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Lake Macquarie City Council submission regarding
The Local Government Independent Review Panel
Better, Stronger Local Government
The Case for Sustainable Change

Introduction

We commend the NSW Government for investigating local government reform and appointing the Independent Local Government Review Panel to engage with councils and their communities to develop new structures and models. We are committed to a whole-of-government vision to strengthen the effectiveness and strategic capacity of local government in partnership with State and Federal governments.

The purpose of this submission is to contribute to local government reform and respond to the key elements identified in the discussion paper.

Lake Macquarie City Council believes that in our current position we are well placed to provide comment on the success of process change to drive sustainability and viability in local government across NSW. We have included a summary of our recent history that has contributed to our current stability in ‘The Journey’ section of this submission. This involved our successful application to the Independent Pricing and Regulatory Tribunal (IPART) for a special rate variation and the endorsement of our strategic plans and processes by the Integrated Planning and Reporting Framework (IPR).

In January, Council held a workshop with our councillors to review the six signposts and develop this formal response to the discussion paper.

This submission follows the six signposts used throughout ‘The Case for Sustainable Change’.

Lake Macquarie City Snapshot
Surrounded by beautiful beaches, mountains, and the ocean, Lake Macquarie offers a picturesque backdrop in which to work, live and play.

The centrepiece of the city, Lake Macquarie, is a lake about twice the size of Sydney Harbour and one of the largest coastal saltwater lakes in Australia. The Lake has 174km of foreshore providing little sandy lake beaches, hidden coves, and secluded bays.

On the western side of the Lake, the Watagan Mountains incorporate 13 forests, and numerous lookouts, picnic spots, camping areas, and magnificent waterfalls. To the east, four patrolled beaches stretch over 28km of coastline.
The City of Lake Macquarie is the fourth most populated local government area (LGA) in NSW, with an estimated residential population of 202,347, as at March 2012.

Our LGA covers 757.2km². As shown in the maps below, the Lake Macquarie LGA spans the geographical area of more than 20 Sydney councils.

Similarly, the population of Lake Macquarie City is the equivalent of combining the population of seven other councils in the Hunter: Upper Hunter (14,198), Gloucester (5,181), Great Lakes (35,924), Dungog (8,673), Muswellbrook (16,676), Cessnock (51,706) and Maitland (70,296); making Lake Macquarie City a region in its own right. *Figures from NSW Division of Local Government, Directory – Local Councils (www.dlg.nsw.gov.au).

The Journey

Lake Macquarie City Council believes we meet the requirements for a sustainable and efficient local government with effective strategic capacity to provide for our community’s future.

We are implementing the concepts, plans and partnerships that are boosting public pride in our own identity, reinvigorating our town centres, improving the City’s infrastructure, increasing our amenities and facilities, realising significant savings for ratepayers across many Council departments, and ensuring the health and sustainability of the region.

We have a genuine connection with our community thanks to Council’s extensive community engagement and community empowerment programs. The journey to financial sustainability and a robust strategic planning framework in 2012 was the culmination of over 12 years of strategic planning and ‘community needs’ analysis.
Looking back, the Lifestyle 2020 Strategy was adopted by Council in the year 2000, as a strategic community vision. It focused on community life, environment, cultural heritage, economy, identity and social justice; and identified gaps and opportunities to improve Council’s services based on community consultation, prioritising their needs and aspirations for the City.

In 2008, the aspirational Lake Macquarie 10-year Community Plan was adopted by Council. This plan worked towards achieving the objectives and addressing strategic issues identified through the Lifestyle 2020 Strategy and essentially formed a transparent and accountable contract with our community. It was developed in partnership with the people of Lake Macquarie, outlining their needs, aspirations and priorities for the next 10 years, as well as the desired level of service and community development.

Work undertaken as part of the first Lake Macquarie 10-year Community Plan and 2008/2009 budget confirmed the long-standing position that Council’s financial sustainability was under threat in the long term.

Without changes in services, increases in revenue and modifications to our operations, the organisation faced the prospect of unmanageable deficits in the future. In previous years, our overall financial management had been sound, however it was becoming increasingly more difficult to respond to the financial pressures being placed on Council. Similarly, constraints and decisions of other levels of government were affecting our long-term sustainability including rate pegging, operational revenue constraints and cost shifting.

In 2009, Council embarked on a service review to ensure all services both statutory and non-statutory were as effective and efficient as possible and redirected the organisation towards results-driven outcomes and value for money. Our objective was to find the right mix of services and funding arrangements that would support long-term financial sustainability.

The review was completed in 2011 and more than $4.2 million in savings and improvements was achieved by Council. Additionally, the Investment Property Strategy, developed as a result of the review, outlines entrepreneurial expansion opportunities to potentially increase Council’s revenue base.

In recent years, we have been able to maintain an Operating Surplus (before capital grants and contributions). Although this has been financially responsible, it has meant adjusting the level of works and services delivered to our community. Previous operating surpluses were only achieved by reducing our level of services and delaying maintenance to our significant, but ageing, asset base. Although these actions had a short-term positive impact on our Operating Result, they were having a long-term impact on the deterioration of our asset base.

In 2010, Council submitted our 10-year Community Plan, four-year Delivery Plan and one-year Operational Plan, as well as our associated Resourcing Strategy to the Division of Local Government (DLG) as a Group 1 Council and received positive and constructive feedback about the quality of these documents.

Throughout the Service Review process and the development of the IPR documents, in particular the Resourcing Strategy, it became evident that to achieve the outcomes identified in the Community Plan, Council would have to engage our community about what services they wanted and what they valued with a view to potentially apply for a special rate variation.

The project was entitled Securing our Future, utilising the theme established during the 10-year plan of partnership with the community. It involved extensive community
engagement and an education and promotion strategy. The consultation was designed to gather feedback not only of a preferred funding option or rate increase, but also on residents’ willingness and ability to pay the proposed rate increases under each service level option.

In 2012, Council applied to IPART and was successful in securing a seven-year special rate variation. In their determination, IPART noted that Council has a “culture of efficiency and continuous improvement” and that Council has “systematically identified productivity improvements and implemented cost containment strategies” (refer to Attachment 1).

Lake Macquarie City Council’s high standard of strategic planning and in conjunction with the IPART review has resulted in us being able to provide a sustainable future for our City.

Finally, Lake Macquarie City Council believes that, together with other councils with a proven record of strong financial management, we have the expertise to develop templates or ‘blueprints’ for many NSW councils to achieve financial sustainability and successful strategic planning.

Lake Macquarie City Council’s current position

Each year the (DLG) releases ‘The Comparative Information on NSW Local Government Councils’.

According to their most recent report, Lake Macquarie City Council has the lowest number of staff per 1000 residents in comparison with other Group 5 councils.

We also determine the largest number of Development Applications per year within the Group 5 councils.

Similarly, Council manages debt recovery well compared to the other Group 5 councils. The percentage of rates and annual charges unpaid at the end of 2010/11 was 3.19%, compared to the Group 5 average of 5.99%.

These measures demonstrate the operating efficiencies of Council and reinforce our commitment to continuous improvement (refer to Attachment 2).

Signpost 1: The local government system and challenges faced

Lake Macquarie City Council supports the Independent Local Government Review Panel’s position that a systems approach is appropriate, however it is not entirely evident how the Panel is undertaking this review. At this stage, there has not been any additional research provided regarding other stakeholders or levels of government that contribute to ‘the system’, with the exception of Council administered water authorities.

In particular, Council considers that the impact of strategic capacity in other elements of ‘the system’ of local government will be critical to the ongoing success of the IPR and any changes proposed as a result of this review. See further information and examples relating to a ‘whole of government approach’ in Signpost 3.
Local Governance

Lake Macquarie City Council has established strong community programs facilitating service provision as opposed to operating as a front-line provider. This model of community facility management is empowering our local community groups, improving our facilitation capacity and reducing our direct delivery of services, thus creating greater community resilience, and community ownership of facilities and public spaces. Similarly, these programs provide efficiency gains by reducing Council’s staffing requirements to administer these facilities.

Our volunteer model is unique among councils in the local area, fostering cooperation between local user groups and building partnerships between community groups, residents and Council.

The model builds community capacity by devolving management responsibilities to community groups, and thereby increases the sense of ownership and control in local communities.

The program governs Council’s community and sporting facilities including ovals, tennis and netball courts, community centres and equestrian grounds, traditionally managed by councils. Across the city, 104 Community Operating Committees and Incorporated Associations have been delegated authority to undertake the care, control and operation of their local facility.

The fees raised and managed by the Community Operating Committees and Incorporated Associations are put towards day-to-day facility operation costs, as well as improvements and capital works.

Drawing on innovative community development practice, the Lake Macquarie Sustainable Neighbourhoods Program empowers residents to plan and implement sustainability projects in their own areas. This award-winning program, pioneered by Lake Macquarie City Council, encourages communities to unite and create a range of practical projects to care for their natural environments, improve the efficiency of their use of resources, and enhance their neighbourhoods – all with Council’s support.

There are now 20 Sustainable Neighbourhood Groups throughout the City, each with its own Sustainable Neighbourhood Action Plan. The program has formed many new community partnerships including projects between Sustainable Neighbourhood Groups and TAFE, Chambers of Commerce, local business communities and Council.

For further information on Council’s Community Operating Committees and Sustainable Neighbourhoods Program refer to attachments 5 and 6.

Regional collaboration

Refer to Signpost 3 and Signpost 4 for Lake Macquarie’s commitment to regional collaboration.

State and local government relationship

Refer to Signpost 6 for recommendations to State and local government relationships.
Facing challenges and strategic capacity

Our successful IPART determination for a special rate variation and the endorsement of our strategic planning documentation by IPR is further evidence that we have the strategic capacity to explore the improvements identified in ‘The Case for Sustainable Change’ discussion paper.

Through appropriate leadership, Lake Macquarie City Council is intelligently preparing for an increasing population.

Lake Macquarie must accommodate an additional 12,200 jobs in the three regional centres, 5000 jobs in other locations, and 36,000 dwellings by 2031, according to the NSW Department of Planning’s Lower Hunter Regional Strategy.

To satisfy this, Council is working to promote and develop our nine town centres to help them attract more housing opportunities, jobs and services to provide for the expected arrival of more residents in the future.

Lake Macquarie City is susceptible to sea level rise and lake flooding because the City has more than 200km of foreshore that circles the Lake’s perimeter and runs along the east coast of Australia.

Council has taken the initiative to drive adaptation planning in our City’s planning and development strategies, ahead of State government changes to regulations. The majority of the state regulations issued utilised the information in our planning documents. This one example serves to demonstrate our strategic capacity to proactively address challenges facing our City and how we are operating at a broader strategic level and providing input into policy dialogue and positioning of State government.

Lake Macquarie City Council is leading the way in proactive strategy and community engagement regarding the effects of climate change and associated sea level rise.

Response to Box 2 Elements of an effective system of local government

Council:

- Supports that effective local government requires an adequate revenue base. This is essential to enable councils to effectively engage with their community regarding levels of service and to strategically plan for the longer term.

  This is evidenced through our journey of strategic planning and financial sustainability resulting in the successful IPART determination for a seven-year special rate variation.

  In their determination, IPART noted that Council’s future financial planning and use of borrowing met their requirements.

  “We are satisfied that the council has a financing strategy that is consistent with intergenerational equity, and projected borrowings are within the prudent limits set in its borrowing policy.” IPART – Determination p28

- Supports sound financial management practices. Lake Macquarie City Council is renowned for its award-winning efficiencies and focus on service delivery outcomes and innovation. Lake Macquarie City Council was awarded the AR Bluett Memorial Award as NSW Council of the Year 2012.

  Council’s high level of efficiency was recognised by IPART in their special rate variation determination in June 2012.
“The council has systematically identified productivity improvements and expenditure savings, and implemented other cost containment and revenue-sourcing strategies. The comprehensive Service Review (2009-2011) identified $4.2 million in ongoing savings. The council is committed to pursuing these approaches in the future.” IPART – Determination p7

- Supports universal use of modern information and communications technologies for service delivery.

In 2004, Lake Macquarie City Council, together with four other councils formed a consortium to develop and operate a shared platform for corporate systems - known as ‘Councils Online’.

The consortium delivered a comprehensive and integrated range of online systems beyond the resources of the individual members, achieving significant economies of scale and created a community of best practice, where the respective business functions from each council regularly share information and experience. Three of the consortium councils recently negotiated a contract extension incorporating significant cost savings, which for Lake Macquarie City Council, amount to $1.2 million over the next four years.

- Remains committed to sharing resources with other local government areas in the region and supports appropriate use of Regional Organisations of Councils, however not as a fourth tier of government.

Refer to Signpost 3 for further information on regional collaboration.

- Agrees that there is a valued need for rigorous systems, benchmarks and industry standards to compare ourselves with other councils and appropriate areas of business. Suitable and agreed service levels are also comparative measures. However, there needs to be a very clear distinction that local councils are neither companies nor profit-making entities.

Council is concerned that the statement that local councils should be managed like multi-million dollar companies rather than multi-million dollar organisations, could become an easy target, which then contributes to the negative public perception of local government and their ability to manage and service the needs of their community. Councils are not in the business of making profitable returns for shareholders, councils are in the business of providing essential services, building communities and a sense of place, and should have audits, benchmarks and standards that reflect this.

Furthermore, references to unattainable corporate comparisons and targets do not assist councils to identify true performance indicators and reporting values, or send clear messages about performance to the public. This makes honest conversations regarding service levels and associated costs more difficult with the communities councils serve.

- Believes that a mayor’s recognition for leadership is dependent upon the conduct of that mayor. Council recommends popularly-elected mayors over the collegiate system. Popularly-elected mayors provide longer-term strategic leadership and political stability during their four-year term.

- Supports a clear definition of the respective roles of mayors, councillors and senior managers, and the respected relationships fostering appropriate leadership. Council believes that the Model Code of Conduct meets this need.
o Supports an electoral system designed to ensure councils are representative of the diversity and varied interests of their communities.

o Supports local government elections characterised by high-quality candidates of sound policy and awareness of the complete responsibilities as a councillor. The role of councillors needs to be attractive and portrayed as a positive experience to interest the best candidates to take up the position. This is an issue for the Local Government Association and the DLG to improve the marketing of the industry and ensure the correct balance of prestige, recognition and remuneration is applied to councillors.

o Provides a comprehensive induction program during the first three months of each new council. Last year, Council’s program consisted of seven sessions that were well attended by new and returning councillors and included a session delivered by the Australian Institute of Company Directors, which discussed the councillors’ role in leadership.

Council is committed to providing ongoing professional development. Training is available for new and returning councillors throughout the elected term.

o Agrees mayors and councillors should be adequately remunerated in return for high levels of performance; however, it should not be assumed that greater remuneration will necessarily equate to higher performance.

There is a concern that enforcing full-time councillors will exclude a wide range of people because of other commitments and dilute the ability for a broad representation of the community. Similarly, this creates salary-capping issues and limits the candidacy to those willing to accept the remuneration as their main source of income. Currently, councillor positions are structured to attract the best people in their fields of expertise without affecting their current professions or income.

However, Council believes that the funding should be increased and that the restrictions applied to the funding should also be reviewed. In particular, the restrictions on superannuation contribution allowances for mayors and councillors. Currently, for example, mayors are ineligible to assign part of their remuneration to superannuation funds and this needs to be reviewed.

The present perceived image of local government as an industry could be a deterrent for many people who would otherwise consider standing as a councillor. However the system improvements, strategic decision making capabilities and strengthened partnership with State government, as discussed in ‘The Case for Sustainable Change’, will build a strong platform for local government and shape the recognition and reputation of councils in the industry.

Additionally, candidates for local government elections are not reimbursed for costs associated with their political campaigns. This is a barrier to attracting the best and widest range of possible candidates to the role of councillors due to the substantial costs of running a campaign independently in a competitive marketplace. Potentially, reimbursements could be based on a percentage of the vote, similar to State government elections.

o Supports a Local Government Act that minimises prescription and provides a range of options to structure councils and the way they operate. Importantly, this element acknowledges that a one-size-fits-all approach to local government is not valid and councils must be tailored to the differing characteristics and needs of their communities.
Lake Macquarie City Council utilised the IPR during its successful application for a special rate variation in 2012. The IPR process provides both rigour to strategic planning and flexibility to cater to community needs and aspirations.

Throughout the processes to achieve financial sustainability and integrated strategic planning, as described in ‘The Journey’ section of this submission, the community was extensively consulted. Most recently, the Securing our Future campaign comprised of a telephone survey, postal ballot, online survey and electronic polling at community workshops. The engagement program was designed to find the right balance between service levels, community aspirations and the amount of rates the community were willing and could afford to pay. Ultimately, this resulted in a contract with our community for services Council will deliver, which has been specifically tailored to our community.

IPART acknowledged in their determination that the scope of services a council delivers is decided by the councillors and the community.

“We note that local government’s involvement in a range of areas, such as managing the risks of the impact of climate change, may appear to be outside its traditional role, but can be the result of statutory or administrative obligations placed on local councils by other levels of government. We do not consider that Lake Macquarie’s activities are outside the norm of functions exercised by councils of similar size and location. Ultimately, it is up to the councillors and the community to decide the scope of the council’s discretionary activities.” IPART – Determination p31

- Strongly supports an improved auditing process for local government and continued focus on capacity building and continuous improvement. This is discussed in further detail in Signpost 5 of this submission.

- Supports a range of effective mechanisms for State and local consultation.

  Council actively seeks to build strong relationships with local representatives of State and Federal government. We have a long-standing culture to work closely with State and Federal Members of Parliament on key issues facing the City, as well as formal processes to brief these representatives on major projects and provide a responsive online communication service, known as the MP Request system.

- Supports integrated strategic planning and an equal partnership of State and local government at all levels, providing a ‘whole of government approach’. However, for this to be effective Council believes that all tiers of government must synchronise planning cycles. Refer to Signpost 3 for further information on the ‘whole of government approach’.

- Agrees with the elements stated for an effective Local Government Association. Lake Macquarie City Council actively participates in the State Conference each year and in 2008 was instrumental in requesting changes to the execution of the State Conference.

- Supports constructive relationships focused on improving productivity, performance and rewards.
Signpost 2: Fiscal responsibility and financial management

Financial sustainability

Lake Macquarie City Council believes ongoing financial sustainability underpins councils’ ability to appropriately deliver essential services to our community and effectively manage our asset base. A secure financial future and agreed level of service with the community is paramount to a successful council.

Council secured a seven-year special rate variation, through the IPART process as described in ‘The Journey’. This success has achieved financial sustainability for Council and has driven comprehensive and robust strategic planning processes and asset management systems.

This long-term approach delivers greater financial assurance, defines agreed levels of service, consistently and effectively engages the community, ensures cost-efficient maintenance of assets and addresses the issue of intergenerational equity.

“The council is to be commended for addressing its financial sustainability, including managing the backlog in maintenance and renewing its substantial and aging asset base. The council has a financing strategy that is consistent with intergenerational equity. It has a policy of borrowing, within prudent limits, to support its capital works program,” IPART – Determination page 6/7.

Rates and rate pegging

Lake Macquarie City Council contends that a combination of the IPART and IPR processes should be compulsory for all NSW councils. This would set up a uniform framework for strategic planning and if adopted, in a perpetual cycle, would secure long-term financial sustainability for the majority of local government in NSW and eliminate the need for rate ‘pegging’ or ‘capping’. The perpetual cycle would involve assessing community needs through thorough community engagement; long-term planning of service delivery and asset management; and followed by the setting of appropriate rates to be determined by an independent review body, such as IPART, at the level agreed with the community to meet the desired level of service.

Council recommends that the DLG has scope to be restructured to support a perpetual cycle.

