some participants in this review would wish this was the case. There are many observers who do not support amalgamations as a solution to local governments problems. Several participants in this review, including an East Fremantle resident, a fringe metropolitan councillor and a country CEO, stated in submissions that amalgamation was not a universal panacea for local government. Conversely, many other participants in this review suggested amalgamation was a desirable or essential requirement for local government reform.

The Kalgoorlie-Boulder and Albany examples

While there have been extensive amalgamations in Australia in the last 10 years or so, there are relatively few WA examples. Kalgoorlie-Boulder and Albany are two highly successful regional local governments, the products of amalgamations of Towns and adjacent Shires in 1989 and 1998. While the process of amalgamation in either case was not ideal, the ultimate outcomes have been worthwhile. Albany CEO Andrew Hammond addressed the Board at the public hearing held in Albany indicating that *“the benefits (now) of the Albany merger are obvious but the amalgamation took place without any effective financial or planning data.”* A councillor told the Board *“the merger was the best thing we could have done”* and that it was well worth it.

The advantages derived from the amalgamation in the Kalgoorlie and Albany areas were outlined to the Board as follows:

1. *Uniformity in the treatment of the whole City*

With the one local authority and a uniform rate in the dollar, resources are raised across the broader area and then allocated to where they are needed.

2. *Major infrastructure*

Amalgamation makes it possible for major infrastructure to be developed for the community. Otherwise, it is very difficult to get neighbouring local governments to agree. In Kalgoorlie- Boulder this included the new airport, the Oasis Aquatic Centre, and the new administration centre. In Albany, the amalgamation made possible the Leisure and Aquatic Centre redevelopment (\$8M) and the Entertainment Centre (\$20M).

Amalgamation means there can be an equitable contribution to such community services, which normally run at a loss, across the whole community that benefits from the service. The Towns would not have had the financial capacity to manage capital and operational requirements of the projects by itself and the Shires would have been understandably reluctant to make significant capital or annual operating contributions to a project over which they had little or no management control. The community would have missed out on facilities that are reasonably expected community services available in most cities and regional centres throughout Australia.

In the Kalgoorlie case, the Town of Kalgoorlie would have needed major expenditure to either its existing administration facilities (the town hall) or the creation of a new facility. The amalgamation allowed the new administration centre to be developed properly and shared by all residents of Kalgoorlie and Boulder.

3. *City-wide strategies*

Size and scale means city-wide strategies can be developed for a range of issues. For example, it enabled the City of Albany to develop a best practice waste minimisation strategy that has resulted in a 15 year life extension of the Albany refuse site.

4. *Major Plant*

When both local authorities existed there was duplication of major plant, such as graders, loaders, tractors, trucks etc and the amalgamation process has allowed a rationalisation of these resources.

5. *Administrative Savings and staff specialisation*

Amalgamation has eliminated the duplication of staff positions such as CEOs, finance, planning, and engineering directors and managers, and their personal assistants. It has also enabled the employment of specialist staff.

The City of Albany was able to reduce its "inside" workforce by around 20% or 15 FTE's but within the remaining complement was able to employ the following specialist roles:

- **Manager Economic Development:** Resulting in focus on major infrastructure projects and investment attraction, including the \$47 million Waterfront Project, including \$14.9m direct funding for Entertainment Centre and \$1.2M for Waterfront Peace Park. It has also facilitated an integrated approach to Tourism Development (the "Amazing Albany" campaign) and an investment attraction program ("the Albany advantage").
- **Manager Executive Services:** Oversees strategic and corporate development programs, resulting in Albany becoming an Employer of Choice and winning various Best Practice Awards. The position also handles strategy performance measurement and delivers specialist HR advice across the organisation. The major indicator of the performance of this position is the low staff turnover, good morale, and absence of problems in attracting staff.
- **Public Relations Officer:** Professional dissemination of council info to the community.
- **Recreation Planner:** Undertakes precinct planning for recreation needs throughout the City.
- **Community Development Officer.**
- **Aboriginal Community Development Officer.**
- **Youth Development Officer.**

These positions have provided the council with excellent professional support in aged, disabled, Indigenous and youth issues. Grant funding via these positions has been excellent and there is an excellent rapport and relationship with the local Noongar community.