Council believes that rate capping should be considered the bare minimum that councils can integrate into their financial plans. This would require a shift in the local government sector’s perception of rate capping to ensure that, rather than accepting minimal increases, councils should be striving for an adequate income from rates and other revenue to meet agreed service levels and planning targets. Council is concerned that asset maintenance and infrastructure costs increase above the annual rate cap and therefore create an increasing deficit over time.

Councils with more secure financial futures can better manage changes in service delivery and future planning, in comparison to the limited annual planning afforded by annual rate capping alone.

Financial Assistance Grants

Lake Macquarie City Council welcomes the Panel’s review of the mechanisms at State and Federal levels to administer financial assistance grants (FAG). The
‘drivers’, such as key demographic and geographical issues, for receiving grants should be reviewed, in particular, the allocation of a minimum grant to every council needs to be reconsidered.

Lake Macquarie City has a population of more than 200,000 circling one of the largest saltwater lakes in Australia. The local government area cannot be compared to more densely populated urban areas in terms of service delivery models. The Lake necessitates a circuitous road network, so the issues and costs of providing services are greater than an area with the same or larger population, as the population is more dispersed, with discrete population catchments focussed in the nine town centres.

Council would express concern if the FAG distribution is reviewed and new calculations are not being based on financial viability and sustainability, to the point where those communities whose councils have a history of stable leadership, good management and strategic capacity are penalised as a result. FAG should not be utilised as a rescue option for those councils that have the capacity to be sustainable but have not yet achieved sustainability through lack of strategic maturity, to the detriment of financially responsible councils.

The statement above excludes those rural and remote LGAs that do not have an adequate rate base to maintain appropriate levels of services and assets. Council agrees that these LGAs should receive a greater share of the grants to maintain key infrastructure and services.

Financial management and fiscal responsibility

Council welcomes the Panel’s focus on the IPR framework including an audit program of performance rather than legislative compliance. The involvement of IPART has started this process.

Council believes it has aligned all of the elements of fiscal responsibility in its strategic planning processes and financial management of service levels and substantial asset base. This is demonstrated through the success of the IPART application described in ‘The Journey’.

Signpost 3: Services and infrastructure

Lake Macquarie City Council agrees that the scope of local government service delivery has expanded considerably in recent decades, mostly due to increasing community needs and expectations.

Council is in support of individual councils deciding how to best respond to the particular needs of their local communities. This further exemplifies that a one-size-fits-all approach does not apply to the structure and operations of local government.

Council supports the development of a set of key indicators, such as viability, sustainability and resilience (New Zealand Audit Office approach), for local government. Council would be concerned if it was proposed that standard indicators, often used in large businesses and companies, were to be adopted, as these will not necessarily be relevant or accurate when applied to the local government industry.
Efficiency gains

Lake Macquarie City Council has a long-standing culture of continuous improvement, always identifying and pursuing ways to contain costs and remain efficient. In 2011, Council made a cost saving of $4.2 million as a result of an internal comprehensive Service Review.

Council’s role is to deliver the best possible services to meet our community’s needs efficiently and with finite resources. This means finding the right balance between the aspirations and priorities identified through our ongoing consultation with the community, and what we can afford to fund in any given year.

During 2012, we took a major step up in our capacity to get that balance right with the completion of a major project to understand our community’s preferred levels of service. The result is the comprehensive report, Providing Enduring Value. This report provides a solid framework for understanding Council’s service delivery requirements and areas in which we might fall short.

The analysis was drawn from the extensive consultation with our community undertaken as part of Securing our Future, as well as feedback collected through our regular Community Satisfaction Surveys and through the development of our Community Strategic Plan 2008-2018.

As a result, Council is better equipped to direct funding to initiatives that meet the needs and expectations of our community, and deliver the right levels of service.

“In effect, on the one hand, LakeMac has streamlined its operational activities, thereby inducing significant savings and efficiency gains, while on the other hand, LakeMac has increased ‘own-source-revenue through rate increases and entrepreneurial activity. It should be stressed that this has been achieved (a) without any forced or even voluntary structural change and (b) without any additional funds from higher tiers of government,” Professor Dollery, Enabling ‘Bottom-up Local Government Ingenuity Through Top Down State-wide Policy Frameworks: The Case of Lake Macquarie City Council and Ongoing Financial Sustainability paper, page 20. (Refer to Attachment 3)

“The LakeMac case illustrated vividly how a systematic combination of ‘top-down’ regulation and ‘bottom-up’ initiative can work. Through its thorough adoption of the IPR Framework and the IPART rate variation assessment procedure, LakeMac not only secured long-run and ongoing financial sustainability, but also generated community ownership of LakeMac and its future.

“Given the success of LakeMac, the Independent Review Panel would be prudent in its deliberations to reflect on how best local government reform can build on the positive role of the IPR Framework and IPART. In particular, it should recommend that the IPR Framework process and the IPART process be made mandatory for all NSW local authorities, with the DLG and IPART offering advice and expertise where required,” Professor Dollery, “Process Change Not More Forced Amalgamation” paper, page 2. (Refer to Attachment 4)

Asset management

Over the past three years, Council has developed its comprehensive Asset Management Framework to identify the levels of maintenance and renewal required to keep the City’s infrastructure functioning safely and assess new infrastructure needs. An Asset Management Steering Group was also developed to maximise synergies between departments.
Lake Macquarie City Council has put in place long-term financial and asset management plans designed to maintain the current backlog levels and ensure this does not increase going forward.

Council welcomes the commitment by the State government to introduce assistance to councils to begin to address the infrastructure backlog. The Local Infrastructure Renewal Scheme (LIRS) provides the opportunity for councils to access an interest subsidy to assist with addressing infrastructure backlogs and aims to provide an incentive to councils to make greater use of debt funding to accelerate investment in infrastructure backlogs.

Council believes the fundamental principles underpinning the scheme are flawed and need to be reviewed. All loans subsidised by the LIRS must have a loan term not exceeding 10 years. Council believes this limitation has the potential to encourage inappropriate loan practices. The 10-year loan period does not support Council’s lifecycle approach to asset management and the principle of intergenerational equity. Council’s policy is to apply loans only for new capital and that loans are taken over a longer period, usually 25 to 30 years to reflect the costs over the life of the assets.

At a minimum, the subsidy could be limited to 10 years, but councils be given the option to take longer loans with the subsidy removed after 10 years. The 10-year requirement has limited Council’s ability to participate in the scheme as the increased principle and interest repayments over a shorter period would place additional pressures on Council’s budget position and operating result.

Council participated in the recent T-Corp audit of financials and the DLG audit of Councils asset management systems and commends the DLG for having instigated both of these audits as a first step in auditing performance instead of prescribed activities.

**Regional collaboration**

Lake Macquarie City Council supports developing a stronger framework for regional collaboration advocacy and shared services, however council believes that existing entities are effectively working together. This is evident by our active role within Hunter Councils, where 11 councils in the Hunter have worked together for more than 50 years to ensure their communities benefit from positive cooperation and collaboration. This has achieved:

- Strong communication between Mayors, Councillors and General Managers;
- Shared professional expertise through staff forums;
- Many inter-council collaborative projects.

Council has been privy to the fruitful and successful collaboration with its regional partners, including a major recycling service delivery and community engagement partnership with Cessnock, Maitland and Singleton councils delivered under the Hunter Resource Recovery banner, servicing a combined population of more than 300,000.

Council has also participated in a range of regional projects with Central Coast and Hunter Councils through the Hunter Central Coast Regional Environmental Management Strategy, including weed management, compliance management, environmental assessment, vegetation mapping, climate change adaptation planning and community engagement.
It is important to ensure that any collaboration at a strategic or a service delivery level is done in the best interest of all parties, rather than a simple, tokenistic approach that dictates all councils must collaborate with their neighbouring councils. Legislating that councils must to work together on the delivery of services and/or strategic planning may create disadvantaged and imbalanced outcomes. Joint provision of infrastructure or delivery of services between neighbouring councils needs to be considered on a case-by-case basis, as geography and land use may restrict any potential efficiency improvements. For example, the urban areas of Cessnock City Council and Lake Macquarie City Council are separated by a wide band of hills, known as the Watagan Mountains that are managed as a series of State Forests, National Park and Nature Reserves.

**Whole of government approach**

In order for the ‘whole of government’ perspective to operate effectively, Lake Macquarie City Council believes that it is critical that local, State and Federal governments all adopt longer-term strategic planning cycles.

Council recommends State government agencies that are key to the system of local government adopt a strategic planning framework that aligns with the local government IPR, essentially the 10-year, four-year and one-year planning cycles. If an equal partnership in service delivery is going to succeed, other levels of government need to be further advanced in their strategic planning to provide funding and surety for infrastructure and program delivery.

As an example, the current funding framework for local libraries demonstrates the barriers to strategic and long-term financial planning as a result of a disconnected planning framework across levels of government. Our library service receives funding from the State via:

- A prescribed amount of subsidy per capita and an adjustment based on disability and geographic factors, this equates to approximately 6.25% of our total library services budget. Council is aware of this annual funding and estimates the amount, which will be received each financial year based on population. The funding is then received in December of each financial year;
- Geographic and Disability Funding for library services. Council receives notification in September each year of the funding amount and provides a submission that outlines which projects will be delivered and how the funds will be used. Again, this funding is not received until December; and
- Library Development Grants. This is a project based grant system with an application process.

Despite Council having to prepare 10-year, four-year and one-year plans for our library services which includes agreeing on service levels and setting targets and outcomes with our community, more than 6% of Council’s funding is unknown until partway through each year. This provides an example of the current limitations of the IPR and the need for greater emphasis on a ‘whole of government approach’ to service delivery.

**Reporting mechanisms**

Councils should be accountable to their community and the industry for the standard of service they deliver and management of operations. Lake Macquarie City Council currently produces a Review of the 2012-2013 Operational Plan and Budget report.
quarterly, and each year publishes its Annual Report and State of the Environment Report.

Lake Macquarie City Council is one of the NSW councils setting the benchmark for transparency of documentation and access for public information through its online communication. The Council’s website is an online portal for current reports, document exhibitions, recorded submissions, strategies and plans, community engagement results and news. We are committed to providing the community transparent information regarding our operations and ensuring Council is accountable to the community for the progress of projects and service provision.

Signpost 4: Structures and boundaries

A variety of structures

Lake Macquarie City Council welcomes the investigation into increased flexibility of local government structures and stronger platforms for shared services.

Council contends that sub-councils may not be the best approach, as the network of Operating Committees, Sustainable Neighbourhood Groups and Consultative Committees provides an adequate forum for local issues to be raised and addressed. The successful model of community facilities management is outlined in Signpost 1.

Lake Macquarie City Council is a geographically unusual LGA with a large lake in the centre and a population of 200,000 living around the lake. In order to ensure Council has equal representation of all areas in our LGA, it is divided into three wards, with four councillors appointed for each ward. Council often utilises its ward councillors as strong leaders in their individual communities, empowering them to conduct community engagement activities in their wards in conjunction with Council staff, Council-run groups and committees, and encouraging them to play key leadership roles within their wards, as primary representatives of their particular areas of the City.

By strengthening the roles of its ward councillors and utilising their presence in their communities, Council engages its spread-out population and complements its community engagement and customer service activities.

The Panel references a ‘Council of Mayors’ with a legal framework to enhance efficiencies in service delivery and regional collaboration. Council supports the approach to build councils’ strategic capacity at a regional level, however is concerned this could develop into a fourth tier of government. This additional board of mayors has the potential to dilute local councils’ and senior management teams’ decision making capacities and cause delays to service delivery improvements, as a result of an additional checkpoint for policy, deliberation and decision. However, a ‘council of mayors’ with legislative power may be appropriate for the region where determination is required for genuinely major and specific strategies relating to regionally important infrastructure, for example the Lake Macquarie Transport Interchange.
The amalgamation debate

Lake Macquarie City Council agrees that in some cases boundaries are out-of-date and should be reviewed; however, it is not clear that consolidation of NSW councils will strengthen capacity and sustainability. Lake Macquarie City Council recommends that the local government reform should focus on driving process change to build stronger and more sustainable councils in conjunction with appropriate structural changes.

Council recommends the IPART and IPR processes are made compulsory to drive uniform process change in the NSW local government industry.

Council’s recommendations regarding amalgamations as part of local government reform draw upon the views of Professor Dollery in his papers *Process Change Not More Forced Amalgamations* and *Enabling 'Bottom-up Local Government Ingenuity Through Top Down State-wide Policy Frameworks: The Case of Lake Macquarie City Council and Ongoing Financial Sustainability*.

“Whereas ‘structural change involves a reorganization of the machinery of local government’, by contrast ‘process change refers to modification in the methods employed by municipalities’. In other words, while *structural change* involves adjusting the number, size and type of local councils in a state jurisdiction, *process change* involves transformation in the methods deployed by local authorities.

“This paper considers the ingenious manner in which LakeMac employed the financial parameters embodied in the NSW Integrated Planning and Reporting Framework, enacted under the NSW Local Government Amendment (planning and reporting) Act 2009, as well as the new rate-pegging system introduced in the 2011/12 financial year, to secure its future financial viability, after close consultation with its local community,” Professor Dollery, *Enabling 'Bottom-up Local Government Ingenuity Through Top Down State-wide Policy Frameworks: The Case of Lake Macquarie City Council and Ongoing Financial Sustainability* paper. (Refer to Attachment 3)

Devising boundaries

In the case of boundary changes, Lake Macquarie City Council is concerned by the Panel’s statement regarding combining existing municipalities. The suggestion that it is their preference to combine two or more whole LGAs without considering where the most appropriate boundaries should be is inconsistent with the desire to meet the needs of local communities in the best interests of the region. Boundaries across NSW should be reviewed not simply in the interest of consolidation, but more importantly, to ensure that boundaries meet the social, environmental, governance and economic development needs of each region, in a contemporary manner.

For example, currently the governance of Lake Macquarie (the Lake) is shared between two councils. Lake Macquarie City Council manages more than 95% of the Lake catchment, the remaining 5% (approximately) is managed by Wyong Shire Council. In ‘catchment management’ terms, it would be far more strategic and sensible to undertake a mutually-agreed boundary adjustment to reflect the whole Lake catchment, than attempting to amalgamate two whole local government areas.
Response to Box 6 Factors informing the Panel’s assessment of local government boundaries

Council:

- Agrees that long-term population and employment growth projections are developed having regard to the boundary, environmental and economic conditions of LGAs.

  Council has zoned sufficient land for urban purposes to accommodate the population and employment targets identified in the Lower Hunter Regional Strategy. The zoned land allows for medium density housing, standard residential housing, commercial and industrial uses, and some land is zoned for investigation for urban purposes.

  The eastern side of the LGA has been extensively developed; it is predominantly the western side of the LGA where land is available for Greenfield development.

  Future housing and employment targets for the Lake Macquarie LGA will need to consider the limitations to Greenfield development, although Council is actively encouraging higher density development in and around its main town centres and transport hubs to accommodate housing and employment growth.

- Agrees accessibility is a significant factor in determining appropriate LGA boundaries. A balance of natural dividers and urban infrastructure should be considered as part of reviewing LGA boundaries.

- As outlined in Signpost 3, Council facilitates a model for community facilities management in line with the ‘Communities of Interest’ approach; empowering community, sporting and environmental groups to take pride and ownership in their local areas.

- Believes is it imperative for residents to care about where they live and take pride in their community, including driving a positive local identity and possessing a sense of place and belonging.

  Our LGA is a large geographical area with a central Lake that separates a whole series of smaller communities. Council remains committed to fostering positive local identity through a series of community networking and sustainability programs such as our Sustainable Neighbourhoods Program, ‘Super Street Sale’ campaign and community grants program. Similarly, our strategic plans for town centres and new developments, such as the Draft Belmont Streetscape Master Plan, are designed to promote economic development; enhance lifestyle and local identity; and bring people together.

  As part of our comprehensive community engagement strategy, Council engages with its residents every two years through a Community Satisfaction Survey. The 2012 results demonstrated an increase in satisfaction, with 92% of respondents are comfortable with Council’s performance across a range of more than 60 indicators. Of the respondents, 72% were satisfied or very satisfied and 20% were neutral. This further illustrates that Lake Macquarie City residents are positive about their communities and lifestyle.

- Supports the Panel’s statement regarding strategic capacity. As outlined in Signpost 1, Council continues to demonstrate strategic capacity to face challenges and drive change.
o Supports the Panel’s statement regarding efficiency and effectiveness. As outlined in Signpost 3, Council has a long-standing culture of continuous improvement.

o Agrees with the Panel’s statement for strong town centres and supports initiatives to drive increased economic development throughout these centres further promoting growth and enhancing the viability and vitality of each city.

o Agrees infrastructure assets and analysis of use by communities and regions are important factors in the assessment of local government boundaries; but does not support the idea that it is necessary for key infrastructure and destination points to be within one LGA.

o As previously discussed, if boundaries are reassessed, they need to be assessed as part of a statewide strategy to ensure all boundaries are assessed for appropriate governance.

o As previously discussed, the statement in relation to combining existing municipalities is a concern because it appears to be inconsistent with the measured and tailored approach throughout the rest of the discussion paper; that one-size-does-not-fit-all.

Signpost 5: Governance

Lake Macquarie City Council agrees with the Panel that there is a need for better governance and leadership in some NSW councils, but not all! We pride ourselves on our reputation as a stable and collaborative council. We will continue to work alongside our community to ensure that our City remains socially, environmentally and economically sustainable.

Political governance

Council believes it should be compulsory for mayors and councillors to attend both awareness sessions to understand the responsibilities of being a councillor, and undertake regular professional development. As outlined in Signpost 1, Council is committed to providing a comprehensive induction program during the first months of a new council. We also invest a significant amount of time to ongoing training and briefings to councillors throughout each elected term.

Role of mayors

The role and authority of mayors needs to be strengthened to improve leadership and accountability in councils. Council is supportive of the mayor becoming the designated community leader of the council and remunerated accordingly.

Alternative governance models

We support the Panel’s acknowledgement that the current one-size-fits-all model is not appropriate in the evolving local government climate. Council strongly believes that the Panel should continue to consider a range of governance models from which councils could select, according to their local circumstances.
Councillors and management relations

Lake Macquarie City Council works hard on ensuring that there is an ongoing culture of the General Manager, senior staff and councillors working together on both operational and strategic issues in a mutually respectful manner. Council and our senior management team operate as an effective team by recognising each other’s knowledge, skills and abilities.

Audit and continuous improvement

We value the Panel’s examination to shift from compliance to innovation and improvement, underpinned by better data collection and expanded benchmarking and performance reporting, linked to the IPR and supported by internal and external auditing.

Council also agrees that the role of the DLG needs to be increased and enhanced. One way of achieving this is by shifting from an, at times, paternalistic compliance approach, to a role of capacity building. Therefore, the focus will be placed on performance and delivery and not solely on financial results. The Division should have the capability to assist smaller councils to meet auditing and reporting requirements, thus promoting the role of equal partners.

In relation to external auditing, Council supports the rigour and robust nature of the New Zealand model to evaluate the quality of a council’s performance and the soundness of long-term plans. This approach sees councils’ tailored strategic plans and long-term financial strategy essentially become contracts with their communities.

Again, Council believes that if the IPART process were compulsory across local government, in conjunction with IPR, councils’ strategies and plans would be elevated and drive longer-term planning.

Council has developed and published reports aligned to our strategic plans since 2000 and believe we have a holistic, mature reporting system in place driven by our community. This is evidenced by our comprehensive use of the IPR, prior to it becoming a legislative requirement. Our plans deliver accountable and measurable linkages between community aspirations, financial capacity and practical service delivery.

Signpost 6: A compact for change and improvement

A network of relationships

Lake Macquarie City Council strongly agrees that an effective local government system demands a focus on effective working relationships, in particular improving the relationship between local and State government.