The amalgamation debate

There is considerable debate on the merits of amalgamation as a means of enhancing the efficiency and effectiveness of local government (for example, see Dollery 2003). Dollery and Crase (2004) consider the question 'Is bigger local government better?', and conclude that the literature supports the opposite, finding that smaller local governments typically produce many, but not all, services more efficiently. The City of Stirling, however, suggested to the Board in its submission that larger local governments are able to:

- Provide a wider range of services, facilities.
- Offer economies of scale across a range of service provision.
- Meet increasing community expectations.
- Fund major capital projects, whilst continuing to fund existing asset maintenance and replacement.
- Provide services to smaller or rural local governments through service level agreements.

The review of local government financial position commissioned by the Board for this inquiry found that it would appear that there are financial benefits in larger local governments as they can deliver the economies of scale and provide facilities to their own district that are funded from within the district. The economic structure (revenue and rating) of the local government district is a critical issue in determining viability (Back 2006:ii)

One concern about amalgamations is the capacity of a local government to maintain services in multiple towns. There is a concern that there will be a centralising of

activities in the main town, while facilities are closed and services reduced in the smaller towns. There are already a number of Shires in WA that serve multiple towns (such as Manjimup and Ashburton). One means of maintaining service levels in multiple towns was put to the Board by the Shire of Lake Grace. To overcome differences between each of the four main communities within the Shire, it introduced specified area rates for the purpose of funding expenditure for sport and recreation facilities.²⁵ The Shire describes this as *“a fair system where each community pays for its own required level of recreation.”* The Board believes this is a model worthy of consideration wherever new local governments are formed by amalgamation.

Frequently there is a concern that the creation of larger local governments reduces community connectedness. However, one major study found *“no definite conclusion can be drawn regarding the impact and effect of local government size upon issues of representation, participation and sense of community”* (Hassell 1995:14). Similarly, Soul found no significant differences in perceptions of voters to elected representatives and the ratio of electors/councillors (i.e. no difference between small or large local governments) (quoted in Dollery 2003). Former Victorian local government Minister McClelland is quoted as saying: *“Residents and ratepayers are more concerned with the services they receive and what they pay for those services than with having a somewhat intangible sense of community provided by a council chamber”* (Kiss 2003: 110).

Dollery, sometimes in conjunction with associated authors, is often quoted as the expert on local government amalgamations and the reasons why they fail to deliver the expected benefits. However, even he concedes that a case can be made for amalgamation where the tyranny of distance is not significant, such as in metropolitan circumstances for small inefficient adjacent local governments, and in regional situations for inefficient doughnut local governments (Dollery 2005b). One of the most compelling arguments in support of the need to restructure is the need for greater equity within and among municipalities (Soul and Dollery 2000). Even the proponent of small local governments, Professor Allan, recognises that some functions such as works, maintenance, rates and payroll do benefit from being larger in scale (Allan 2003). The amalgamation of small local governments into larger units has also been suggested as moderating the extent of local government failure (defined as an inability to achieve intended outcomes) (Dollery 2005b).

One survey of a limited number of CEOs in the eastern states found that amalgamation was favoured as the best way to achieve structural reform (Garsden 2004). Recognising that there were other options, the author concluded that *“if parochial views cannot be put aside, alternatives will provide very few additional benefits over amalgamation”* (2004:53). The Cost Shifting Inquiry Committee acknowledged that amalgamations may not always be the appropriate response to the need for structural reform, particularly for small remote local governments separated by vast distances, but in some circumstances amalgamations of local government was the most direct way of achieving a more efficient and cost effective local government sector (Cost Shifting Inquiry SCEFPA 2003:84).

²⁵ This now been expanded to include capital expenditure incurred for recreation.

The issue of economies of scale

One of the great debates in local government structural reform concerns the potential for economies of scale. There is a commonly held view that economies of scale are achieved through larger units of local government, and economies of scale are thus claimed to be one of the main advantages of large local governments. Economies of scale can come about through the ability to more fully utilise plant and equipment, to employ and fully utilise specialised labour, and to extract full value for money from contractors through specialised contract administration (Manning 1991). In the review of local government in inner Sydney, the findings of the NSW Independent Pricing and Regulatory Tribunal are cited. The Tribunal concluded, after examining operating costs for 177 local governments, that operating costs per capita reduce with increasing size. The evidence was suggestive rather than conclusive (Sproats 2001). In their submission to the Sproats inquiry, the City of Sydney suggested that the creation of larger local governments should bring a community dividend, with the savings due to economies of scale benefiting the community through a reduction in the level of rates or the funding of enhanced services and facilities.

In South Australia the Ministerial Advisory Group on Local Government Reform (1995) considered economies of scale to be 'proven', and adopted 'target' populations of 120,000 to 150,000. A similar scale seems to have been the target for the 1990s reforms in Melbourne, with the largest local government having a population of 166,000. Research done for the Local Government Commissioner for Queensland revealed significant economies of scale exist in relation to administrative costs up to a population of around 100,000. While finding it not possible to be precise about populations in excess of 100,000, because of the limited number of local governments in this range, it suggested that there were minimal changes in the level of economies of scale (Office of Local Government Commissioner 1994:A69).

SRAC's analysis clearly illustrated that while economies of scale are obtainable for larger units of local government, they also show that these economies level out at a population of around 50,000 to 90,000. The average governance costs per capita for the Cities of Stirling and Wanneroo were not the lowest in the State, despite their relative size. Indeed, lower costs were evident in the considerably smaller local governments of Armadale, Gosnells and Rockingham, and at similar levels for a number of other medium sized local governments (around 50,000-90,000). While there were reservations with the data used for the analysis (i.e. the variation in allocation of administration costs), this information clearly indicated that economies of scale are not necessarily continuous with increasing size. SRAC noted information that suggested that the most economical local government was around 45,000 to 100,000 population.

These findings were supported by a subsequent analysis of local government performance indicators for Perth metropolitan local governments in the 1990s. This study found that size and density of activity add to the efficiency of local government operations, leading the authors to a scheme for amalgamation of 30 local governments into 15, with populations ranging from 47,000 to 91,000, *"balanced to reap the benefits of population size, while staying clear from the danger of destroying local democracy and existing communities of interests"* (Chia and Newman 1999). Larger local government size was seen to increase the financial capacity and operating efficiency of local governments, enabling them to fund appropriate local government services and programs. While small local governments had achieved

high financial autonomy, this had come through higher residential rates rather than efficiency, *“as seen in the cases of Peppermint Grove, Mosman Park, Claremont, Cottesloe, Subiaco, Perth, Fremantle, East Fremantle”* (Chia and Newman 1999:9). Larger local governments achieve financial autonomy through higher operational efficiency, indicated by lower per capita operating expenditure. Taking this further, the authors found that *“levels of community service provision is at the most basic level in the local governments of Claremont, Peppermint Grove, Mosman Park, Cottesloe, East Fremantle and Serpentine Jarrahdale”* (1999:19). Small local governments have generally achieved financial autonomy through high residential rates, restricting the level of local government services, or a combination of both (1999:20). The authors claimed their analysis provided evidence there are clear advantage from having larger local governments, with a greater financial capacity to engage in democratic and community development (1999:35).

On the flip side, Jones (1989) says that there are potential diseconomies of scale in larger local governments, due to management problems and the need for resources to be allocated to coordinate specialised departments. These problems might result in such local governments becoming less responsive to their community's needs. The need for democracy and efficiency seems to be balanced at around 50,000 (Jones 1993:263). It is also suggested that larger local governments are not needed to obtain the benefits of economies of scale, for by contracting with private firms or other governments, or through joint purchasing agreements, governments can enjoy the cost advantages of scale economies in production. On this basis, and to the extent that such opportunities exist, scale economies are said to be removed as an economic issue for the optimal size and structure of local government. This is a significant point, since economies of scale are often put forward as a key justification for amalgamations (Wetherby et al 1999:17).

However, there is a view that there is no argument for larger or smaller local government solely on the basis of economies of scale. *“The size of a local government should be directly relevant to the community it is designed to service, the area of benefit from and the scale of the services for which it is responsible”* (Elwood 1995:30). Nevertheless, in the Board's study of Stirling and Wanneroo (1997) the Board formed a view that any metropolitan local government with a population of around 80,000 to 120,000 can be expected to achieve a balance between significant economies of scale, community of interest and community participation considerations.