Building State-local relationships

Council welcomes the opportunity to discuss the change in processes and interactions required to improve and empower the relationship between local councils and the State government.
Co-drivers of change

Council values the premise of the DLG and the new Local Government Association driving change. Similar to the Panel’s view of shifting from regulation and compliance to improvement and innovation, Council believes this change can only be produced by enhancing resources, demonstrating clear leadership and employing professionals with appropriate skill sets.

Conclusion

Lake Macquarie City Council welcomes the Independent Review Panel’s investigation into the opportunities and potential systems to improve the strength and effectiveness of the local government industry in NSW.

We believe we meet the requirements for a sustainable and efficient council with effective strategic capacity to lead our City and enhance the lifestyle and liveability of our communities through high-quality governance and first-rate service delivery.

With regard to local governance, Council has established a model of community facility management, which empowers local community and environmental groups to manage community facilities and public spaces. This facilitation along with our Sustainable Neighbourhoods Program builds a strong local identity, develops community pride and creates a sense of belonging. We believe this model is an appropriate ‘local governance’ alternative to sub-councils. Council agrees that a variety of structures within local government is needed to adequately meet the wide range of governance requirements by individual councils in NSW.

It is important that local councils are empowered to make local decisions. A council of mayors with legislative power could be beneficial where determination is required for major regional projects. For example, the outcomes of this board could be effective in binding a group of councils, such as those in the Lower Hunter, to the best interests of the region. However, there is concern that this board could develop into a fourth tier of government diluting local council decision-making and delaying improvements to service delivery.

Increased regional collaboration across local government areas will further develop strategic capacity for councils through shared information and services, advocacy for efficiency gains and effectively working together for community benefit. We have had an active role within Hunter Councils, where 11 councils in the Hunter have worked together for more than 50 years to achieve many inter-council projects, shared professional expertise and strong communication between elected council and senior management; all without structural boundary changes or enforcing compulsory collaboration. Lake Macquarie remains committed to regional collaboration that is done in the best interests of all parties and the region rather than a legislated approach that dictates all councils must collaborate with neighbouring councils, potentially creating a tokenistic or ‘tick box’ approach with disadvantaged or imbalanced outcomes.

One of the key aspects of the ‘Case for Sustainable Change’ is the pursuit of financial sustainability and sound strategic financial planning for all councils in NSW. Lake Macquarie City Council strongly recommends that the IPART process be made compulsory for all councils, in conjunction with the IPR legislative requirement. This will mandate a proven, uniform and robust system for strategic planning and level of community engagement to achieve fiscal responsibility.

Councils could apply this framework in a perpetual cycle, achieving long-term financial sustainability into the foreseeable future and eliminate rate pegging or
capping. Lake Macquarie City Council achieved financial security in 2012 with a successful seven-year special rate variation application. Council believes its case could be used as a blueprint for many NSW councils to achieve the same. In the meantime, Council recommends that rate capping should be considered the bare minimum that LGAs can integrate into their financial plans and that councils should form sound financial strategic and asset management plans on agreed levels of service through comprehensive community engagement.

We welcome the Panel's review of the mechanisms to award FAGs and agree that rural and remote LGAs should receive a greater share of the grants. Council would express concern if the potentially new FAG calculations were not based on financial sustainability and viability. Likewise, if the FAG scheme is used to 'prop up' councils that do not have sound financial management practices, to the detriment of financially responsible councils.

Council believes in a 'whole of government approach' to strategic planning cycles and recommends that the key State government agencies adopt a strategic planning framework and long-term financial planning that aligns with the IPR, used by local government. This will provide a more equal partnership and greater certainty in service delivery.

Council agrees that in some cases boundaries are out-of-date, illogical and obstacles to good governance. However, we are concerned by the suggested preference to combine two or more whole LGAs, without true assessment of boundary requirements, in order to gain financial efficiencies and lessen disruption during the amalgamation process. This sits apart from the prominent theme of assessing LGA individual requirements; that a one-size-fits-all approach does not apply to local government in terms of structure and service delivery. Council believes process change and beneficial boundary changes that improve governance should be explored prior to and during amalgamation debates.

We value the examination of audit requirements and opportunities to strengthen our performance and long-term plans. Council supports the proposal for a shift from compliance to innovation and improvement supported by an internal and external auditing framework. Similarly, Council agrees that the role of the DLG needs to be increased and that the Division should have the capability to assist smaller councils to achieve auditing and reporting requirements. Council has a long-standing culture of continuous improvement as demonstrated by our ongoing commitment to efficiency gains and enhanced operational performance.

Lake Macquarie City Council remains committed to getting the very best outcomes for our community. We appreciate the opportunity to contribute to the Local Government reform through our submission to the Independent Review Panel's 'Better, Stronger Local Government – The Case for Sustainable Change'.
List of Attachments

**Attachment 1**
IPART NSW Local Government – Determination
Lake Macquarie City Council’s application for a special variation 2012/13

**Attachment 2**
Comparative Data – NSW Local Government
Analysis of Lake Macquarie City Council Data and Historical Trends

**Attachment 3**
Enabling ‘bottom-up’ Local Government ingenuity through ‘top-down’ state-wide policy frameworks: The case of Lake Macquarie City Council and ongoing financial sustainability
Prof. Brian Dollery

**Attachment 4**
Process change not more forced amalgamation
Prof. Brian Dollery

**Attachment 5**
Local co-government in New South Wales: Lake Macquarie City Council and its delegation model for section 355 committees
Prof. Brian Dollery and Dr. Michael Kortt

**Attachment 6**
Local co-governance and environmental sustainability in New South Wales local government: the Lake Macquarie City Council Sustainable Neighbourhoods Program
Prof. Brian Dollery and Dr. Michael Kortt
Attachment 1

IPART NSW Local Government – Determination
Lake Macquarie City Council’s application for a special variation 2012/13
Lake Macquarie City Council’s application for a special variation 2012/13

Local Government — Determination
June 2012
Lake Macquarie City Council’s application for a special variation 2012/13

Local Government — Determination
June 2012
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The Tribunal members for this assessment are:
   Dr Peter J Boxall AO, Chairman
   Mr James Cox PSM, Chief Executive Officer and Full Time Member
   Ms Sibylle Krieger, Part Time Member

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1 Determination

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for setting the amount by which councils can increase their general income, which mainly includes rates income. Each year, we determine a standard increase that applies to all NSW councils, based on our assessment of the annual change in their costs and other factors. This increase is known as the rate peg.

However, councils can apply to us for a special variation that allows them to increase their general income by more than the rate peg. We are required to assess these applications against criteria in the Guidelines provided by the Division of Local Government (DLG), and may allow special variations under either section 508A or 508(2) of the Local Government Act 1993 (the Act).

In 2012/13 Lake Macquarie City Council applied for a multi-year special variation under section 508A. The council requested annual increases ranging from 10.44% to 4.75% over the next 7 years, equal to a cumulative increase of 73.24% by 2018/19. After assessing its application, we made a decision to approve a smaller, though still substantial, cumulative increase. We have approved a cumulative rise of 57.48% over 7 years.

The percentage increases we have approved are consistent with the council’s Option 2, which was the lower of 2 possible increases that the council put to the community during consultation on the proposed special variation. We consider that this special variation will have a more reasonable impact on ratepayers, yet still allow the council to improve its financial sustainability during the period of the special variation, and make progress on addressing its maintenance and infrastructure backlog while maintaining current levels of services and assets.

We made this decision under section 508A of the Act. By the operation of the Act and the Guidelines, any increases in income determined under section 508A are permanently incorporated into the council’s general income.

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1 Guidelines for the preparation of an application for a special variation to general income in 2012/2013.
2 See Chapter 2, section 2.6, and Lake Macquarie City Council, Securing Our Future, November 2011 (Securing Our Future).
3 Implied by the operation of sections 509(1) and (2) of the Act, and also included in the Guidelines, p 9.
1.1 Our decision

IPART decided that Lake Macquarie City Council can increase its general income by the annual percentages shown in Table 1.1, for a cumulative increase of 57.48% over the next 7 years, or 33.78% above the rate peg increase. For each year, the annual increase shown in the table is the total percentage increase allowed.

These increases incorporate the rate peg increases the council would otherwise be entitled to in these years (3.6% in 2012/13 and an assumed 3.0% in each of the subsequent years). Over the 7 years the annual increase is on average 4.83% above the rate peg. The annual increases in dollar amounts that we have calculated allow for the expiry of an existing special variation in June 2014.4

Table 1.1 IPART’s determination on Lake Macquarie City Council’s special variation for 2012/13 to 2018/19

<table>
<thead>
<tr>
<th>Year</th>
<th>Increase in general income approved (%)</th>
<th>Cumulative increase in general income approved (%)</th>
<th>Annual increase in general income ($)</th>
<th>Total permissible general income ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011/12</td>
<td></td>
<td></td>
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<td>83,411,250</td>
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<tr>
<td>2012/13</td>
<td>10.36</td>
<td>10.36</td>
<td>8,641,406</td>
<td>92,055,048</td>
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<td>2013/14</td>
<td>10.17</td>
<td>21.58</td>
<td>9,361,998</td>
<td>101,417,046</td>
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<td></td>
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<td></td>
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<tr>
<td>2014/15*</td>
<td>6.23</td>
<td>29.16</td>
<td>6,154,471</td>
<td>104,942,136</td>
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<td>2015/16</td>
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<td>36.37</td>
<td>5,855,771</td>
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<td>43.52</td>
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<td>50.34</td>
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<td>2018/19</td>
<td>4.75</td>
<td>57.48</td>
<td>5,802,315</td>
<td>127,956,315</td>
</tr>
</tbody>
</table>

a Permissible general income refers to the maximum general income that the Council can generate in the year. It equals the previous year’s notional general income level adjusted for any expiring special variation, other adjustments (prior year catch ups, excesses, valuation objections and income adjustments for Crown land) plus the annual dollar increase permitted by the proposed special variation percentage.

b This income level is the 2011/12 adjusted notional general income level, not the permissible general income level. The income level in 2011/12 is not part of the council’s application and is only included here to indicate the size of the base to which the special variation applies.

c The council’s proposed permissible general income in 2012/13 includes the requested special variation of 10.44% and an increase of $2,392 for a prior year catch up. It will also be subject to a reduction of $48,783 due to a valuation objection proposed to be recouped in this year but which had not been recouped by the time of the council’s application to IPART and therefore is not included in the calculations in the table.

d This is the effect of the expiry of the Sustainability Levy on 30 June 2014.

e The percentage for 2014/15 includes an amount equal to the value of the special variation that expires in June 2014.


4 The impact of the expiry in June 2014 of the existing special variation for the Sustainability Levy is to make the actual percentage increase in general income over the 7 years 53.40%, not 57.48%. It is not possible to determine the council’s future general income with precision: see note 25.
We have attached conditions to this decision, including that the council use the income raised through the special variation for purposes consistent with those set out in its application. Box 1.1 lists these conditions.

In making this decision, we recognise that the council will not be able to undertake the full allocation of expenditure on the purposes set out in its application (see Appendix A), and will need to re-prioritise planned expenditures in future years.

**Box 1.1 Conditions attached to IPART’s decision on Lake Macquarie City Council’s application for a special variation**

IPART’s approval of Lake Macquarie City Council’s application for a special variation over the period from 2012/13 to 2018/19 is subject to the following conditions:

- The council uses the additional income from the special variation to fund service levels and community infrastructure consistent with the council’s application.
- The council reports in its annual report for each rating year over the period from 2012/13 to 2021/22 on:
  - expenditure on service levels and community infrastructure consistent with the council’s application
  - the outcomes achieved as a result of the special variation
  - its asset renewal and maintenance expenditure
  - productivity savings achieved, and
  - any significant variations from its financial results as forecast in its Long Term Financial Plan and any corrective action taken or to be taken.

**1.2 What did the council request and why?**

Lake Macquarie City Council applied to increase its general income by a cumulative 73.24% over the 7-year period from 2012/13 to 2018/19, and to permanently incorporate this increase into its general income base. The increase included the rate peg available to all councils, and the value of an existing special variation due to expire in June 2014.

The council intended to use the income from the requested special variation to improve the council’s financial sustainability, while maintaining or enhancing current service levels and improving community infrastructure.

Table 1.2 shows the components of the requested special variation.

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Lake Macquarie City Council, *Section 508A Special Variation Application 2012/13 – Part A (Lake Macquarie Application Part A), Worksheet 1.*
The council estimated that if its requested special variation were approved, its permissible general income would increase from $83.41m in 2011/12 to $140.76m in 2018/19. This represents a cumulative increase of $236.91m over 7 years, or $171.25m above the rate peg increase.6

Table 1.2 Components of Lake Macquarie City Council’s requested special variation for 2012/13 to 2018/19 (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate pega</th>
<th>Additional increase requested</th>
<th>Total annual increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>3.6</td>
<td>6.84</td>
<td>10.44</td>
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<td>6.75</td>
</tr>
<tr>
<td>2018/19</td>
<td>3.0</td>
<td>1.75</td>
<td>4.75</td>
</tr>
</tbody>
</table>

a In 2012/13, the rate peg of 3.6% reflects IPART’s determination; in the following years it is assumed to be 3.0%.

Source: Lake Macquarie City Council, Section 508A Special Variation Application 2012/13 - Part A (Lake Macquarie Application Part A), Worksheet 1.

The council indicated that the additional income would be used in this way:

- More than $170m would allow the council to maintain current levels of services to the community, including projects funded by the expiring Sustainability Levy: $166.80m would remove the operating deficit expected until 2016/17, and a further $3.83m would achieve operating surpluses in 2017/18 and 2018/19.7

- An allocation of $53.32m would be used for additional infrastructure maintenance and ranger services, and to enhance some services and assets eg, roads, libraries and pools.

- $14.19m would meet additional borrowing costs related to loans to implement a program of new capital investment, including improvements to parks and recreation facilities, major upgrades to 3 pools, 2 new libraries and upgrades to 3 others, upgrades to 9 major town centres, new footpaths and cycleways, upgrades to community facilities and 2 new centres for dementia day care and pensioners and community care.8

6 Lake Macquarie Application Part A, Worksheet 1 and IPART calculations. Appendix A, based on Lake Macquarie Application Part A, Worksheet 7 shows a cumulative rise of $250.08m because it does not adjust for the reduced income related to the expiring levy.


8 Lake Macquarie Application Part A Worksheet 7, and Part B, Supporting Document 3.15 Financial Data for Special Variation Scenario 1, 2 and 3, pp 15ff and IPART calculations. See generally Lake Macquarie Application Part B, Section 3 Need for the variation, pp 20-24, Table 3.1 pp 28-31, Table 3.15 pp 68-69, pp 70-73, and Tables 2.4 and 2.5, pp 12-17; and LTFP pp 9 and 28-29.
More detail on Lake Macquarie City Council’s proposed program of expenditure to 2018/19 is provided in Appendix A and section 2.4.

1.3 How did we reach our decision?

We assessed Lake Macquarie City Council’s application against the 6 criteria in the Guidelines for s508A applications. We found that the application addressed the criteria systematically and thoroughly, and included comprehensive supporting information. However, we found that it met some of these criteria only partially.

In particular, we were satisfied that the council has shown that significant rate increases are needed to improve its financial sustainability and to maintain its services and assets in line with community expectations. We were also satisfied that it provided evidence of community support for significant rate increases, and that Option 2 would have a more reasonable impact on ratepayers. We found that:

▼ A more moderate cumulative increase – such as the increase under the second of the 3 options the council consulted its community on (Option 2) – would still enable it to achieve financial sustainability (by eliminating its operating deficits) over the 7-year period, while also allowing for continuing growth in operating expenditure, additional asset maintenance, and funding loans for capital works.

▼ The council’s consultations showed clear community support for rate increases at least as large as those in Option 2 but the extent of support for Option 3 was harder to assess.

▼ While socio-economic indicators suggest that the Lake Macquarie community has the capacity to pay higher rates than at present, we judged that a more moderate cumulative increase would have a more reasonable impact.

For these reasons, we decided to approve a cumulative rise in general income of 57.48% over 7 years (rather than 73.24% as the council requested). The approved increase is consistent with the council’s Option 2.

Table 1.3 summarises our findings against each of the criteria.
Table 1.3 Summary of IPART’s assessment against the criteria in the Guidelines

<table>
<thead>
<tr>
<th>Criterion</th>
<th>IPART findings</th>
</tr>
</thead>
</table>
| 1.Demonstrated need for the rate increases derived from the councils Integrated Planning and Reporting Framework | The requested special variation:  
- is based on the council’s long-term financial and strategic planning  
- broadly reflects the community’s priorities as identified through consultation in the IPRF and the special variation  
- incorporates alternative revenue sources  
- will fund an efficient and feasible program of expenditure.  

The special variation will improve the council’s financial sustainability. The council is to be commended for addressing its financial sustainability, including managing the backlog in maintenance and renewing its substantial and ageing asset base.  
However, this objective should be considered in light of evidence of the community's willingness to pay higher rates, and its capacity to pay over a relatively short period of time.  
The council has demonstrated the need for a significant increase in its general income to address its financial sustainability, but not shown that the increase needs to be as large as requested. Option 2 will still enable the council to eliminate its operating deficit within the 7-year period, and therefore take a major step towards financial sustainability. |
| 2. Demonstrates community support for the special variation | The council engaged extensively with the community to determine its priorities and the level of support for a special variation.  
The consultation strategy was conducted in accordance with the advice to councils set out in the Guidelines.  
Consultation showed clear community support for significant rate increases of at least the size we have decided to approve.  
Most submissions to IPART indicated opposition to the special variation, many on the grounds of affordability of the proposed increase. Submissions also opposed the special variation because of the council’s perceived poor performance.  
While we considered the views in submissions, we could not assess how statistically reliable or representative of the whole community they were.  
Many submissions expressed concerns about the consultation strategy, however, we consider that the council attempted to widely publicise its request for feedback on the proposed special variation. |
| 3. Reasonable impact on ratepayers | The lower increases implied by Option 2 are considered to be more reasonable.  
We note:  
- socio-economic indicators suggest that the community has the capacity to pay higher rates, but not necessarily cumulative increases as high as those the council requested  
- consultation undertaken by the council suggested that the community is prepared to pay higher rates, however public submissions expressed concerns about the affordability of the rate increases, particularly in the current economic conditions. |
<table>
<thead>
<tr>
<th>Criterion</th>
<th>IPART findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate</td>
<td>The council has a payment assistance policy. Given the increases to rates we have approved, we expect the council to respond appropriately to ratepayers who have difficulty in meeting their rate obligations.</td>
</tr>
<tr>
<td>4. Sustainable financing strategy consistent with the principles of intergenerational equity</td>
<td>The council has a financing strategy that is consistent with intergenerational equity. It has a policy of borrowing, within prudent limits, to support its capital works program. The council has also incorporated alternative revenue sources to support operational costs.</td>
</tr>
<tr>
<td>5. An explanation of the productivity improvements and cost containment strategies the council has implemented in past years, and is planning over the requested special variation period</td>
<td>The comparative productivity indicators show that the council is relatively efficient compared with its peer group and NSW councils generally. The council has systematically identified productivity improvements and expenditure savings, and implemented other cost containment and revenue-sourcing strategies. The comprehensive Service Review (2009-2011) identified $4.2m in ongoing savings. The council is committed to pursuing these approaches in the future. While submissions claimed that the council was inefficient and wasted expenditure, and should be able to reduce its expenditure and avoid rate increases, we found no evidence in submissions or comparative data to indicate the council’s productivity was a major concern. It appears that significant reductions in expenditure are possible only if the scope and level of services to ratepayers are substantially reduced.</td>
</tr>
<tr>
<td>6. Implementation of Integrated Planning and Reporting Framework (IPRF)</td>
<td>All plans and documentation have been reviewed by the DLG which has advised IPART that the council’s implementation of the IPRF has been satisfactory.</td>
</tr>
</tbody>
</table>

**Note**: In accordance with the Guidelines, IPART may also consider any other matters it considers relevant in assessing a council’s application for a special variation. In the case of Lake Macquarie City Council’s application, no other matters were identified.