The above discussion leads to the question of the ideal or optimum size for a local government. There is a substantial philosophical debate about this issue. The book *Size and Democracy* (Dahl & Tufte 1973) is fundamentally about the debate over whether the benefits of large or small units of government outweigh the costs. From the perspective of the community, there are trade-offs between system capacity (broadly, the capacity of a local government to respond to needs and problems) and citizen effectiveness (the ability to influence the decision making process). These tradeoffs arise from the fact that smaller units tend to facilitate democracy better than larger units, but they may be too small and incapable of handling their problems. The Board believes these are important considerations for the structure of local government.

What is optimal for one criterion may not be optimal for another, and what is optimal will differ for different times and places: *“no single type or size of unit is optimal for*

achieving the twin goals of citizen effectiveness and system capacity" (Dahl and Tufte 1973: 138). The Board believes the twin criteria of system capacity and citizen effectiveness are important issues.

When considering economies of scale and the optimum size of government, a related concept is that of the 'benefit region', being the area of population that benefits from, or accesses or uses a service or facility. This factor creates issues for local governments, for different local public goods are likely to have different sized benefit regions and varying kinds of economies of scale. The benefit regions of some of the public goods produced by a local government will overlap into the jurisdiction of other adjacent local governments. These spillovers create a case for the joint provision of services, and matching grants from higher government. While benefit regions and spillovers do not necessarily provide a case for the amalgamation of adjacent local governments, consolidation *"might result in minor improvements in the administrative efficiency and financial equity associated with local public service provision"*. (Witherby et al 1999:20). Benefit regions are different for different services. For storm water management, for example, the benefit region is usually larger than existing local governments, but smaller than the state as a whole, leading to the question as to whether the benefit region argument is a sufficient justification for amalgamation of local governments. At the other end of the spectrum, it cannot be assumed that larger units will be as effective in delivering services involving smaller benefit regions than smaller units. Clearly, there will be some tension between determining appropriate biophysical boundaries for managing environmental issues (i.e. catchments) and determining economic areas of influence for dealing with social and community services (Witherby et al 1999:51).

In considering the evidence for and against the amalgamation of local governments, the Board believes that the pursuit of economies of scale should not be the primary rationale for amalgamations, although it is possible that the benefits of economies of scale and scope can be achieved. The Board believes amalgamations are capable of bringing other benefits in environmental, social and economic sustainability for the communities that the amalgamated local government serves. This particularly applies in respect of the standard of governance and calibre of staff, equity of service provision and contribution to the cost of services, the effectiveness of planning and development, the effectiveness of lobbying and access to grant funds, and the effectiveness of plans and activities to manage and enhance local environments.

Staff considerations

The Legislative Council of NSW Inquiry into local government amalgamations (2003) noted that preserving the social and economic fabric of communities is an important consideration. The primary cause for this concern is that very often in small rural communities the local government is the largest employer. In many rural towns, council employees comprise a significant proportion of the workforce. The workers in turn provide opportunities and support for other employment and for businesses through the money they spend in the community. In addition, local governments have traditionally employed young people from the area. Local government employment is one means of maintaining populations through employment opportunities. Many people fear that if local government employment is lost this will result in those employees and their families having to relocate, and that the town will ultimately suffer a further loss in services. Staff are an integral part of the social and intellectual fabric of communities. Rural towns benefit from having a range of employment opportunities.

The amalgamation of a local government does not necessarily have to result in a loss of local employment, it depends on how the new local government is structured and operates. Proponents for amalgamation see it as an opportunity to increase employment opportunities:

"The only people who will lose their jobs out of this are the general managers and people like myself in senior positions. The money that will become available from the amalgamation will be used to generate greater employment where needed, either doing work or other services that councils provide. Rather than a loss of employment, we see greater employment coming out of it, particularly for those people who are most concerned about it."

(Legislative Council of NSW 2003:76)

The key to ensuring the protection of rural communities in any amalgamated local government is to develop a structure that does not centralise employment but distributes it in such a manner that no town is disadvantaged (Legislative Council of NSW 2003:76).

Financial Assistance Grant considerations

A reduction in financial assistance grants through the WA LGGC is often cited by local governments as a reason for not proceeding with an amalgamation.²⁶ The Commission's view is that ideally the grant allocation formulas should neither provide an incentive or a disincentive to structural reform and boundary change in local government; however, the reality of the situation is that the grant allocation formulae contain provisions to assist the assessments for smaller local governments and those with inflows of workers. Consequently, when two or more local governments amalgamate, the overall assessment (and grant) can be less than the aggregate of the previous entities. The current grants system therefore contains potential disincentives for amalgamations. For some years, the Commission has made special provision in the allocation of the general purpose (equalisation) component to make the process more neutral.²⁷ Until recently, its policy was:

"Local governments when amalgamating will be guaranteed grant funding equivalent to pre amalgamation levels for a period of 5 years".

This policy has been superseded and extended by a new policy adopted in late 2005 to the effect that the combined general purpose grant to the newly amalgamated local government will be increased every year, for a period of five years, by the annual percentage increase in the pool of funds provided to WA by the Federal Government.

In adopting this policy the Commission itself has not argued for or against boundary change. The Commission believes that any proposal for boundary change should be considered on its merits and as far as possible the grants should not be an issue.

The policy of the Commission has now been supplemented by the new National Principle:

²⁶ Paradoxically the Cost shifting inquiry (SCEFPA 2004) suggested that a proportion of FAGs should be withheld from those councils that resist appropriate structural reform.

²⁷ The policy does not apply to the identified local road component, as this is allocated on an asset preservation basis, and an amalgamation does not affect the total allocation received from this pool.

"6. Council Amalgamation

Where two or more local governing bodies are amalgamated into a single body, the general purpose grant provided to the new body for each of the four years following amalgamation should be the total of the amounts that would have been provided to the former bodies in each of those years if they had remained separate entities."

Other considerations

The Board noted submissions from local governments that government should meet or contribute to the capital and change-over costs incurred by local governments in amalgamating. This would facilitate the development of strategic plans, appropriate office accommodation and computer systems and so on. The Board agrees that the provision of financial assistance by government to facilitate the amalgamation is important and should be considered by government.

If the area of a local government that is not divided into wards is to be amalgamated with the area of a local government that is divided into wards, the new area should be divided into wards.

The Chair of the WA Telecentre Advisory Council submitted to the Board that structural reform solutions should include where appropriate, the Telecentre Network, as an established service provider. Telecentres undertake an important community role, being a local contact point for community members. Telecentres have the capacity to provide face-to-face local government services, and can ensure that resources remain in the local economy. Telecentres could be contracted to deliver 'face-to-face' local government services and provide information and communication technology for local communities.

Box 10 Advantages/Disadvantages of Merger/Amalgamation

	ADVANTAGES	DISADVANTAGES
Finance and Resources	- Creates a sufficient resource base for the combined local government and a stronger financial structure that helps spread financial and business risks. - Reduces duplication in staff and resources and reduces the total costs of governance.	- Residents of each local government exposed to assets and liabilities of the other local government. - May expose major differences in rates between areas of the combined local government, although this can be addressed through the use of differential rating. - May reduce the total amount of the general-purpose component of Financial Assistance Grants.
Organisation and Services	- Provides operating cost savings from economies of scale, reduced staff or the reduced need for additional staff. - Opportunity to review customer service and the efficiency and effectiveness of operations. - Potential to rationalise operating assets including plant and equipment, workshops, depots, administration centres and office technology. - Addresses cross-border utilisation of facilities and services of one local government by residents of the other. - Opportunity for improving the promotion of economic development of the combined area. - Better basis to manage growth across area involved.	- Cost of integrating the local governments can take two or three years to be recovered from efficiency gains. - Involves integration of sometimes widely differing organisational cultures and disruption to organisational output during the implementation phase. - May result in differing levels of services in some areas. e.g. smaller communities, although this can also be addressed by the use of differential rates and/or a process to equalise services over time.
Community and Representation	Formalises communities of interest that may have previously been divided by local government boundaries.	- Increases the number of electors per councillor and dilutes the existing levels of representation, although this may not necessarily reduce the effectiveness of representation. - Smaller communities may lose direct representation; i.e.- they may not have a candidate from their own area.