**1.4 What does our decision mean for the council?**

Our decision means that Lake Macquarie City Council is able to increase its general income over the 7-year period from $83.41m to $127.96m in 2018/19 (see Table 1.1). After 2018/19, all other things being equal, the council’s permissible general income will increase by the annual rate peg unless we approve a further special variation.9

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9 The actual general income in future years will be influenced by a range of factors apart from the rate peg: see note 25.
We estimate that over these 7 years, the council will generate additional rate revenue of $192.06m, or $126.39m above the rate peg.\textsuperscript{10} This extra income is lower than the council requested, but council projections indicate that it would still allow the council to eliminate its operating deficit after 5 years while maintaining the level of services and assets its community expects, make progress in addressing its asset backlog, and fund a more limited program of new and replacement capital works.

The council will not be able to undertake the full program of expenditure it proposed for the additional revenue that would have come from its requested special variation, and will need to re-prioritise planned expenditures in future years.

1.5 \textbf{What does our decision mean for ratepayers?}

While IPART sets the allowable increase in general income, each individual council determines how it will allocate this increase to different categories of ratepayer. Councils usually set their rates in June or July for the following year.

In its application, Lake Macquarie City Council indicated that it intended to apply the requested rate increases differentially among its ratepayers. Similarly, when it put Option 2 to the community during consultation, it indicated that increases for business and mining ratepayers would be higher in the first 4 years than for residential and farmland ratepayers.\textsuperscript{11}

Assuming that the council will allocate the approved special variation in accordance with Option 2 as proposed during consultation, we expect that over the 7 years:

\begin{itemize}
  \item average residential rates will rise by $93 in the first year, and by $524 over 7 years, a cumulative increase of 55.2%, and
  \item average business rates will rise by $460 in the first year, and by $2,332 over 7 years, a cumulative increase of 71.0%.
\end{itemize}

Table 1.4 sets out the annual percentage and dollar increases that the council indicated it would apply to average residential and business rates under Option 2.

\textsuperscript{10} Lake Macquarie City Council, Emails to IPART dated 14 and 23 May 2012, and IPART calculations.
Table 1.4 Indicative annual increases in average residential and business rates 2012/13 to 2018/19 as a result of IPART’s determination of the Lake Macquarie City Council’s special variation application

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual % increase</th>
<th>Average rate ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Residential</td>
<td>Business</td>
</tr>
<tr>
<td>2011/12</td>
<td>9.49</td>
<td>3.284</td>
</tr>
<tr>
<td>2012/13</td>
<td>9.75</td>
<td>14.00</td>
</tr>
<tr>
<td>2013/14</td>
<td>9.50</td>
<td>14.00</td>
</tr>
<tr>
<td>2014/15a</td>
<td>6.00</td>
<td>7.50</td>
</tr>
<tr>
<td>2015/16</td>
<td>5.50</td>
<td>6.00</td>
</tr>
<tr>
<td>2016/17</td>
<td>5.25</td>
<td>5.25</td>
</tr>
<tr>
<td>2017/18</td>
<td>4.75</td>
<td>4.75</td>
</tr>
<tr>
<td>2018/19</td>
<td>4.75</td>
<td>4.75</td>
</tr>
</tbody>
</table>

a The increase in 2014/15 has been adjusted for the impact of the expiring special variation for the Sustainability Levy which will expire in June 2014.

Source: Lake Macquarie City Council, Securing Our Future, p 13 and IPART calculations.

However, these rate increases are indicative only and the actual impact on rates is a matter for the council to determine, consistent with this decision.

1.6 What does the rest of this report cover?

The rest of this report discusses the council’s application and our assessment and findings in making our decision in more detail:

- Chapter 2 focuses on the council’s application
- Chapter 3 discusses our assessment against the criteria.

The appendices set out the council’s proposed program of expenditure on services, assets and borrowing costs, provide a summary of the comparative data we considered in our assessment, such as average local government area (LGA) income levels and council labour costs, and outline the council’s consultation strategy.
2 Lake Macquarie City Council’s application

Lake Macquarie City Council applied to increase its general income over 7 years by a cumulative 73.24% – or 49.54% above the rate peg increase – and to incorporate this increase permanently in its general income base.12

The sections below provide some brief background information on the council, and its history of special variations. The subsequent sections outline its application for a special variation in 2012/13, how the council proposes to use the additional income it would raise, and how the necessary rate increases would affect different ratepayers. The final section outlines Option 2 that the council consulted the community on when it gauged the community’s support for a special variation. IPART approved a special variation for the council consistent with the increases in general income under Option 2.

2.1 About the council

The Lake Macquarie LGA is in the Lower Hunter Valley, and circles Australia’s largest coastal saltwater lake. With an estimated 201,000 residents in 2011, it is the fourth most populous LGA in NSW.

Urban settlement is dispersed around the lake, in 9 major townships and about 80 suburbs and villages. The economy is diverse. The main activities are primary industries (coal, timber, agriculture and fishing), manufacturing and tertiary industries (retail trade, health and community services, construction, technology and tourism).

The Lower Hunter Regional Strategy identifies Lake Macquarie as a growth area with population projected to grow by 60,000 between 2006-2031, creating demand for 36,000 new dwellings and 12,200 new jobs. Based on these projections, the council estimates that there will be 40,000 more residents between 2010 and 2031.13

13 Lake Macquarie Application Part B, pp 23 and 149-150.
As a result of this anticipated urban growth, the council will need to provide infrastructure and services to the new residents and industrial and commercial development. Another challenge for the council in the future will be working with the community on environmental management of the lake and the south and western semi-rural areas, dealing with the historical legacy of industrial activity and preparing for identified risks associated with flooding and sea level rise.14

The council is in DLG Group 5, which indicates it is classified as an “urban large/very large regional town/city”.15 The 6 councils in this group have quite different characteristics, so we also compared the council with both its Group 5 peers and other large councils on urban fringes or with high population growth.

The Lake Macquarie LGA has a SEIFA ranking of 102, placing it among the top third least disadvantaged area in NSW.16 It has lower unemployment (September quarter 2011) and higher home ownership rates than the average for all LGAs across NSW. Its average income is slightly higher than the averages for DLG Group 5 and NSW.

In 2010/11, the council’s average residential rate was $880, which was close to the average for DLG Group 5 of $889, but considerably higher than the average for NSW of $659.17 Its average business rates were $3,146, which was less than the average for DLG Group 5 ($4,421), and significantly less than those of the more comparable councils in this group, Newcastle City Council ($6,891) and Wollongong City Council ($8,704).

In 2010/11, the council derived 50% of its General Fund18 revenue from rates and annual charges, which was marginally higher than the averages for DLG Group 5 (48.0%) and NSW (46.7%).19

15 DLG, Snapshot of NSW Councils: Comparative Information on NSW Local Government Councils 2008/09, pp 11-17. The Australian Classification of Local Governments (ACLG) system classifies councils into 22 categories according to their socio-economic characteristics and their capacity to deliver a range of services to the community. The DLG has reduced this to 11 groups because some of the ACLG categories contained few or no councils in NSW. There are 5 other councils in DLG Group 5: Coffs Harbour City Council, Newcastle City Council, Shoalhaven City Council, Tweed Shire Council and Wollongong City Council.
16 SEIFA is the Socio-Economic Index for Areas published by the Australian Bureau of Statistics and incorporates a number of individual indexes that can be used to determine the level of social and economic well-being in regions relative to one another. One of the indexes is the Index of Relative Socio-economic Advantage and Disadvantage for NSW in 2006. The SEIFA used in this report ranks Local Government Areas from 1 to 153 (includes 1 ranking for “unincorporated NSW”). A ranking of 1 means the council is least advantaged relative to all the other councils in NSW. A ranking of 153 means it is least disadvantaged relative to all the other councils in NSW. See Appendix B.
17 DLG, unpublished comparative data, 2010/11.
18 General Fund refers to all council activities except Water and Sewer. In some cases, a council’s General Fund may also exclude its other separate business activities eg, airports, but these General Fund data do not exclude this type of service revenue.
Comparisons on a per capita basis for Lake Macquarie City Council reflect its large population. Overall, General Fund revenues in 2010/11 were $1,025 per person, which was lower than the averages for DLG Group 5 ($1,282) and NSW ($2,006). Spending on services per capita was low ($554), compared with $745 for DLG Group 5 and $1,129 for NSW. Lake Macquarie City Council had 1 FTE staff member for every 227 residents, which was much higher than the ratios for DLG Group 5 (165) and NSW (126).

Appendix B provides a range of comparative data for the council.

2.2 History of special variations

In the past 12 years, the council has had 10 special variations approved by the Minister for Local Government, all under section 508(2) of the Local Government Act 1993:

▼ In 1999/2000, a special variation of 5.37% for 3 years was approved for Lake Macquarie remedial work.

▼ In 2000/01 a special variation for the Belmont Mainstreet program was approved, which was extended on 2 occasions, each time for 3 years (revenue $70,000 to $91,000 pa).

▼ The special variation for the Lake Macquarie remedial work was renewed in 2002/03 and 2005/06, each time for 3 years (revenue raised was between $1.62m and $1.74m pa).

▼ In 2007/08, a special variation of 8.54% ($3.62m) to be permanently retained in the rate base was approved, for infrastructure maintenance and renewal.

▼ In both 2008/09 and 2009/10 single-year increases of 6.04% and 6.29% respectively, (revenue approximately $2.02m and $2.05m) were approved for lake improvement and sustainability activities and works.

▼ In 2010/11, an increase of 5.3% (2.7% above the rate peg, $2.10m) for 4 years was approved as a ‘Sustainability Levy’. The levy was to continue sustainability activities and works on the lake and local environment, including dealing with the increasing risk of climate change. It is due to expire in June 2014.\(^{20}\)

The council reports on spending under the 2 current special variations in its annual report.

\(^{20}\) DLG, Special Variation Master Record, copy provided to IPART in October 2010 and Lake Macquarie Application, Part B Table 9.1 pp 182-183.
2.3 Requested special variation for 2012/13

Lake Macquarie City Council applied to increase its general income by a cumulative total of 73.24% over the 7-year period from 2012/13 to 2018/19.

The requested percentage includes an amount to improve its financial sustainability, and enhance services and assets, and also:

- The rate peg of 3.6% IPART has set for 2012/13 and an assumed rate peg of 3.0% in each of the following years. (Note that in setting the rate peg for 2012/13, IPART included a carbon price advance of 0.4% to assist councils to meet higher prices arising from the introduction of the carbon price from 1 July 2012.)

- The value (2.59% or $2.63m of rate revenue in 2013/14) of the existing special variation for the Sustainability Levy, which will expire on 30 June 2014. (The council is seeking to incorporate the value of this special variation into its rates base from 2014/15.)

Table 2.1 sets out the percentage increases in general income requested by Lake Macquarie City Council and its estimate of the total allowable increase in permissible general income from 2012/13 to 2018/19. This estimate has been verified by the DLG.

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21 If the rate peg is higher or lower than the 3% assumed, this is unlikely to have an impact on the council’s future general income, as the special variation percentage has been determined and will apply in the period specified. Under the Act, a council may apply to IPART to vary or revoke a special variation made under Section 508A. Any application will be assessed against any applicable Guidelines. However, IPART considers that a request to vary or revoke a special variation would be an exception or due to special circumstances eg, as a result of the carbon price adjustment in the 2012/13 rate peg decision.

22 Given that the effects of the carbon price will eventually be captured in the Local Government Cost Index (LGCI), we will reverse the upfront adjustment we have made in the 2012/13 rate peg over 2 years. We will deduct 0.1% in 2013/14 and 0.3% in 2014/15 from the rate pegs in these years. See IPART, *Effects of the carbon price on local councils*, Local Government – Information paper, December 2011 for more information.


24 DLG, *Assessment of Lake Macquarie City Council’s s 508(A) Special Variation Application – Part A*, March 2012.
<table>
<thead>
<tr>
<th>Year</th>
<th>Annual increase in general income (%)</th>
<th>Cumulative increase in general income (%)</th>
<th>Annual increase in general income ($)</th>
<th>Cumulative increase in general income ($)</th>
<th>Decrease due to expiry of special variation ($)</th>
<th>Total permissible general income ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011/12</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>83,411,250b</td>
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<tr>
<td>2012/13</td>
<td>10.44</td>
<td>10.44</td>
<td>$8,708,135</td>
<td>$8,708,135</td>
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<td>92,121,777c</td>
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<tr>
<td>2013/14</td>
<td>10.34</td>
<td>21.86</td>
<td>$9,525,392</td>
<td>$18,233,526</td>
<td>$2,653,348d</td>
<td>101,647,169</td>
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<tr>
<td>2014/15</td>
<td>9.77e</td>
<td>33.77</td>
<td>$9,673,455</td>
<td>$27,906,981</td>
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<td>108,685,276</td>
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<tr>
<td>2015/16</td>
<td>7.95</td>
<td>44.40</td>
<td>$8,640,479</td>
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<td>2016/17</td>
<td>7.29</td>
<td>54.93</td>
<td>$8,553,048</td>
<td>$45,100,508</td>
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<td>2017/18</td>
<td>6.75</td>
<td>65.38</td>
<td>$8,496,819</td>
<td>$53,597,327</td>
<td></td>
<td>134,375,622</td>
</tr>
<tr>
<td>2018/19</td>
<td>4.75</td>
<td>73.24</td>
<td>$6,382,842</td>
<td>$59,980,169</td>
<td></td>
<td>140,758,464</td>
</tr>
</tbody>
</table>

a Permissible general income refers to the maximum general income that the Council can generate in the year. It equals the previous year’s notional general income level adjusted for any expiring special variation, other adjustments (prior year catch ups, excesses, valuation objections and income adjustments for Crown land) plus the annual dollar increase permitted by the proposed special variation percentage.

b This income level is the 2011/12 adjusted notional general income level, not the permissible general income level. The income level in 2011/12 is not part of the council’s application and is only included here to indicate the size of the base to which the special variation applies.

c The council’s proposed permissible general income in 2012/13 includes the requested special variation of 10.44% and an increase of $2,392 for a prior year catch up. It will also be subject to a reduction of $48,783 due to a valuation objection proposed to be recouped in this year but which had not been recouped by the time of the council’s application to IPART and therefore is not included in the calculations in the table.

d This is the effect of the expiry of the Sustainability Levy on 30 June 2014.

e The percentage for 2014/15 includes an amount equal to the value of the continuation of the special variation that expires in June 2014.

**Source:** Lake Macquarie Application Part A, Worksheets 1 and 4.

As a result of the special variation, the council estimates its permissible general income would rise by $57.35m, from $83.41m in 2011/12 to $140.76 in 2018/19. This increase would be permanently retained in the rates base from 2019/20. Although the cumulative percentage increase of the requested special variation is 73.24%, because of the impact of the expiring special variation, if IPART approved the request, the actual cumulative increase in permissible income would be 68.75%. The additional revenue from the special variation will amount to $236.91m over 7 years, or $171.25m above the rate peg increase.

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25 Lake Macquarie Application Part A, Worksheets 1 and 4. It is not possible to determine the council’s future general income with precision. Actual general income is affected by many factors, including the number of rateable properties and adjustments for previous under- or over-collection of rates. The DLG is responsible for monitoring and ensuring compliance.

26 Lake Macquarie Application Part A, Worksheet 1 and IPART calculations. Appendix A, based on Lake Macquarie Application Part A, Worksheet 7 shows a cumulative rise of $250.08m because it does not adjust for the reduced income related to the expiring levy.
2.4 How the council proposes to use the income raised

The council is seeking the special variation to improve its financial sustainability, and to enhance services and assets. Over the 7 years to the end of the special variation period, the council projects that it would receive, relative to its baseline scenario without the requested special variation, increased rates revenue of $173.67m and increased other revenue by $20.30m (mainly from moderately greater interest received and user fees and charges).\textsuperscript{27}

It would use the extra income of $193.97m over the 7-year period to:

- increase its recurrent operating expenses by $41.05m
- fund higher borrowing costs of $12.01m
- increase its depreciation allowances by $7.96m
- use the balance of $132.95m to turn around its operating deficits into small operating surpluses totaling around $3.83m in 2017/18 and 2018/19.

In its application, the council explained how it would use its funds, not as the difference between its LTFP baseline and special variation scenarios (as explained above), but in terms of income and spending flows above their 2011/12 levels. In those terms, the cumulative increase in rates income amounts to a total of $250.08m of which:

- approximately $166.80m would be used to turn around the operating deficit expected until 2016/17, and about $3.83m to achieve operating surpluses in 2017/18 and 2018/19\textsuperscript{28}
- $53.32m would be allocated to infrastructure maintenance and to enhance some services and assets, primarily for road resurfacing and reconstruction, and also for libraries and pools, and for additional maintenance and ranger services
- $14.19m would be used to meet additional borrowing costs for loans related to a program of new capital investment.\textsuperscript{29}

The additional income would allow the council to maintain current levels of services to the community, and continue projects funded by the expiring Sustainability Levy.\textsuperscript{30}

\textsuperscript{28} Lake Macquarie LTFP, p 28.
\textsuperscript{29} Lake Macquarie Application Part A Worksheet 7, LTFP pp 9 and 28, and Part B, Supporting Document 3.15 \textit{Financial Data for Special Variation Scenario 1, 2 and 3}, pp 13-24. See generally Lake Macquarie Application Part B, Section 3 Need, pp 20-24, Table 3.1 pp 28-31, Table 3.15 pp 68-69, and Table 2.5, pp 16-17, and LTFP pp 28-29. The balance of the $250.08m is largely the cumulative effect of the reduction in income that occurs when the existing special variation expires at the end of 2013/14.
\textsuperscript{30} Lake Macquarie Application Part B, Table 3.24 pp 101-103.
The council’s application indicated that additional income would also allow the council to address its maintenance and infrastructure backlog (currently estimated at $67m) and make new capital expenditure of $326m, and replacement capital expenditure of $344m.

The major elements of additional expenditure on infrastructure construction and renewal to be made possible if the special variation were approved include an extra $42.0m for road resurfacing and reconstruction, an extra $16.8m for capital improvements to parks and sportsgrounds, $20.4m for major upgrades to 3 pools, $7.4m for 2 new libraries, $7m for upgrades to major town centres, $4.9m for upgrades to community facilities (including centres for dementia day care and pensioners and community care), $3.5m for new footpaths and cycleways, and $2.4m for a sculpture park and seminar rooms at the art gallery.31

The proposed expenditure from the revenue raised by the special variation in each of the 7 years is set out in Appendix A.

2.5 How does the council propose to allocate the special variation among ratepayers?

The council has 4 rating categories, and levies only an ordinary rate in each category. There are no special or minimum rates. In 2012/13, the council expects to issue 75,109 residential, 3,742 business, 53 farmland and 19 mining assessments.

The council indicated that it would apply the rate increases resulting from the requested special variation differentially among its ratepayers, with higher increases for business and mining ratepayers in the first 5 years. The cumulative increases would be 65.33% for residential rates, 64.17% for farmland rates, 86.61% for mining rates and 87.34% for business rates.32 Table 2.2 sets out the percentage increases in each category.