8.8 MAJOR BOUNDARY CHANGE

Changes to the boundaries of local governments involve not just mergers and amalgamations. There can be a transfer of communities between local government areas, as well as the split of larger local governments. There have been examples of both major boundary changes in WA in recent years.

- The City of Joondalup split from the City of Wanneroo in 1998.
- The transfer of Maylands from the City of Stirling to Bayswater in 1998.
- The City of Perth split into four local governments (Towns of Cambridge, Victoria Park and Vincent) in 1993.
- The formation of the Shire of Ngaanyatjaraku from the eastern portion of the Shire of Wiluna in 1991.

There was relatively little comment about boundary changes in the submissions to the review received by the Board. While most local governments were silent in their submission about desired boundary changes, some local governments did suggest desirable changes to their boundaries. Specific comments from community members included:

- Support for the Shire of Dandaragan to be split into two separate shires: coastal (based on Jurien) and rural (local community member).
- Disgust at the City of Stirling's size.... split the City of Stirling (local community member).
- The suburb of Mt Lawley should not be split across three local governments, and Mt Lawley would benefit from being included in a single local government entity. The size of the City of Stirling has made that local government too remote, the group experiences difficulties in being heard (local community group).

In the section 'Existing Small Local Governments', reference was made to the potential for the City of Stirling to be split up to make smaller local governments. The Board's 1997 report on Wanneroo and Stirling presented five options for reducing the size of the City of Stirling, to a population between 118,000 and 130,000. A number of submissions to this review addressed this possibility, including one who undertook a phone survey of 160 Stirling residents, finding that 57.5% believed the City was too large, and 53% agreed that the City should be split. Conversely, the president of a local ratepayers association spoke against a split of the City. There can be significant costs involved in splitting a local government to form a new local government, as was case when the Cambridge, Victoria Park, Vincent and Joondalup local governments were formed.

One suggestion received by the Board was to *unincorporate* some of the sparsely settled arid areas of WA. The major portion of the land area of South Australia and Northern Territory, as well as the far western portion of NSW is unincorporated land, that is, the land is not legally part of any local government area. For example, the total land area of South Australia is 983,482 square kilometres, but only 155,918 square kilometres (15.85%) of the State is incorporated. Considering the land area of WA is nearly 2.5 million square kilometres, the incorporated area of South Australia is only 6.3% of that of WA. The only unincorporated areas of WA are the Abrolhos Islands and Kings Park. As with the WA examples, the other states have developed entities for delivering local government services in their unincorporated areas. For example, South Australia has the Outback Areas Development Trust. While there is some scope for such an approach in WA, it may be seen as a backward step and a diminution of community entitlements in such areas. This suggestion is not supported by the Board.

Approaches to determining boundaries

In determining boundaries, the Board would be guided by its Guiding Principles. A local government CEO suggested that ideally the Board should have a blank sheet approach, ignore all existing boundaries, and start afresh by looking at catchment areas, major needs and so on. In the boundary changes recommended elsewhere in this report the Board has recommended changes that are largely constrained by the existing boundaries of local governments. In this sense the recommended changes are essentially a first step, and further work should be done in the future to further refine the boundaries for a better fit with communities and environmental regions.

One approach is use social catchments, the areas occupied by people and households who regularly interact with each other, such as the areas where people shop, work, recreate and so on (Hugo et al 2001). The *nrm civimetrics* technique combines information about the areas the people regard as their community, and information about the type of landscape, to produce regions that share the same

types of resource management issues and are regarded by the people living within them as reflecting their sense of community and place (Brunckhorst et al 2004). *Civimetrics* is used to map a community of interest by collating geophysical, social and economic data. A community of interest consists of people who socially interact within a geographic area and have one or more additional ties or common interests. A study using approach to defining local government areas in NSW showed that most existing local government boundaries do not align with regional communities of interest. The ability to define communities of interest was seen as assisting Government in ensuring resources, planning and services are closely aligned and related to coherent communities and regions. The study identified 49 eco-civic regions, and recommended that the NSW Government adopt these as new regional local government areas.

Box 11 Advantages/Disadvantages of Major Boundary Change

	ADVANTAGES	DISADVANTAGES
Finance and Resources	- Creates an enhanced resource base for the recipient local government. - Provides economies of scale in servicing the appended area.	- May reduce the resource base of the local government from which an area is transferred. - Residents of one local government exposed to assets and liabilities of the other local government. - May expose major differences in rates between areas of the appended local government, although this can be addressed through the use of differential rating. - May reduce the total amount of the general purpose component of Financial Assistance Grants.
Organisation and Services	- Potential to rationalise operating assets including, plant and equipment, workshops and depots. - Opportunities to improve service options and reduce operating costs in many areas, including water supply, sewerage disposal and waste management. - Addresses cross-border utilisation of facilities and services of one local government by residents of the other. - Better basis to manage growth across area involved.	- Involves integration of sometimes widely differing organisational cultures where staff are transferred. - May result in differing levels of services in some areas. e.g. smaller communities, although this can also be addressed by the use of differential rates and/or a process to equalise services over time.
Community and Representation	- Formalises communities of interest that may have previously been divided by local government boundaries. - Retains separate identities of individual local governments.	May dilute the existing levels of representation for some residents, although this may not necessarily reduce the effectiveness of representation.

8.9 COMMUNITY CONSULTATION MECHANISMS

Another approach to structural reform is the use of community consultation mechanisms. This 'model' is more generally applicable to medium to larger sized local governments, although the mechanisms could be applied in any local government. In particular, this model could be applied to existing larger local governments, as well as in larger local governments created as a result of recommendations elsewhere in this report.

There is a range of mechanisms in use locally and elsewhere which are worthy of further consideration by such local governments. These include:

- Community Councils (in Scotland and elsewhere).
- Precinct Committees (North Sydney and Fremantle examples).
- Community Advisory Committees.
- Community / customer advocates (City of Swan example).
- Community outcomes process (New Zealand).
- Community Boards (New Zealand).

All of these measures contribute to social capital and would enhance the future economic, environmental and social sustainability of WA communities.

Community Councils

Community councils form the most local tier of statutory representation in Scotland.²⁸ They were created by the Local Government (Scotland) Act 1973 and are intended to bridge the gap between local governments and local communities and to help to make local authorities and other public bodies aware of the opinions, needs and preferences of the communities that they represent. The 1973 Act required local authorities to introduce community council schemes for their area and gave them a fairly large degree of freedom to tailor their scheme to the particular circumstances of their area. There are currently around 1,200 community councils in Scotland, though because community councils only exist where volunteers are prepared to represent their community in this way, some areas are not currently covered by a community council. The councils cover populations ranging from 35 to 34,000. The boundaries of their communities, the number of community council representatives, the populations they represent and their election procedures are determined by each parent local authority through a Scheme for Community Councils.

The primary purpose of community councils is to ascertain and express the views of the community that they represent. In addition to their primary role, many community councils involve themselves in a wide range of other activities including fundraising; organising civic and charitable events; and maintenance of footpaths and cycle ways. A review of the role and effectiveness of the community councils is underway (Scottish Executive 2005).

Precinct Committees

Precinct committees are also useful as a supplement to the role of elected members and the ongoing community consultation by councils. Well-known Mayor Ted Mack introduced a precinct system in the 1990s to North Sydney, and a similar system has been introduced in the City of Fremantle.

In North Sydney (population about 60,000), there are currently over 20 active precincts established in neighbourhoods throughout the area, and each committee convenes meetings on a regular monthly basis. The committees provide the council with suggestions, ideas and opinions on local issues. According to the City of North Sydney's website, the Council's precinct committees encourage resident involvement in council decisions; enhance community awareness and social interaction; generate consultative information, ideas and opinions; support Council's intergovernmental and related dealings; imbue planning programs and policies with a physical, social and historic insight; and facilitate resident-initiated expenditure on care of public land.

²⁸ There are 32 local governments in Scotland, ranging from 580,000 (Glasgow) to 20,000 (Orkneys), for an average population of 159,000.

The Fremantle Community Precinct System, introduced in 1997, is a key part of the City's program of community consultation and participation. The aim of the Community Precinct System is to foster discussion between members of the community, local government officers and Fremantle councillors on matters that affect the community, and local areas. These discussions contribute to an improvement of Council decision-making, giving residents a sense of ownership over their 'patch', building relationships between people in the community, and generally strengthening the community. The matters discussed are often eventually the subjects of decisions by the Fremantle Council.