Table 2.2 Lake Macquarie City Council proposed percentage change in rates by rating category for requested special variation 2012/13 to 2018/19 (%)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>9.84</td>
<td>9.70</td>
<td>6.18</td>
<td>7.75</td>
<td>7.25</td>
<td>6.75</td>
<td>4.75</td>
</tr>
<tr>
<td>Farmland</td>
<td>9.07</td>
<td>9.70</td>
<td>6.18</td>
<td>7.75</td>
<td>7.25</td>
<td>6.75</td>
<td>4.75</td>
</tr>
<tr>
<td>Business</td>
<td>14.45</td>
<td>14.00</td>
<td>9.59</td>
<td>9.00</td>
<td>7.50</td>
<td>6.75</td>
<td>4.75</td>
</tr>
<tr>
<td>Mining</td>
<td>14.00</td>
<td>14.00</td>
<td>9.59</td>
<td>9.00</td>
<td>7.50</td>
<td>6.75</td>
<td>4.75</td>
</tr>
</tbody>
</table>

* The percentage increase in 2014/15 is lower that the percentage increase in general income because the special variation for the Sustainability Levy expires in June 2014.

Source: Lake Macquarie Application Part A, Worksheet 5.

31 Lake Macquarie Application Part B, pp 70-73. See also Table 2.5, pp 16-17 and Table 3.1, pp 28-31.
32 Lake Macquarie Application Part A, Worksheet 5.
Table 2.3 shows the dollar impact of the proposed rate increases on the ratepayer categories. The increase in 2014/15 is reduced by the expiring Sustainability Levy.

**Table 2.3** Lake Macquarie City Council estimated rate increases under the requested special variation 2012/13 to 2018/19

<table>
<thead>
<tr>
<th></th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
<th>14/15</th>
<th>15/16</th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average residential rate ($)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ Increase</td>
<td>94</td>
<td>1,043</td>
<td>1,144</td>
<td>1,215</td>
<td>1,309</td>
<td>1,404</td>
<td>1,498</td>
<td>1,570</td>
</tr>
<tr>
<td>% Increase</td>
<td>9.84</td>
<td>9.70</td>
<td>6.18</td>
<td>7.75</td>
<td>7.25</td>
<td>6.75</td>
<td>4.75</td>
<td></td>
</tr>
<tr>
<td><strong>Average farmland rate ($)</strong></td>
<td>1,622</td>
<td>1,769</td>
<td>1,941</td>
<td>2,061</td>
<td>2,221</td>
<td>2,381</td>
<td>2,542</td>
<td>2,663</td>
</tr>
<tr>
<td>$ Increase</td>
<td>147</td>
<td>172</td>
<td>120</td>
<td>160</td>
<td>161</td>
<td>161</td>
<td>121</td>
<td></td>
</tr>
<tr>
<td>% Increase</td>
<td>9.07</td>
<td>9.70</td>
<td>6.18</td>
<td>7.75</td>
<td>7.25</td>
<td>6.75</td>
<td>4.75</td>
<td></td>
</tr>
<tr>
<td><strong>Average business rate ($)</strong></td>
<td>3,284</td>
<td>3,758</td>
<td>4,284</td>
<td>4,695</td>
<td>5,118</td>
<td>5,501</td>
<td>5,872</td>
<td>6,152</td>
</tr>
<tr>
<td>$ Increase</td>
<td>474</td>
<td>526</td>
<td>411</td>
<td>423</td>
<td>384</td>
<td>371</td>
<td>279</td>
<td></td>
</tr>
<tr>
<td>% Increase</td>
<td>14.45</td>
<td>14.00</td>
<td>9.59</td>
<td>9.00</td>
<td>7.50</td>
<td>6.75</td>
<td>4.75</td>
<td></td>
</tr>
<tr>
<td><strong>Average mining rate ($)</strong></td>
<td>31,122</td>
<td>35,479</td>
<td>40,447</td>
<td>44,325</td>
<td>48,315</td>
<td>51,938</td>
<td>55,444</td>
<td>58,078</td>
</tr>
<tr>
<td>$ Increase</td>
<td>4,357</td>
<td>4,967</td>
<td>3,879</td>
<td>3,899</td>
<td>3,624</td>
<td>3,506</td>
<td>2,634</td>
<td></td>
</tr>
<tr>
<td>% Increase</td>
<td>14.00</td>
<td>14.00</td>
<td>9.59</td>
<td>9.00</td>
<td>7.50</td>
<td>6.75</td>
<td>4.75</td>
<td></td>
</tr>
</tbody>
</table>

*The increase in 2014/15 is lower because a special variation for the Sustainability Levy expires in June 2014.


A cumulative increase of 65.33% for residential rates would mean that average residential rates would be $621 higher in 2018/19 than in 2011/12. A cumulative increase for business rates of 87.34% would mean average business rates would be $2,868 higher in 2018/19 than in 2011/12.

The council also intends to increase the annual Domestic Waste Management (DWM) charge for residential properties over the 7 years by a cumulative 40%, from $350 in 2011/12 to $490 in 2018/19.33

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33 Lake Macquarie Application, Part A Worksheet 5. The DWM charge is a flat rate for waste services calculated annually on a cost recovery basis. It includes the waste levy charged by the state government.
2.6 What was Option 2 that the council consulted the community on?

In its consultation program for the proposed special variation, ‘Securing Our Future’, Lake Macquarie City Council sought the community’s feedback on 3 options. The council considered that Option 2 would allow it improve its financial sustainability while maintaining services and assets at current levels. It did not allow for the program of additional capital investment which would be funded by the additional revenue under Option 3.

Option 2 was for a lower percentage increase in rate revenue over the 7 years,
- average increase in residential rates of 7.7% pa, including the rate peg
- average increase in business rates of 9.9% pa, including the rate peg.

The indicative annual percentage and dollar increases for residential and business rates are set out in Table 1.4 in Chapter 1. The council stated that the rate increases applied to farmland rates would be similar to increases to residential rates, and increases to mining rates similar to business rate increases.

The major areas of expenditure proposed under Option 2 are:
- an extra $6m over 7 years for maintenance of assets and infrastructure, so that current standards and response times will be maintained
- an extra $16m over 7 years for road reconstruction and resurfacing
- minor upgrades of pool equipment but no upgrades of pools
- continue projects funded by the Sustainability Levy continue beyond 2013/14
- maintain current staff levels and increase ranger staffing
- maintain current levels of funding for boat ramps, jetties and drainage works
- maintain current level of funding for libraries and cultural activities, and tourism
- maintain current levels of funding of footpaths, cycleways and traffic facilities.

Financial projections showed that the council expected the operating deficit to reduce gradually until 2016/17, and become a surplus in following years, and the infrastructure backlog to be only partially addressed. Total new capital expenditure of $269m and replacement capital expenditure of $308m over 7 years was planned.35

34 See section 3.2 and Appendix C.
35 Lake Macquarie City Council, Securing Our Future, pp 7-8 and 11.
3 IPART’s assessment

To make our decision on Lake Macquarie City Council’s application for a multi-year special variation in 2012/13, we assessed this application against the 6 criteria for section 508A applications set out in the Guidelines. We found that the application addressed the criteria systematically and thoroughly, and included comprehensive supporting information. However, we considered that it met some of these criteria only partially.

In particular, we were satisfied that the council has shown that significant rate increases are needed to improve its financial sustainability and maintain and enhance its services and assets in line with community expectations. We were also satisfied that it provided evidence of community support for significant rate increases, and an increase in rate levels to at least Option 2 was reasonable. But we were not convinced that it has demonstrated the need, community support and capacity to pay for such a large cumulative increase as it requested. For example, we found that:

- A more moderate cumulative increase – such as the increase under the second of the 3 options the council consulted its community on (Option 2) – would still enable it to achieve financial sustainability (by eliminating its operating deficits) over the 7 year period, while also allowing for continuing growth in operating expenditure, additional asset maintenance, and funding loans for capital works.

- The council’s consultation showed clear community support for rate increases at least as large as those in Option 2, but the extent of support for Option 3 was harder to assess.

- While socio-economic indicators suggest the Lake Macquarie community has the capacity to pay higher rates than at present, we judged that a more moderate cumulative increase would have a more reasonable impact.

For these reasons, we have not approved the special variation as the council requested. Instead, we have decided to approve a lower cumulative rise in general income that is consistent with Option 2. We note that while the proposed program of expenditure under Option 2 assumes some growth in current levels of services and infrastructure maintenance and construction, the special variation we have approved will not provide revenue to fund the program of enhanced services and capital expenditures the council proposed in its application (Option 3).
Table 1.3 (in Chapter 1) summarised our findings in relation to each of the criteria. The sections below discuss our findings in more detail.

### 3.1 **Criterion 1 - Demonstrated need for the rate increase**

Councils seeking special variations must demonstrate that their requested increase in general income is necessary. This includes:

- supporting their application with relevant strategic, asset management and long-term financial planning information
- providing evidence that the income raised by the special variation will be used to fund an efficient and feasible program of expenditure, and
- if possible, providing evidence that the special variation will improve their financial sustainability.

Lake Macquarie City Council requested a cumulative increase of 73.24% over 7 years for the purposes of securing the council’s long-term financial sustainability, while maintaining and enhancing existing assets and levels of service in line with community preferences and expectations.36 (See section 2.4 and Appendix A for more detail.)

We found that the council’s application and supporting information shows that the requested special variation is based on the council’s long-term financial and strategic planning. It also shows that the requested special variation broadly reflects the community’s priorities, as identified through consultations about implementing the council’s Integrated Planning and Reporting Framework (IPRF) and its proposals for a special variation.37 However, we note that there is also evidence that not all in the community are willing to pay for the proposed level and scope of services. (This is discussed further in section 3.2.)

We are satisfied that rate increases are an appropriate and necessary source of revenue for funding the expenditure proposed in the council’s application. The council has considered and utilised alternative revenue sources – including increasing fees and charges, expanding its sources of income, and increasing borrowing to fund capital expansion.38

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36 Lake Macquarie Application, Part B, pp 2-24 and Table 2.5, pp 16-17.
37 See generally Lake Macquarie Application, Part B, pp 25-34 and 43-45, and Supporting Documents 3.2 – 3.9, including Draft Lifestyle 2030, Environmental Sustainability Action Plan 2011-18, Library Service Delivery Model 2011, Pool Service Delivery Model 2009, Sports Facility Strategy 2009. In the Levels of Service Review in the initial phase of the ‘Securing Our Future’ consultation in 2011, the community was asked to identify the services it values and would be prepared to pay for with higher rates, and the services it would be willing to see reduced or eliminated if rates were not increased.
38 Lake Macquarie Application Part B, pp 55-66 and 70-73.
We are also satisfied that the income raised by the special variation will be used to fund an efficient and feasible program of expenditure. While we did not undertake a detailed evaluation of the council’s expenditure items, we accept that the proposed program of expenditure has been prioritised, and that program and project dates and cost estimates are based on previous experience, quantity survey information, and the application of standard rates.

In addition, we found that the requested special variation will improve the council’s financial sustainability. Indeed, one of its main purposes is to eliminate the council’s ongoing operating deficits, while also managing the backlog in maintenance and renewing its substantial and ageing asset base. We note that in 2011/12, the operating deficit (excluding capital grants and contributions) was $14.48m, and would have been significantly more if the council had not been subsidising operating expenditure from the asset replacement reserve over recent years by some $20m per year. The council also intends to use the extra rate revenue to address its asset backlog, which it estimates at $67m.39

We commend Lake Macquarie City Council for its commitment to addressing its financial sustainability. However, we consider that this objective must be assessed in light of ratepayers’ willingness to pay, and their capacity to pay over a relatively short period of time, particularly given our findings in relation to criterion 3 (discussed in section 3.3).

In particular, we note that in its consultations, the council presented the community with 2 options for addressing its financial sustainability and enhancing its assets and services:

- Option 3 involved a cumulative increase of 73.24% over 7 years, consistent with the requested special variation.

- Option 2 involved a cumulative increase of 57.48% over 7 years, consistent with the special variation we have approved.40

Both these options would enable the council to eliminate the operating deficit within the 7-year period, while also allowing for continuing growth in operating expenditure, additional asset maintenance, and funding loans for capital works. The main difference is that Option 2 allows for a lower growth in operating expenditure (3.9% per annum compared with an average of 5.0% under Option 3), and does not fund as many additional capital works, and has a more moderate impact on ratepayers.

40 Lake Macquarie City Council, Securing Our Future. Under Option 1 rate peg only increases would apply, and services and assets to be significantly reduced. See section 1.2 and Table 1.1 above.
In addition, we consider that some of the additional capital projects to be funded under Option 3 can be seen as discretionary. We also note that Lake Macquarie’s current asset backlog is comparatively low, and has built up over time. While we strongly support councils addressing their asset backlogs in principle, it is possible to stage this to balance expenditure with income, improving financial sustainability over time but with a lower impact on ratepayers.

Overall, our assessment is that the council has demonstrated the need for a significant increase in its general income to address its financial sustainability and enhance assets and services, but has not shown that the increase needs to be as large as requested. We note that the cumulative increase of 57.48% that we have decided to allow will still enable the council to eliminate its operating deficit in a relatively short period, and therefore take a major step towards financial sustainability.

### 3.2 Criterion 2 - Demonstrated community support

Councils seeking special variations must demonstrate that they have undertaken extensive community consultation, and obtained community support for the special variation and the associated program of expenditure. Their consultation material must be clear and accurate, and it must explain what the rate increase will be used for and the impact on ratepayers.

In assessing Lake Macquarie City Council’s application, we considered the information it provided about its consultations, and its findings and conclusions from these consultations. We also considered the large number of written submissions and other representations we received from ratepayers about the council’s application.

#### 3.2.1 The council’s consultation program

The council conducted an extensive consultation program ‘Securing Our Future’ in 3 stages between April and December 2011. The first 2 stages explored the values of the community and the services it most desired, and reviewed the council’s costs and service levels as a basis for developing the 3 options to put to the community. The third stage explained these options and sought feedback to gauge community preferences through 4 main survey methods:

- a random telephone survey conducted by the Hunter Valley Research Foundation (HVRF)
- a postal ballot by way of a tear-off slip from a 16-page brochure delivered to all households across the LGA
- an on-line survey conducted by Bang The Table, and
- electronic polling at community workshops.

Appendix C contains more detail on the council’s consultation program.
The options put to the community were to increase rates by the rate peg and reduce services (Option 1); to increase rates above the rate peg over 7 years and maintain services (Option 2); and to increase rates by a larger amount over 7 years and improve services (Option 3). Apart from some minor additions to expenditure on infrastructure maintenance, the council’s requested increase is consistent with Option 3.

All 4 surveys found that a higher proportion of respondents supported increases to rates above the rate peg (either Option 2 or 3) than rate peg increases only (Option 1). The random telephone survey – which is the most statistically reliable method of capturing feedback – found there was a higher level of support for the more moderate increase under Option 2 (48%) than Option 3 (36%). However, the postal ballot, online survey and polling at workshops – which are less statistically reliable because they are subject to a degree of self-selection bias – all found more support for Option 3 than Option 2. The council noted that an analysis of these 3 consultation methods demonstrated that they were reasonably representative of the wider Lake Macquarie community.41

Overall, taking the results of all 4 survey methods and the few written response into account, the council calculated that Option 3 had the highest level of support (50%) within the community. Further, the council noted that the council advisory groups it consulted also showed high levels of support for Option 3.42

The council’s summary of the outcomes of community feedback on the 3 options is provided in Table 3.1.

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41 Lake Macquarie Application Part B, pp 128-129, and Providing Enduring Value, Section 3 and Appendix H.
42 Lake Macquarie Application Part B, Table 4.5, p 125.
Table 3.1 Lake Macquarie City Council ‘Securing Our Future’ consultation – Preferred option by feedback mode

<table>
<thead>
<tr>
<th>Feedback mode</th>
<th>Number of respondents expressing a preference</th>
<th>Option 1</th>
<th>Option 2</th>
<th>Option 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postal ballot (Funding Option Selection Form)</td>
<td>1784</td>
<td>581</td>
<td>331</td>
<td>872</td>
</tr>
<tr>
<td></td>
<td></td>
<td>33%</td>
<td>19%</td>
<td>49%</td>
</tr>
<tr>
<td>Online survey</td>
<td>661</td>
<td>210</td>
<td>83</td>
<td>368</td>
</tr>
<tr>
<td></td>
<td></td>
<td>32%</td>
<td>13%</td>
<td>55%</td>
</tr>
<tr>
<td>Telephone survey</td>
<td>528</td>
<td>89</td>
<td>251</td>
<td>188</td>
</tr>
<tr>
<td></td>
<td></td>
<td>17%</td>
<td>48%</td>
<td>36%</td>
</tr>
<tr>
<td>Written responses</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>20%</td>
<td>20%</td>
<td>60%</td>
</tr>
<tr>
<td>Polling at workshops</td>
<td>279</td>
<td>37</td>
<td>50</td>
<td>192</td>
</tr>
<tr>
<td></td>
<td></td>
<td>13%</td>
<td>18%</td>
<td>69%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>3257</td>
<td>918</td>
<td>717</td>
<td>1623</td>
</tr>
<tr>
<td>Percentage of total responses</td>
<td>28%</td>
<td>22%</td>
<td>50%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Lake Macquarie Application Part B, p 125.

3.2.2 Submissions to IPART

We received 303 individual submissions in relation to the council’s application, as well as 7 petitions with 764 signatures, and 480 letters in 7 different standard forms. In our experience of assessing special variation applications so far, this indicates a high level of public interest.

The submissions and other representations overwhelmingly opposed the special variation. Many argued that the proposed cumulative rate increase was large and unaffordable for households and businesses, particularly in the current economic climate. We have considered this concern in relation to criterion 3, reasonable impact on ratepayers, discussed in section 3.3.

Many also expressed concern about the council’s consultation strategy, including that it was not sufficiently publicised, did not survey ratepayers directly, or that the results were manipulated by the methodologies used. However, others stated that the phone survey undertaken by HVRF on the council’s behalf was ‘credible’ and that HVRF itself was ‘respected’.

Some representations put the view that the council’s management practices were poor, and spending on managerial salaries and consultants excessive, that it operated inefficiently, failed to respond to specific requests for service, and that its recent financial and investment performance was poor. Some objected to specific programs and policies, including the council’s policies responding to the predicted impact of
flooding and sea level rises caused by climate change, and notations on s149 certificates about contaminated land. They considered that several programs or policies were unnecessary, too costly or beyond the core functions of a local council. We have considered some of these views in relation to criterion 4, financial sustainability, and criterion 5, productivity and cost containment.

The few submissions that supported the special variation recognised the need for the council’s requested increase in income in light of rising costs, and supported the level and quality of existing services delivered by the council. Some of these ratepayers had also participated in the council’s consultation process, and expressed concern about criticism of the council’s methodology made in submissions, local media and other forums.

We have no doubt that the views opposing the special variation expressed in the representations we received are strongly and genuinely held. However, we note that they are from a self-selected group within the Lake Macquarie community. As such, they cannot be considered to be statistically reliable, and are not necessarily representative of ratepayers as a whole. To some extent, they reflect campaigns by community organisations and individuals to generate submissions to IPART, which were publicised or advertised in the local media. Many submissions repeated claims made in the media and at public meetings. In addition, we found that most (but not all) did not appear to have considered the material in the council’s application and many raised unrelated issues. Only a few specifically addressed the criteria in the Guidelines.

3.2.3 Our assessment

Overall, we found that Lake Macquarie City Council engaged extensively with the community to determine expenditure priorities and whether there was support for the requested rate increases. The council’s consultation strategy was conducted in accordance with the advice to councils set out in the Guidelines. The materials clearly informed the broad community about the proposed special variation and its impact on rates. It captured community feedback by a range of methods that involved either a statistically reliable, or a representative, sample of the community. It also responded appropriately to concerns raised in the consultations, particularly in relation to amending its Payment Assistance Policy.  

However, while the council’s consultation showed clear community support for significant rate increases over a rate-peg-only increase, the extent of support for Option 3 is harder to assess.