Community Precincts hold monthly meetings where they discuss what is happening in their local area or in other areas of Fremantle (eg the CBD, or the Fishing Boat Harbour). The Council sends information to Community Precincts for use in their discussions: Development applications, strategic plans, policies, budget information, and so on. Precincts send the Council their requests for information or action by local government officers, and their recommendations on the matters under discussion for consideration by the Council. Precincts may also take independent action: organising community events such as street clean-ups, walks, workshops, or cross-precinct activities. By attending Precinct meetings, people have the opportunity to influence Council decisions, as well as work towards making their community a better place to live. Precincts are given administrative and financial assistance by the City of Fremantle: Precincts are allocated a budget to assist with photocopying, postage and like expenses, and can apply for funding for a community project or minor capital works in their area. A peer panel assesses these applications.

The main point of contact between the Council and the Precincts is the Precinct Coordinator, employed by the Council, whose role is to liaise with the Precinct convenors, and ensure there is a smooth information flow between the Council, local government officers and the Precincts. Fremantle is divided into 11 Precinct areas.

Community Advisory Committees

Section 5.8 of the *Local Government Act* enables local governments to establish committees to assist the council. Many councils make use of community advisory committees, often for specific services or interests, such as the environment and youth.

Customer advocates

To improve levels of service across its large local government area, the City of Swan has introduced five customer advocates at various sites. Customer advocates are responsible for the inspection and maintenance of City infrastructure assets, from parks to parking facilities. Based in the community, the advocates are able to facilitate faster response times than if all staff were based at the Midland Administration Centre. The customer advocates liaise with community members regarding requests for service and ensure timely feedback on the progress of requests from initial contact until the work is satisfactorily completed. In addition, the customer advocates undertake inspections, surveillance and reporting on City infrastructure assets to proactively identify maintenance requirements. This initiative has elements of a 'place management' approach (Walsh 2001), and has been very successful in keeping the 'local' in local government for a larger local government.

Community outcomes process

The community outcomes process is a collaborative exercise where local governments in New Zealand are required to identify organisations and groups capable of influencing the identification or the promotion of community outcomes and secure, if it is practical and possible to do so, their agreement to the process. Most local governments designed their community outcomes process in 2004. The planning process begins with the requirement to “*carry out a process to identify community outcomes.*” Community outcomes are the particular future or state of affairs valued by each community. The council's role is to facilitate a process to identify these outcomes.

The outcomes each community identifies guide the local council's planning, and inform central government and others about community needs. Councils are not bound by community outcomes, but they are required to make it clear in their reporting whether or not they are contributing to the achievement of community outcomes. If they are, they are required to describe how. Councils also have to report on the community outcomes in the Long Term Council Community Plans (LTCCP) and monitor them on a regular three yearly-cycle. These plans are similar to the Plan for the Future required of local government in WA.

Community Boards

Community boards were created by the local government reforms in New Zealand in 1989. Some 143 community boards now operate in both urban and rural areas within local authorities throughout New Zealand. They carry out functions and exercise those powers delegated to them by their local governments.

The purpose of community boards is to:

- Represent and act as an advocate for the interests of the community.
- Consider and report on any matter referred to it by the territorial local authority, and any issues of interest to the community board.
- Make an annual submission to the territorial local authority on expenditure in the local authority.
- Maintain an overview of services provided by the territorial authority within the community.
- Communicate with community organisations and special interest groups in the community, and undertake any other responsibilities delegated by the local authority.

Every community board is to consist of not fewer than four members nor more than 12 members: and is to include at least four elected members and may include appointed members. The number of appointed members is to be less than half the total number of members. (*Local Electoral Act 2001* section 19 (f))

The persons who are appointed as members of the community board must be members of, and must be appointed by, the territorial authority for the district in respect of which community is consulted: and if the territorial authority is divided into wards, also be members of the territorial authority representing a ward in which the community is situated. (*Local Electoral Act 2001* Section 1 (c))

8.10 RECOMMENDATION

- 1.18 That local governments give consideration to making further use of community consultation mechanisms and that the Minister consider measures to formalise the methods local governments are to use to engage the community in their decision making processes.**