43 Lake Macquarie Application Part B, pp 131 and 153.
In addition, while it is clear that some ratepayers strongly oppose the requested special variation and question the consultation methodology used, on balance, we accept the evidence that the council attempted to widely publicise its request for feedback on the 3 options. We also accept the evidence that resulted from the council’s consultation methods, especially the results of the independent and random phone survey, which showed very strong support (84%) for a large rate increase of at least the size we have decided to approve.

3.3 Criterion 3 - Reasonable impact on ratepayers

This criterion is important, given that the primary purpose of regulating council revenues is to protect ratepayers from unreasonable increases in rates. To assess whether a council’s application meets the criterion, we consider the magnitude of the impact of rate rises resulting from the requested special variation, the ratepayers’ capacity to pay the increased rates, and evidence of community support for the requested special variation (discussed above).

In relation to Lake Macquarie City Council’s application, we found that the socio-economic indicators we examined (see Appendix B), and those in the council’s application, suggest that Lake Macquarie’s residents and business community do have the capacity to pay higher rates than the current moderate levels.

Lake Macquarie City Council’s SEIFA ranking is 102, which indicates that it is among the top third of least-disadvantaged councils in NSW. While its average residential rate is similar to the average for DLG Group 5, the average level of household disposable income in Lake Macquarie is higher than in other comparable LGAs, the level of unemployment is comparatively low, and a higher proportion of households own their own home than the average across NSW.

Indicators for business ratepayers are not readily available. We note that in 2010/11, the council’s average business rate of $3,146 was well below the average for DLG Group 5 ($4,421). We also note that business chambers of commerce in 7 centres indicated to the council that they supported Options 2 or 3. On the other hand, we received submissions from business operators who opposed rate increases.

In addition, the council has consistently reported an outstanding rates ratio that is the lowest in its group since at least 2000. In 2012/11 it was 3.0%. This is very low, compared to the average for DLG Group 5 (5.7%) and for all councils in NSW (7.3%). It suggests that its ratepayers have had little difficulty to date in paying rates.

44 Lake Macquarie Application Part B, pp 145-152.
45 See Appendix B and Lake Macquarie Application Part B, pp 145-149.
46 The group business rate average is strongly affected by much higher average rates in Newcastle ($6,891) and Wollongong ($8,704), which are more comparable with Lake Macquarie than the other DLG Group 5 councils.
47 Lake Macquarie Application Part B, Supporting Document 5.1 Letters of Support.
But while we are satisfied that in general ratepayers have the capacity to pay higher rates than at present, this does not necessarily mean they have the capacity to pay cumulative increases as high as those the council requested. We note that under Option 3:

- Average residential rates would increase by 65.33% over 7 years, taking them from $949 in 2011/12 to $1,570 in 2018/19. This represents an increase of $621, or an extra $427 above the rate peg increase.

- Average business rates would increase by 87.34% over 7 years, taking them for $3,284 to $6,152. This is an increase of $2,868 or an extra $2,188 above the rate peg increase.\(^48\)

Rate increases of this magnitude would mean that after 7 years, Lake Macquarie’s City Council’s average residential rate is likely to be considerably higher than the average residential rates of other councils in DLG Group 5. Its average business rates would still be lower than current average business rates in Newcastle and Wollongong.\(^49\) We also note that many of the submissions we received indicated that capacity to pay was of concern, at least to some sections of the community and particularly in the current economic climate.

Taking account of these projections, and the evidence about community support for significant rate rises discussed in section 3.2, our assessment is that the impact of a more moderate special variation in line with Option 2 would be more reasonable than the requested special variation. Under this option:

- Average residential rates would increase by 55.20% or $524 over 7 years, which is around $330 above the rate peg increase.

- Average business rates would increase by 71.00% or $2,332 over 7 years, which is around $1,652 above the rate peg increase.\(^50\)

Although the cumulative increases under Option 2 are relatively large, we note that the council’s telephone survey (the most statistically reliable survey method used) found that 77.1% of residential ratepayers and 68.1% of business ratepayers considered that the rate rises under Option 2 were affordable.\(^51\)

\(^{48}\) Lake Macquarie Application Part A, Worksheet 5 and IPART calculations.

\(^{49}\) We have assumed that rates for DLG Group 5 councils would increase in line with assumed rate pegs and any existing special variations.

\(^{50}\) Lake Macquarie City Council, *Securing Our Future*, p 13, Lake Macquarie Application Part A, Worksheet 5 and IPART calculations. See also Table 1.4.

\(^{51}\) Lake Macquarie Application Part B, Table 4.7, p 126.
We also note that the council offers the statutory pensioner rebates, and has adopted hardship provisions which provide for alternative payment arrangements, writing off interest charges and allowing rates to accrue as a debt against a pensioner’s estate. As a result of feedback from the community consultation process, the policy is now called the Payment Assistance Policy and a monthly instalment payments option is available.\(^{52}\) Given the increase in rates that will occur as a result of this special variation, we expect the council to respond appropriately to ratepayers who approach them about difficulties in meeting their rate obligations.

### 3.4 Criterion 4 - Sustainable financing strategy

Councils seeking special variations must demonstrate that they have considered the use of all available financing options to address their capital expenditure requirements. Their financing strategy must be both sustainable and consistent with the principles of intergenerational equity.

The concept of intergenerational equity means that the costs of long-lived assets are shared between current and future users, based on their share of the use of these assets over their life. For example, this may be achieved by council borrowings, which spread the financing costs of infrastructure over a long period, rather than meeting these costs through large rate increases in the short to medium term.

We are satisfied that the council has a financing strategy that is consistent with intergenerational equity, and projected borrowings are within the prudent limits set in its borrowing policy. We do not agree with submissions that argued that the council’s proposed large increase in debt was irresponsible.

The council funds capital works with a mix of rate revenue, developer contributions, fees and charges, reserves and loans. Its policy is to use debt to fund only those assets whose useful life is at least equal to the borrowing term, and to borrow responsibly, with a maximum limit to its debt service ratio of 8.5%. This is within DLG’s ‘satisfactory’ benchmark for a council’s a debt service ratio of less than 10%. The council’s application set out detailed information about the projects for which funds would be borrowed in each year.\(^{53}\)

Option 3 projected an increase in debt over 7 years of almost $152m, which would result in the debt service ratio rising from 5.36% in 2012/13 to 7.31% in 2018/19. The council’s modelling for expenditure under Option 2 projected a smaller increase in debt of $92m over 7 years. As a result, the debt service ratio would rise to only 6.53% in 2018/19.\(^{54}\)

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52 Lake Macquarie Application Part B, p 153.
53 Lake Macquarie Application Part B, pp 154-156.
54 Lake Macquarie Application Part B Supporting Document 3.15, p 19 (Special Variation Scenario); Option 2 projections draw on the Baseline Scenario at p 7.
3.5 **Criterion 5 - Productivity impacts and cost containment strategies**

Councils seeking special variations must demonstrate that they have implemented a program of productivity or efficiency improvements and cost containment strategies to ease expenditure pressures before considering an increase in rates. In particular, they need to provide details of the productivity improvements, efficiencies and cost containment strategies that they have implemented over the past 2 or more years, and details of those that they propose to realise over the period of the special variation.

We consider that the comparative productivity indicators demonstrate that Lake Macquarie City Council is relatively efficient. Furthermore, the council appears to have a culture of efficiency and continuous improvement. It undertook a comprehensive Service Review systematically across all its operations between 2009 and 2011 that identified $4.2m in ongoing savings from productivity improvements and cost containment, as well as opportunities for revenue enhancement.\(^{55}\) The application outlined plans to continue to pursue initiatives to realise efficiency gains, ongoing and one-off savings, and additional revenue across all operational areas. We encourage Lake Macquarie City Council to continue these efforts.

Some submissions argued that council should first improve its efficiency and reduce its expenditure before increasing rates. We found no evidence in these submissions, or in the council’s application or DLG comparative data that indicated that the council’s productivity or efficiency was a major concern. Although it is always possible for any organisation to reduce costs, it appears that significant reductions in expenditure are possible only if the scope and level of services to ratepayers are substantially reduced. Nor do we agree that the council’s functions have extended beyond the ‘core’ local government roles into activities properly the responsibility of state and federal governments, as some submissions claimed.

Comparative data on council productivity from the DLG for 2010/11 is presented in Appendix B. These data show that Lake Macquarie City Council compares favourably with other DLG Group 5 councils. For example:

- The ratio of population to FTE staff is considerably higher (227) than the Group 5 average (165).\(^{56}\) On this indicator, the council is not overstaffed.

- The proportion of employee costs to ordinary expenditure (41.3%) is higher than the Group 5 average (36.9%), but its consultancy/contractor expenses ($12.9m) were half the Group 5 average ($24.1m). The council’s application also explained the reason for 2 recent large one-off consultancies.

---


56 A higher ratio indicates that there are fewer council staff for each person in the community whereas a lower ratio indicates that there are more council staff.
The council spends a higher proportion of its ordinary expenditure on services than the Group 5 or NSW averages, although spending on services per rate assessment ($1,413) and per capita ($554) is much lower than the average for Group 5 and NSW. This does not support the view that the council’s spending is excessive.\textsuperscript{57}

We are satisfied that Lake Macquarie City Council has systematically identified productivity improvements and implemented cost containment strategies. The council is committed to pursuing these approaches in the future.\textsuperscript{58} Some key actions include:

- implementing recommendations from the Service Review, which identified $4.2m in ongoing cost savings from productivity improvements, cost containment and revenue enhancement\textsuperscript{59}
- adopting strategies to limit the cost of waste disposal, particularly in light of the NSW waste levy and introduction of the carbon price\textsuperscript{60}
- capturing other improvements in productivity/efficiency and identifying savings from catering, cleaning and fleet operations, better managing energy and water consumption and waste\textsuperscript{61}
- reducing the costs of injury management, and assessing whether its workers compensation self-insured status remains cost-effective\textsuperscript{62}
- increasing income from other sources such as entrepreneurial activities including metal fabrication, selling valuation, printing, planning and building services to other councils and a Property Investment Strategy, and the proposed Sustainable Resource Centre at Teralba would yield surpluses from 2016/17.

The council intends to drive future productivity improvements and innovative management approaches by implementing the Australian Business Excellence Framework, which is recommended to councils by DLG. This involves evaluating management systems and performance, and benchmarking against other public and private sector organisations and focusing on continual operational improvement. In line with a resolution passed by the council in conjunction with deciding to apply for a special variation, the results will be reported annually.

\textsuperscript{57} DLG, unpublished Special Schedule 1 council data, 2010/11. Group averages are $1,716 and $745 respectively. NSW averages are $2,219 and $1,129 respectively.
\textsuperscript{58} See generally Lake Macquarie Application, Part B, pp 157-178, particularly Tables 7.4 and 7.5.
\textsuperscript{59} Lake Macquarie Application, Part B, Table 7.1 p 160.
\textsuperscript{60} Lake Macquarie Application, Part B, pp 164, 171, 177-178.
\textsuperscript{61} Lake Macquarie Application, Part B, pp 158-171.
\textsuperscript{62} Lake Macquarie Application, Part B, pp 161, 178.
Community views on productivity improvements and cost containment

Many individual submissions, as well as the petitions and form letters IPART received, claimed that the council needed to increase its efficiency and improve productivity before seeking a rate rise, and referred to excessive managerial numbers and salaries and use of consultants. In support of this view, a few offered anecdotal evidence, and some cited newspaper reports. However, we consider that the information provided in the council’s application and the comparative DLG data do not provide evidence of obvious inefficiency.

Some submissions also put the view that the council was expanding its functions beyond the ‘core’ local government roles into activities properly the responsibility of state and federal government. We note that local government’s involvement in a range of areas, such as managing the risks of the impact of climate change, may appear to be outside its traditional role, but can be the result of statutory or administrative obligations placed on local councils by other levels of government. We do not consider that Lake Macquarie’s activities are outside the norm of functions exercised by councils of similar size and location. Ultimately, it is up to the councillors and the community to decide the scope of the council’s discretionary activities.

Other submissions expressed concerns about the appropriateness and potential financial outcomes of the council being involved in entrepreneurial activities. The application indicated that potential income-generating opportunities are undertaken only after a full review of risks and rewards, and are subject to the requirements of the Local Government Act 1993.63

3.6 Criterion 6 – Implementation of the Integrated Planning and Reporting Framework

To apply for a special variation under section 508A of the Act, councils must have implemented the IPRF, including developing a 10-year community strategic plan, a 4-year delivery program, an annual operational plan and a detailed resourcing strategy.

The council satisfactorily implemented the IPRF by 30 June 2010. The DLG has reviewed the council’s IPRF documents and verified that the council has met this criterion. DLG had only a few minor concerns, and the council appears to have adopted the changes recommended.64

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63 Lake Macquarie Application, Part B, p 60.
64 Lake Macquarie Application Part B, p 180.
Appendices
A Lake Macquarie City Council’s proposed expenditure of revenue from the special variation

Lake Macquarie City Council proposes that the revenue generated by the special variation will assist it to fund an expenditure program over the next 7 years that will be based in part on income generated from the special variation in rates, and on other income sources and borrowings. This appendix sets out the expenditure program as it relates to the income that would be generated by the proposed special variation.

The council intends to use the income from the proposed special variation to:

- turn its operating deficits into surplus by 2017/18 while maintaining expenditure on services and assets at their current scope and level
- enhance services in some areas, and
- fund capital enhancements by meeting borrowing costs.

The proposed special variation will result in additional revenue over the 7 years of $250.08m (Table A.1). Adjusted for the expiry of the Sustainability Levy in mid-2014, the net cumulative increase (not showed in the table) is $236.91m.

Of the $236.91m, $166.80m will fund the maintenance of current levels of service and asset maintenance, ie, it will fund the operating deficit of the baseline scenario (shown by expenditure line item #1). A further $3.83m, not shown in the table, will fund the surpluses in 2017/18 and 2018/19.65

Of the remaining $66.27m, $53.32m is to be spent on enhancing services (expenditure line item #2) and $14.19m on borrowing costs (expenditure line item #3).66

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65 Lake Macquarie LTFP, p 28 (net operating result).
66 We have not been able to reconcile the balance of income of $66.27m with the spending on enhanced services and borrowing costs which sum to $67.51m.
Table A.1  Lake Macquarie City Council projected revenue and spending under proposed special variation ($m)

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<td><strong>Additional revenue</strong></td>
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<td></td>
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<tr>
<td>From rate pegs only</td>
<td>3.00</td>
<td>5.77</td>
<td>8.74</td>
<td>12.00</td>
<td>15.52</td>
<td>19.29</td>
<td>23.32</td>
<td>87.64</td>
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<td>From balance of SV</td>
<td>5.71</td>
<td>12.47</td>
<td>19.17</td>
<td>24.55</td>
<td>29.58</td>
<td>34.30</td>
<td>36.66</td>
<td>162.44</td>
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<td><strong>Total additional revenue</strong></td>
<td><strong>8.71</strong></td>
<td><strong>18.23</strong></td>
<td><strong>27.91</strong></td>
<td><strong>36.55</strong></td>
<td><strong>45.10</strong></td>
<td><strong>53.60</strong></td>
<td><strong>59.98</strong></td>
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<td>1. Maintaining current services</td>
<td>17.77</td>
<td>17.90</td>
<td>21.52</td>
<td>25.24</td>
<td>26.89</td>
<td>27.44</td>
<td>30.04</td>
<td>166.80</td>
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<td>Pools operating costs</td>
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<td>0.34</td>
<td>0.68</td>
<td>0.76</td>
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<td>Libraries - operating costs</td>
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<td>0.46</td>
<td>0.70</td>
<td>0.80</td>
<td>0.96</td>
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<td>Maintenance</td>
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<td>1.00</td>
<td>3.00</td>
<td>3.00</td>
<td>3.00</td>
<td>3.00</td>
<td>15.00</td>
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<td>Rangers - operating costs</td>
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<td>7.00</td>
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<td><strong>Total enhanced services</strong></td>
<td><strong>1.11</strong></td>
<td><strong>1.57</strong></td>
<td><strong>1.81</strong></td>
<td><strong>11.35</strong></td>
<td><strong>11.68</strong></td>
<td><strong>12.74</strong></td>
<td><strong>13.05</strong></td>
<td><strong>53.32</strong></td>
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<td>3. Borrowing costs</td>
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<td></td>
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<td>Interest</td>
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<td>0.61</td>
<td>1.54</td>
<td>2.12</td>
<td>3.17</td>
<td>4.17</td>
<td>12.01</td>
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<td>Principal repayments</td>
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<td>0.07</td>
<td>0.11</td>
<td>0.26</td>
<td>0.38</td>
<td>0.58</td>
<td>0.79</td>
<td>2.18</td>
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<tr>
<td><strong>Total borrowing costs</strong></td>
<td><strong>0.00</strong></td>
<td><strong>0.47</strong></td>
<td><strong>0.71</strong></td>
<td><strong>1.81</strong></td>
<td><strong>2.50</strong></td>
<td><strong>3.74</strong></td>
<td><strong>4.96</strong></td>
<td><strong>14.19</strong></td>
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<td><strong>Total expenditure</strong></td>
<td><strong>18.88</strong></td>
<td><strong>19.94</strong></td>
<td><strong>24.05</strong></td>
<td><strong>38.40</strong></td>
<td><strong>41.07</strong></td>
<td><strong>43.92</strong></td>
<td><strong>48.05</strong></td>
<td><strong>234.31</strong></td>
</tr>
</tbody>
</table>

**Note:** Worksheet 7 does not appear to remove the expiring levy from the calculations.

**Source:** Lake Macquarie Application Part A, Worksheet 7 and IPART calculations.

The council’s application sets out the major elements of additional expenditure on infrastructure construction and renewal, some of which will be funded by the increased borrowings supported by the special variation. These are noted in section 2.4.
## Comparative indicators

### Table B.1  Lake Macquarie, selected indicators, 2010/11

<table>
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<th>General profile indicators</th>
<th>Council</th>
<th>DLG Group 5 average</th>
<th>NSW average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area (km²) (land)</td>
<td>648</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Population (2010)</td>
<td>199,277</td>
<td>–</td>
<td>–</td>
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<tr>
<td>General Fund operating expenditure ($m)</td>
<td>169.97</td>
<td>–</td>
<td>–</td>
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<tr>
<td>General Fund revenue per capita ($)</td>
<td>1,025</td>
<td>1,282</td>
<td>2,006</td>
</tr>
<tr>
<td>Rates revenue % total General Fund revenue</td>
<td>50.0</td>
<td>48.0</td>
<td>46.7</td>
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</tbody>
</table>

### Average rate indicators

- Average rate level – residential ($) 880 889 659
- Average rate level – business ($) 3,146 4,421 2,450
- Average rate level - farmland ($) 1,736 1,694 2,121

### LGA socio-economic indicators

- Average annual income, 2009 ($) 41,825 39,048 41,376
- Growth in average annual income, 2006-2009 (%) 4.8 4.6 4.4
- Ratio of average residential rates (2010/11) to average annual income, 2009 (%) 2.0 2.1 1.5
- SEIFA, 2006 (NSW rank)b 102 – –
- Outstanding rates ratio (%) 3.0 5.7 7.3

### Productivity indicators

- FTE staff (no)c,d 877 795 294
- Ratio of population to FTEs 227 165 126
- Average cost per FTE ($)d 79,991 78,982 71,155
- Employee costs as % ordinary expenditure – General Fund only 41.3 36.9 37.3
- Contractor expenses ($)d 12,881,000 24,125,833 6,238,288
- Contractor expenses as % ordinary expenditured 7.6 12.8 8.0

---

*Average rate is total revenue from a given category divided by the number of assessments in that category in 2010/11.*

*See footnote 11 for SEIFA index.*

*FTE is full-time equivalent.*

*Based on total council costs ie, General Fund, Water and Sewer and other funds.*

**Note:** NSW averages exclude Snowy River Shire Council (data not available).

**Source:** DLG database, 2010/11 and ABS, *National Regional Profiles, NSW*, November 2011, and Lake Macquarie Application Part B
C Lake Macquarie City Council’s Consultation Strategy

Consultation Methodology used by Lake Macquarie City Council

The council’s consultation strategy ‘Securing Our Future’ was conducted in 3 stages between April and December 2011.

Box C.1 Stage 1: April – August 2011, Understanding what we value

**Purpose:** to determine what the community values, by way of:
- online survey of attitudes to council services and facilities (2,121 respondents)
- community forums for residents and business owners (400+ attendees)
- online forums ‘Have your say’ and Budget Allocator (213 respondents).

At the same time, the council undertook an internal Levels of Service Review to assess current levels of service and current and future demand.

**Stage 1 was publicised to stakeholders and the general community by:**
- a flyer in rate notices to all ratepayers in June 2011
- paid advertising in 4 local newspapers, media releases and opinion pieces
- Mayor’s Column and links on the council website
- emails to existing users of council websites and council’s database of 4,000+ community groups, businesses and other subscribers
- communications with established council consultative committees and community groups
- Have Your Say – Securing Our Future website – live from July 2011 (see below)
- Fact sheets on the council’s financial situation, its assets and services, and finding operational efficiencies, available on the websites, at community facilities and community workshops
Box C.2  Stage 2: September– October 2011: Developing funding options

Based on Stage 1 report and Levels of Service Review, 3 proposed funding options were developed with input from a Community Working Group (24 residents, randomly selected by HVRF). This built on feedback from the existing consultative committees:

- Community Advisory Group (existing group providing feedback on issues relating to council operations)
- Youth Advisory Council (7 members).

Stage 2 involved a community education and promotion strategy

Purpose: to further engage and inform the community about Council services.

Techniques included:

- online promotional video and press material using 5 ‘super users’ selected from the community to be (unpaid) advocates talking about their use of council services
- paid advertising in newspapers and a media release.
Box C.3  Stage 3: October – December 2011: Finding the right solution

Purpose: to gather feedback on community's preference out of the 3 funding options

Common questions asked across major feedback modes:

- What services are you willing and able to pay for?
- What levels of service are best?

Feedback modes used in this stage:

- **telephone survey – 528 respondents**
  - by HVRF of randomly selected and representative sample of resident and business ratepayers and renters, provided with an information pack

- **postal ballot – 1784 replies**
  - based on reply-paid tear-off Funding Option Selection Form' in a 16 page Securing Our Future information booklet delivered by Australia Post to approximately 82,000 dwellings in Lake Macquarie LGA

- **on-line survey – 661 respondents**
  - conducted via the Securing our Future consultation website

- **electronic polling at community workshops – 279 participants**
  - 11 workshops held in all 3 wards and included 1 for businesses owners/operators

- **5 written responses were received.**

Stage 3 was promoted to the community through:

- existing council website and to registered users (1,154) of www.haveyoursaylakemac.com.au
- social media – twitter feeds (1,315 followers) and Facebook (150 followers)
- media releases and advertisements in 4 local newspapers and business newsletters
- invitations sent to the Lake Macquarie combined business chambers.
Attachment 2

Comparative Data – NSW Local Government
Analysis of Lake Macquarie City Council Data and Historical Trends
Comparative Data

NSW Local Government

Analysis of Lake Macquarie City Council Data and Historical Trends
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<td>Trend Data Costs per Service for Domestic Waste Collection</td>
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<td>Trend Data Domestic Waste – Kilograms (per capita)</td>
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Introduction

Each year the Division of Local Government (DLG) releases ‘The Comparative Information on NSW Local Government Councils.’ The most recent report is for the 2010/11 financial year. The Department provides the following introduction in the report. The information in this document is taken mostly from this report. Where information is obtained from other sources this is identified in the report.


Key Performance Indicators

The Division chose the key performance indicators to monitor performance across a broad spectrum of activities and it constantly reviews them.

Comparing the Performance of Councils

When assessing or comparing the performances of councils, it is important to remember that local circumstances can influence how well a council provides its services. There are often good reasons why it is harder or more costly to provide certain services in some local government areas than in others or why one council delivers a different mix of services. In some cases, councils may have made conscious decisions to provide lower or higher levels of services depending on local needs. The council profiles will help assess the comparative information.

Classification and Grouping of Councils

The Australian Classification of Local Governments (ACLG) classifies councils into 11 categories according to their socioeconomic characteristics and their capacity to deliver a range of services to the community.

Councils are first classified as either urban or rural. Urban councils are then divided into four categories – capital city, metropolitan developed, regional town/city or fringe. Rural councils are divided into three categories – significant growth, agricultural or remote. The final classification step for both urban and rural councils is based on population.

Each council is given a numerical category and a three letter based alpha code. For example 2 (UDS) means the council is urban, metropolitan developed and small and in category two.

The estimated resident population within council boundaries is the preliminary figure calculated by the ABS for 30 June 2010. This figure was used to determine the ACLG categories for the 2010/11 publication.
### Definition of Australian Classification of Local Government and DLG Group Numbers

<table>
<thead>
<tr>
<th>Step 1</th>
<th>Step 2</th>
<th>Step 3</th>
<th>Category</th>
<th>Alpha</th>
<th>DLG group No.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>URBAN (U)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital City (CC)</td>
<td>Not applicable</td>
<td>1</td>
<td>UCC</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Metropolitan Developed (D)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pop. &gt; 20,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional Town/City (R)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pop. density &gt; 30 persons per sq km</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fringe (F)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt;90% of LGA population is urban</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>RURAL (R)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significant Growth (SG)</td>
<td>Not applicable</td>
<td>14</td>
<td>RSG</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Average annual population growth &gt; 3%, population &gt; 5,000 and not remote.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural (A)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remote (T)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Situated in a remote locality.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: For “Rural Agricultural Very Large” (RAV), “Rural Remote Large” (RTL), and “Rural Significant Growth” (RSG), 20,000 is the upper limit because beyond this number all local governments are deemed “Urban.”
City of Lake Macquarie Classification

9 (URV) urban, regional, and very large with a population greater than 120,000

The DLG classifies Lake Macquarie as 9 (URV) which means it is urban, regional, and very large. Lake Macquarie is in DLG Group 5 which combines both the 9 classification and the 8 classification (urban, regional and large). Group 5 consists of Lake Macquarie, Newcastle, Shoalhaven, Tweed, Wollongong, Maitland, Port Macquarie-Hastings and Coffs Harbour. Please note that Maitland and Port Macquarie-Hastings became part of Group 5 in 2010-2011.

Key Performance Indicators Definitions

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Rate Per Assessment (Residential &amp; Business)</td>
<td>Rates are an important source of council’s revenue. The objective of this indicator is to highlight the level of council’s rates. Factors that affect this indicator include rate pegging legislation and the mix of residential/business properties.</td>
</tr>
<tr>
<td>Outstanding Rates, Charges, &amp; Fees</td>
<td>The percentage of rates, charges, and fees unpaid at the end of an financial year is a measure of how well a council is managing debt recovery.</td>
</tr>
<tr>
<td>Sources of Total Revenue</td>
<td>This indicator assesses the degree of dependence on alternative sources of revenue. Factors such as the level of investment activity of the council, the rate of new development within the council area, and the level of State/Federal funding have a large bearing on the council’s level of alternative funding.</td>
</tr>
<tr>
<td>Total Operating Revenue (per capita)</td>
<td>Total revenue per capita is an alternative method of analysing revenues received by council. Many revenue streams are dependent upon the numbers of people living within the council boundaries, although factors such as rate-pegging, development activity, as well as the extent of user pays services also influence revenues. As such, this is only a basic indicator of a council’s ability to service the needs of its community.</td>
</tr>
<tr>
<td>Dissection of Total Operating Expenses</td>
<td>The objective of this indicator is to assess the expenditure pattern of council. Expenditure requirements of councils include employee costs; materials and contracts; interest charges; depreciation; and other operating expenses. Many factors influence council’s expenditure patterns such as the socio-economic characteristics of the area, the rate of new development, and the increase/decrease in population within the area.</td>
</tr>
<tr>
<td>Total Operating Expenditure (per capita)</td>
<td>This indicator measures council’s operating expenditure on a per capita basis.</td>
</tr>
<tr>
<td>Unrestricted Current Ratio</td>
<td>The unrestricted current ratio assesses the council’s liquidity and its ability to satisfy obligations as they fall due in the short-term, such as payment for goods and services supplied. A ratio of between 1.5:1 and 2:1 is considered satisfactory and indicates that the council has enough liquid assets to satisfy its short-term requirements. The higher the ratio, the greater the ability of a council to meet its short-term liabilities. The current ratio is included in the audited financial statements of council.</td>
</tr>
</tbody>
</table>
### Debt Service Ratio

The objective of this indicator is to assess the degree to which operating revenues are committed to the repayment of debt. Interest rate changes and loan terms affect this ratio. The use of loan funds for infrastructure improvements and other capital purposes is a prudent financial strategy allowing for contributions to the cost of the asset throughout its life by the community. Therefore, it is important to compare the ratio over a number of years in conjunction with other indicators such as the unrestricted current ratio. Generally, the ratio would be higher in growth areas. The debt service ratio is included in the audited financial statements of a council.

### Number of Equivalent Full Time Staff

This information is based on the total number of full time or part time and casual staff (part time and casual staff are converted to a full time number on a pro rata basis) on council’s payroll on the last payday of June. The number of staff at each council will vary according to factors such as organisation structure, council’s budget, and the type and extent of service delivery provided to the community.

### Library Operating Expenses (per capita)

This indicator measures the gross expenditure for library services per person within the council area. Factors such as the size of the library, the number of people within the area, the hours of opening, and the demographic characteristics of the population affect it. [Public library statistics 2006/07].

### Domestic Waste Management Charge Per Residential Property

The objective of this performance indicator is to highlight the relative level of council’s domestic waste management service charge for comparative purposes. This indicator is influenced by the cost of the service, whether or not a contractor is used, the size and frequency of the collection, as well as the distance from the disposal facility. [Data supplied by Department of Environment and Climate Change 2006/07].

### Circulation (per capita) for Library Service

This measures the number of circulating per library service per person within the council area.

### Number of Development Applications Determined

This indicator measures the effectiveness of the development approvals system council should undertake the approval process in a manner that protects the rights of landowners, the community, and the environment. The nature and complexity of applications, the area growth rate, council DA policies, and litigation delays influence this indicator. [Information supplied by Department of Planning].

### Mean Time for Development Applications

This performance indicator measures the speed with which DA’s are determined. The less time taken to determine each DA, the more efficient the approval process is. The mean time for development applications relates to ‘Number of DA’s’ above, and therefore is influenced by similar factors. This performance indicator does not take into account factors such as the complexity of the DA’s. [Information supplied by Department of Planning].
Environmental Management Services (per capita) The sustainable management of natural resources, the protection of the environment and the maintenance of public health are key council responsibilities. This indicator is a key performance measure in calculating the amount spent on environmental management and health per head of population.

Recreation and Leisure and Cultural Services Expenses (per capita) Councils are encouraged to develop and implement strategies that will result in more people becoming physically active. This indicator measures the calculated net amount spent on recreation and leisure services per head of population. The size, type, and number of facilities, the adoption of the user pays principle, the nature of section 94 contributions, the population mix, the available open space, and natural resources can affect it.

Community Services Expenses (per capita) The purpose of this indicator is to measure the amount spent on community services per head of population. Factors such as number of community services staff required, population mix (age and ethnicity) and the socio-economic standing of the population influence the cost of community services within a council area.

Profiles for Group 5 Councils

<table>
<thead>
<tr>
<th>Council</th>
<th>DLG Group</th>
<th>Aust. Class’n Numeric code</th>
<th>Aust. Class’n Alpha code</th>
<th>Estimated residential population at 30 June 2009</th>
<th>Area (km²)</th>
<th>Population growth (5 year average) at 30 June 2009</th>
<th>ATSI population %</th>
<th>NESB population %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffs Harbour</td>
<td>5 8</td>
<td>URL</td>
<td>72,827</td>
<td>1,175.10</td>
<td>1.7</td>
<td>3.56%</td>
<td>4.85%</td>
<td></td>
</tr>
<tr>
<td>Lake Macquarie</td>
<td>5 9</td>
<td>URV</td>
<td>200,849</td>
<td>648.30</td>
<td>1.0</td>
<td>2.35%</td>
<td>4.17%</td>
<td></td>
</tr>
<tr>
<td>Maitland</td>
<td>5 8</td>
<td>URL</td>
<td>70,296</td>
<td>391.70</td>
<td>2.28</td>
<td>2.62%</td>
<td>3.31%</td>
<td></td>
</tr>
<tr>
<td>Newcastle</td>
<td>5 9</td>
<td>URV</td>
<td>156,112</td>
<td>166.90</td>
<td>1.09</td>
<td>2.13%</td>
<td>7.05%</td>
<td></td>
</tr>
<tr>
<td>Port Macquarie - Hastings</td>
<td>5 8</td>
<td>URL</td>
<td>76,323</td>
<td>3686.10</td>
<td>1.56</td>
<td>2.58%</td>
<td>3.33%</td>
<td></td>
</tr>
<tr>
<td>Shoalhaven</td>
<td>5 8</td>
<td>URL</td>
<td>96,967</td>
<td>4,530.60</td>
<td>1.15</td>
<td>3.75%</td>
<td>4.75%</td>
<td></td>
</tr>
<tr>
<td>Tweed</td>
<td>5 8</td>
<td>URL</td>
<td>90,090</td>
<td>1,309.40</td>
<td>2.01</td>
<td>2.94%</td>
<td>4.29%</td>
<td></td>
</tr>
<tr>
<td>Wollongong</td>
<td>5 9</td>
<td>URV</td>
<td>203,487</td>
<td>684.10</td>
<td>1.01</td>
<td>1.69%</td>
<td>13.95%</td>
<td></td>
</tr>
</tbody>
</table>

Please note: the Maitland and Port Macquarie - Hastings Council were classified a Group 5 Council in the 2010/11 financial year.

Profiles for other developing coastal Councils

<table>
<thead>
<tr>
<th>Council</th>
<th>DLG Group</th>
<th>Aust. Class’n Numeric code</th>
<th>Aust. Class’n Alpha code</th>
<th>Estimated residential population at 30 June 2010</th>
<th>Area (km²)</th>
<th>Population Growth (5 year average) at 30 June 2010</th>
<th>ATSI population %</th>
<th>NESB population %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gosford</td>
<td>7 13</td>
<td>UFV</td>
<td>168,188</td>
<td>940.30</td>
<td>0.8</td>
<td>1.68%</td>
<td>5.49</td>
<td></td>
</tr>
<tr>
<td>Port Stephens</td>
<td>4 7</td>
<td>URM</td>
<td>67,825</td>
<td>859.00</td>
<td>1.5</td>
<td>2.88%</td>
<td>3.99</td>
<td></td>
</tr>
<tr>
<td>Sutherland</td>
<td>3 5</td>
<td>UDV</td>
<td>220,385</td>
<td>333.60</td>
<td>0.74</td>
<td>0.61%</td>
<td>9.4</td>
<td></td>
</tr>
<tr>
<td>Wyong</td>
<td>7 13</td>
<td>UFV</td>
<td>151,527</td>
<td>740.10</td>
<td>1.38</td>
<td>2.72%</td>
<td>4.4</td>
<td></td>
</tr>
</tbody>
</table>
Staff
• Group 5 average $465.08 for 2010/11
• Group 5 average 6.33 for 2010/11

• LMCC has the lowest number of staff per 1000 residents in comparison with other Group 5 Councils

Other developing coastal Councils
Development Applications
Number of Development Applications (DAs) Determined

Data supplied by NSW Department of Planning.

Group 5 Councils

- Group 5 average 1315 for 2010/11
- LMCC determines the largest number of DAs per year within the Group 5 Councils

Other developing coastal Councils

Gosford Port Stephens Port Stephens Wyong

Lake Macquarie
Mean Net Time for Development Applications

This indicator is calculated by: Total number of calendar days taken to determine each DA/Number of DAs determined Stop the clock time and referral time deducted.

Data supplied by NSW Department of Planning.

Group 5 Councils

- Group 5 average 38.38 days for 2010/11

Other developing coastal Councils
Rates & Financial Information
Average Rate per Residential Assessment

This indicator is calculated by \( \frac{\text{Total Residential Rates Revenue}}{\text{Number of Rateable Residential Properties}} \)

**Group 5 Councils**

- Group 5 average rate $887.75 for 2010/11

**Other developing coastal Councils**
Average Rate per Business Assessment

This indicator is calculated by Total Business Rates Revenue / Number of Rateable Business Properties

**Group 5 Councils**

- Group 5 average rate $4,902.47 for 2010/11

**Other developing coastal Councils**
Average Rate per Farmland Assessment

This indicator is calculated by Total Farmland Rates Revenue / Number of Rateable Farmland Properties

**Group 5 Councils**

- Group 5 average rate $1,694.56 for 2010/11

**Other developing coastal Councils**
Outstanding Rates, Charges, and Fees

This indicator is calculated by: Outstanding Rates, Charges, and Fees/Annual Income from Rates, Charges, and Fees

Group 5 Councils

- This indicator assesses the effectiveness of a council’s revenue collection. The percentage of rates and annual charges unpaid at the end of a financial year is a measure of how well a council is managing debt recovery.
- Group 5 average 5.99% for 2010/11

Other developing coastal Councils
Debt Service Ratio

This percentage is calculated by: Principal plus Interest Payments/Total Revenue less Specific Purpose Grants & Contributions

Group 5 Councils

- This indicator assesses the degree to which revenues from ordinary activities are committed to the repayment of debt.
- Group 5 average 8.71% for 2010/11

Other developing coastal Councils
• Group 5 average $1,052.16 for 2010/11

Other developing coastal Councils

Lake Macquarie City Council

Total Continuing Operations Income per Capita

Group 5 Councils

- Hastings
- Port Macquarie
- Newcastle
- Shoalhaven
- Tweed
- Wollongong
- Port Macquarie

Gosford Port Stephens Sutherland Wyong Lake Macquarie

Better, Stronger Local Government - The Case for Sustainable Change
Historical Data Graphs

The following tables provide trend information from 1994/1995 to 2011/2012.
Lake Macquarie City Council

Trend Data Average Rate per Residential Assessment

Trend Data Average Rate per Business Assessment
See page 5 for an explanation.

Trend Data Total Operating Revenue (per capita)

Estimated Residential Population 200,849.
Unrestricted Current Ratio
Council’s unrestricted current ratio increased from 2.46 in 2010/2011 to 2.95 in 2011/2012. This is due mainly to the transfer of 2 properties held in Investment Property in 2010/2011 which are now classified as current assets in 2011/2012. Guidelines provided by the Division of Local Government show that a ratio below 1.5 is unsatisfactory and a ratio greater than 2.1 is considered positive by the industry. The purpose of the unrestricted current ratio is to provide a measure of Council’s liquidity, i.e. Council’s ability to pay its debts as they fall due.

The unrestricted current ratio ranged from 1.24 to 3.00 for all councils in Lake Macquarie City Council’s Group for the 2009/2010 financial year (latest comparative data available), with the Group average being 2.30.

Rates Outstanding Ratio
Council’s rates outstanding ratio has changed slightly from 3.19% in 2010/2011 to 3.33% in 2011/2012. Guidelines provided by the Division of Local Government show that the Division’s accepted benchmarks for outstanding rates are less than 5% for urban and coastal councils and less than 10% for rural councils. The purpose of this indicator is to measure the effectiveness of Council in recovering rates legally owed to it. The rates outstanding ratio ranged from 3.20% to 7.25% for all councils in Lake Macquarie City Council’s Group for the 2009/2010 financial year, with the Group average being 5.75% and the State average being 5.31%.

Debt Service Ratio
Council’s debt service ratio was relatively constant at 5.18% in 2010/2011 and 4.80% in 2011/2012. Guidelines provided by the Division of Local Government show that a ratio less than 10% is considered satisfactory. Council has established a target upper limit for the debt service ratio of 8%. The purpose of this indicator is to reflect the ability of Council to service its debt. The debt service ratio ranged from 0.77% to 31.66% for all councils in Lake Macquarie City Council’s Group for the 2009/2010 financial year, with the Group average being 8.19%.
Staff

Historical Data Trends
Includes permanent full-time and permanent part-time staff.
Excludes temporary, fixed-term and casual staff.
Library

Historical Data Trends
Trend Data Library Operating Expenses (per capita)

Trend Data Circulation for a Library Service (per capita)

Includes loans and e-loans.
Trend Data Visits to Library

Visits via door entry.
Trend Data Visits to Library (per capita)
Waste & Recycling

Historical Data Trends
Trend Data Average Domestic Waste Charge per Residential Property

Trend Data Costs per Service for Domestic Waste Collection
Development Applications

Historical Data Trends
Trend Data Number of Development Applications Determined

Trend Data Mean Time for Development Applications

Trend Data Median Time for Development Applications

Legal Expenses to Total Planning and Development Costs

Lake Macquarie City Council

Better, Stronger Local Government - The Case for Sustainable Change
Trend Data Median Time for Development Applications

Days

Trend Data Legal Expenses to Total Planning and Development Costs

%
Environmental Management

Historical Data Trends
Since 2010/11, this category has removed health expenses and been expanded to include Domestic Waste Management, Street Cleaning, Drainage and Stormwater Management expenses.
Recreation & Leisure

Historical Data Trends
In 2010/11 this trend data expanded from net recreation and leisure expenses to include cultural services.
Historical Data Trends
Trend Data Community Services Expenses (per capita)

Lake Macquarie City Council

Better, Stronger Local Government - The Case for Sustainable Change

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Sources of Revenue & Expenses

Historical Data Trends
Trend Data Sources of Total Expenses

- Sources of Total Revenue:
  - Rates & Annual Charges
  - User Charges & Fees
  - Interest
  - Grants
  - Contributions & Donations
  - Other Operating Revenue

- Sources of Total Expenses:
  - Other Operating Expenses
  - Depreciation & Impairment
  - Borrowing Costs
  - Materials & Contracts
  - Employee Costs

Lake Macquarie City Council
Better, Stronger Local Government - The Case for Sustainable Change
Attachment 3

Enabling ‘bottom-up’ Local Government ingenuity through ‘top-down’ state-wide policy frameworks:
The case of Lake Macquarie City Council and ongoing financial sustainability

Prof. Brian Dollery
ENABLING ‘BOTTOM-UP’ LOCAL GOVERNMENT INGENUITY THROUGH
‘TOP-DOWN’ STATE-WIDE POLICY FRAMEWORKS: THE CASE OF LAKE
MACQUARIE CITY COUNCIL AND ONGOING FINANCIAL
SUSTAINABILITY

Brian Dollery*

Abstract: For decades Australian policy makers have relied on the blunt instrument of forced
amalgamation to reform local government. However, a host of recent public inquiries has
demonstrated that despite compulsory mergers in all states, except WA, financial
unsustainability has become more acute. Using the case study of the successful achievement of
ongoing financial sustainability by Lake Macquarie City Council in NSW through its
resourceful ‘bottom-up’ use of the ‘top-down’ financial parameters set for NSW local
government, this paper argues that state governments should concentrate on ‘process change’ by
establishing sound ‘top-down’ regulatory frameworks thereby enabling ‘bottom-up’ ingenuity
by local authorities rather than ‘structural change’ through heavy-handed compulsory mergers.

Keywords: Financial sustainability; Lake Macquarie City Council; local government;
rate-pegging

1. INTRODUCTION

In common with its counterparts in other Australian state jurisdictions, NSW local
government has experienced ongoing reform for the past two decades. In essence, three
major policy instruments have been employed in the reform process. Firstly, state
governments have attempted to enhance the operational efficiency of local councils by
modernising their respective Local Government Acts to give local authorities greater

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Armidale NSW 2351.
autonomy to meet changing circumstances. Secondly, and in paradoxical contrast to the expansion of local council autonomy, state governments have concurrently adopted a plethora of prescriptive legislation aimed at limiting local council discretion on the composition, quality and quantity of local service provision. Finally, and most importantly, with the sole exception of Western Australia, all state governments have relied heavily on forced amalgamation to improve local government efficiency, particularly in non-metropolitan local authorities (Dollery, Grant and Kortt, 2012).

In general, these ‘top-down’ reform initiatives (Rhodes, 1997) by Australian state governments have failed to achieve their intended aims, especially in terms of creating financially sustainable local government entities. This bleak conclusion follows from a host of national and state inquiries into local government over the past decade, including NSW with its Financial Sustainability of NSW Local Government (‘Allan Report’) (2006) Are Councils Sustainable and NSW Independent Pricing and Regulatory Tribunal (IPART) (2010) Review of the Revenue Framework for Local Government.  

The failure of these state-imposed reform programs, especially compulsory council consolidation, has not only sparked a vociferous debate on how best to proceed with improving local government, but it also seems to have had little discernible impact in dissuading Australian state governments from abandoning their historic reliance on ‘top-down’ forced amalgamation (Dollery and Grant, 2011). For example, on 17/18 August 2011 NSW Minister for Local Government Don Page convened the historic Destination 2036 Workshop in Dubbo with mayors and general managers gathered from all NSW local authorities. The main consequences of the Destination 2036 Workshop lay in the appointment of an Implementation Steering Committee (ISC) which drafted an ‘Action Plan’ for NSW local government and the establishment of an Independent Local Government Review Panel to ‘investigate and identify options for governance models, structural arrangements and voluntary boundary changes for local government in NSW’ (NSW Division of Local Government, 18th May, 2012). With the Review Panel due to report in July 2013, it appears certain to recommend further forced mergers, probably centred on the Sydney metropolitan region.

A most unfortunate aspect of Destination 2036 resides in its heavy emphasis on ‘top-down’ policy prescription by the NSW government at the expense of ‘bottom-up’ initiatives by local councils. One way to conceive of this dichotomy in contemporary NSW local government is to invoke the distinction drawn by Dollery and Crase (2006, p.248) between ‘structural change’ and ‘process change’ as alternative approaches to local government reform. Whereas ‘structural change involves a reorganization of the machinery of local government’, by contrast ‘process change refers to modification in
the methods employed by municipalities’. In other words, while *structural change* involves adjusting the number, size and type of local councils in a state jurisdiction, *process change* involves transformation in the methods deployed by local authorities.

Dollery and Crase (2006) contend that process change possesses significant advantages over structural change through forced amalgamation. In particular, it is not a ‘top-down’ state government imposed method of forcing reform upon local government. Instead, process change represents a ‘bottom-up’ approach to enhancing local government performance. They argue that if process change is inclusive and well-designed, then it will encourage council staff to cooperate, in stark contrast to forced amalgamation with its inevitable job losses. Moreover, since successful local government reform requires not only the enthusiastic involvement of staff at all levels, but also accurate and detailed information on the operations of local authorities, where council employees have a strong comparative advantage over national and state government policy makers, it is obvious that process change has significant strengths over structural change.

However, recognition that Australian state policy makers have relied excessively on heavy-handed ‘top-down’ local government regulation at the expense of ‘bottom-up’ local council initiatives should not be taken to imply that a *laissez-faire* approach to local government oversight is optimal (Grant and Dollery, 2012). Indeed, in this paper it will be argued that judicious policy making by state governments can ensure that prudent state government oversight can bear a synergetic relationship to local government autonomy. Put differently, we contend that ‘top-down’ state government intervention in setting financial and other parameters for a local government system can harness ‘bottom-up’ inventiveness at the municipal level so that system-wide
improvement is founded on local enthusiasm and ingenuity. In order to advance this claim, we consider the concrete example of the award-winning Lake Macquarie City Council (LakeMac) in the Hunter region of NSW and its resourceful ‘bottom-up’ use of the ‘top-down’ financial framework set for NSW local government and administered by the IPART. As a result of its successful efforts, LakeMac won the 2012 Bluett Award, the most prestigious honour in NSW local government\(^2\).

In common with most other NSW local authorities, LakeMac faced tremendous difficulties in 2010, most of which derived from inadequate revenue, due in large part to the longstanding practice of rate-pegging in NSW (Dollery and Wijeweera, 2010). In its assessment of financial sustainability in NSW local government, the Allan Report (2006) drew three main conclusions. In the first place, local infrastructure renewal, maintenance and investment had been inadequate and a substantial infrastructure backlog had developed. Second, the Allan Report (2006) found that asset management had been unsatisfactory and required urgent attention. Finally, it argued that not only should rate-pegging be abolished, but also other sources of funds had to be found, including from the local government sector itself.

Of the 49 recommendations in the Allan Report (2006), several have special significance in the present context. For example, Recommendation 7 on infrastructure

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\(^2\) A. R. Bluett was a leading figure in NSW local government, serving as Secretary and Solicitor to the Local Government and Shires Associations of NSW for 30 years. An authority on local government law, he assisted in drafting the NSW Local Government Act of 1919. Following the passing of Bluett in April 1944, all NSW local authorities subscribed to a fund as a permanent memorial to his work which finances the bronze plaques awarded to the winning councils each year.
funding called for an additional $900 million per annum be available to councils through a combination of increased Commonwealth and state grants ($200 million), council expenditure savings ($200 million), and higher rates, fees and charges ($500 million). In order to facilitate this change, Recommendation 21 held that rate-pegging be abolished, as well as limitations removed on some fees and charges, in return for councils adopting longer-term strategic and financial planning with outcome targets.

Some of these recommendations have since been adopted in whole or in part. For example, the NSW Government has established an Integrated Planning and Reporting framework for local government, obliging local councils to prepare a minimum 10-year Community Strategic Plan and a 4-year Delivery Program. Similarly, following a detailed inquiry into rate-pegging, IPART handed its Final Report Review of the Revenue Framework for Local Government to the NSW Government in December 2009 (IPART 2009). As we shall see, significant changes to the rate-capping regime in NSW flowed from the Final Report.

This paper considers the ingenious manner in which LakeMac employed the financial parameters embodied in the NSW Integrated Planning and Reporting framework, enacted under the NSW Local Government Amendment (Planning and Reporting) Act 2009, as well as the new rate-pegging system introduced in the 2011/12 financial year, to secure its future financial viability, after close consultation with its local community. We argue that the establishment of a sensible set of fiscal procedural rules through ‘top-down’ regulation by the NSW Government, which obliges local councils to carefully monitor their own financial sustainability, has enabled individual local
authorities, such as LakeMac, to consult broadly with their respective local communities to prepare financial strategies tailored to meet individual municipal circumstances by way of ‘bottom-up’ initiative.

The paper is divided into five main parts. By way of background, section 2 provides a synoptic description of recent legislative changes in NSW local government as a form of ‘top-down’ cooperative regulation. Section 3 briefly describes LakeMac in the context of other NSW councils in the same NSW council classification category. Section 4 outlines the LakeMac review process, its community consultation process, the resulting application to IPART for a ‘special variation’ to its rates, and IPART’s determination. Section 5 assesses the nature of LakeMac’s successful ‘bottom-up’ initiative. The paper ends in section 6 with some brief concluding remarks.

2. NSW LOCAL GOVERNMENT REGULATORY ENVIRONMENT

Two recent key legislative changes in NSW have set in place a ‘top-down’ framework which can play a vital role in enhancing local government sustainability, as we shall see in the case study of LakeMac. Firstly, on 1 October 2009, the Local Government Amendment (Planning and Reporting) Act 2009 was assented to in the NSW Parliament, following extensive public consultation by the NSW Division of Local Government (DLG). The main effect of this legislation was to establish an Integrated Planning and Reporting (IPR) framework governed by the Act and augmented by Guidelines and a Manual (NSW DLG 2010a).

The IPR had several aims, the most important of which was the integration of the
different statutory planning and reporting processes undertaken by local councils as required by the Local Government Act 1993 and the Environmental Planning and Assessment Act 1979 in order to strengthen the strategic focus of local authorities and streamline their reporting processes (Prior and Herriman, 2010). In effect, the IPR Framework requires local councils to conduct ‘whole-of-council’ long-term, medium-term and short-term planning. This IPR process encompasses a number of the key components: A ‘Community Engagement Strategy (CES)’, a ‘ten-year Community Strategic Plan (CSP)’, a ‘Resourcing Strategy’, a ‘Four-Year Delivery Program’, an ‘Annual Operational Plan’, an Annual Report, and periodic monitoring and evaluation of these processes.

Each of these processes is intended to combine in a synergistic whole to link local planning and service provision with community aspirations. For example, the NSW Local Government Act 1993 requires each council to adopt a CES for engagement with its local community to develop a CSP. The aim of the process is to determine the aspirations and priorities of the whole community in question so that these can be accurately embodied in the CSP.

The second major ‘top-down’ reform to the regulatory environment of NSW local government introduced significant changes to the rate-pegging regime which had existed in NSW since 1977 (Dollery and Wijeweera, 2010; Koutifaris and Mangioni, 2012). In 2010, the (then) NSW Government empowered IPART *inter alia* to develop a ‘Local Government Cost Index (LGCI)’ and a ‘Productivity Factor’ for use in determining the annual rate-peg (the maximum allowable increase in rates for a given
council) and to assess applications from councils for ‘special rate variations’ to
minimum rates above the rate-peg (IPART 2010; 2011).

A special rate variation allows a council to increase its general income above the
rate-peg in accordance with the Local Government Act 1993 (NSW). Two types of
special rate variation exist: a ‘single-year variation’ (under Section 508(2)) and a
‘multi-year variation’ for between two to seven years (under Section 508A). In its
assessment of special rate variation applications IPART invokes six criteria, which
include a clear demonstration of the need for additional revenue based on sound IPR
planning processes, including a satisfactory Delivery Program and a Long-Term
Financial Plan, as well as community support as demonstrated through thorough
community engagement by means of a number engagement techniques, with IPR
processes which set out alternatives to a rate rise and the impact of a given rate rise.

3. CHARACTERISTICS OF LAKE MACQUARIE CITY COUNCIL

Situated in the Hunter Region of NSW, Lake Macquarie is 90 minutes north of Sydney
along the Pacific Highway on the east coast of Australia. Lake Macquarie is the most
rapidly expanding urban centre in the Hunter Region and the fourth largest city in NSW,
with an estimated population of 202,347 in 2012. LakeMac consists of a number of
relatively small communities surrounding Lake Macquarie, one of the largest Australian
coastal lakes, with 174km of foreshore containing beaches, coves and small bays. As a
consequence of its natural attractions, LakeMac has a comparatively affluent and
well-educated population.
In *Comparative Information on NSW Local Government Councils*, LMCC has been classified as a Group 5 local authority by NSW DLG, together with Coffs Harbour Council, Newcastle, Shoalhaven, Tweed and Wollongong. Group 5 local authorities are deemed directly comparable as regional councils, each a predominantly urban conurbation with a population in excess of 70,000 people. They have been grouped together since they meet the same criteria under the Australian Local Government Classification (ALGC) 8/9URL/URV classification codes (Commonwealth of Australia, 2010).

In his *Lake Macquarie City Council in Comparative Perspective*, Dollery (2011) employed the NSW DLG (2010b) *Comparative Information on NSW Local Government Councils 2008/09* to conduct a comparative analysis of Group 5 councils. Five main findings emerged from the analysis in *Lake Macquarie City Council in Comparative Perspective*. Firstly, from the perspective of relative size, with its total population a fraction under 200,000 as at 2008, LakeMac was the second largest municipality among its comparator councils, below Wollongong, but above Newcastle. However, with respect to Fulltime Equivalent (FTE) council employment, LakeMac fell below Newcastle, despite its proportionately greater population. Dollery (2011, p.66) concluded that LakeMac is ‘comparatively more efficient in its use of labour relative to the comparator councils’.

Secondly, from a revenue perspective, Dollery (2011) showed that, on three different measures of income, LakeMac collected less revenue per capita than any of the other councils, particularly compared with Wollongong and Newcastle, where the difference
was marked. Accordingly, he concluded that LakeMac imposed a ‘proportionately lighter financial burden’ on its residents.

Thirdly, from a cost perspective, Dollery (2011) demonstrated that LakeMac spent ‘far less’ relative to the other Group 5 councils. He concluded that, other factors being equal, LakeMac was more efficient than its comparator councils.

Fourthly, from the perspective of rates imposed on local communities, Dollery (2011) showed that residential rates, farmland rates and business rates per assessment were ‘comparatively’ light in LakeMac. He concluded that LakeMac imposed a relatively ‘lower rates burden’ on its local community.

Finally, from the perspective of trends in rates and attendant annual charges, as well as trends in user charges and fees, the rates of increase were lower in LakeMac. Dollery (2011) concluded that LakeMac imposed lower escalations in rates, annual charges, user charges and fees, than its comparator councils.

Despite the fact that LakeMac has performed better than its Group 5 comparator councils in terms of FTE council employment per capita, revenue collected per capita, per capita expenditure, business, farmland and residential rate levels, and escalation in rates, annual charges, user charges and fees, as measured using NSW DLG (2010b) Comparative Information on NSW Local Government Councils 2008/09 official data, this did not mean that it was performing in a financially satisfactory manner in absolute terms.
This has been spelled out by LakeMac (2012a, p.4) *inter alia* in its *Securing Our Future*. It observed that while LakeMac has ‘consistently delivered balanced budgets’, this had only been achieved because ongoing cost increases had been met from ‘asset replacement reserves’. *Securing Our Future* noted that unless decisive steps were taken, a ‘$132M budget deficit is projected over the next 7 years’. LakeMac (2012a, p.4) observed that several factors had contributed to the problem, including ‘rate pegging, cost shifting from other levels of government, and increasing costs’. In addition, LakeMac had a substantial asset base, comprising roads, bridges, drains, buildings, parks, and the like, valued in excess of $2 billion. As a consequence of its severe financial constraints, LakeMac had not had ‘sufficient funds to maintain and replace its infrastructure’. The result had been the development of an infrastructure shortfall, with the current cost of bringing ‘infrastructure up to a satisfactory standard’ estimated at $67M.

It is thus clear that although LakeMac has outperformed its comparator councils in Group 5 it is by no means immune from the ills afflicting NSW local government. As we have seen, these problems were exhaustively examined in the Allan Report in 2006, which noted that inadequate investment in local infrastructure maintenance and renewal was pervasive across the NSW local government sector.

4. ‘BOTTOM-UP’ ACTION BY LAKE MACQUARIE CITY COUNCIL

Political leadership and senior management at LakeMac have long been aware of its worsening financial position and had determined to take decisive action to remedy the
situation. In October 2008, LakeMac initiated a comprehensive ‘Service Review’ of its operations which included the following key elements (Dollery, Walker and Bell, 2011)\(^3\):

- Assessing financial sustainability of LakeMac;
- Identifying service levels/standards which best met community expectations;
- Establish LakeMac as a ‘leading local government entity’;
- Producing an efficient and effective organisation;
- Increasing revenue, including through commercial ventures;
- Exploring partnerships with other public and private entities;
- Exploring regional approaches to service delivery, shared services and resources;
- Provide the basis for ongoing improvement after the Service Review’.

In its approach the Service Review made maximum use of the ‘internal’ resources of LakeMac rather than relying on expensive external consultants. As a consequence, the Review was managed ‘in-house’ by Council officers with the assistance of an External Reference Panel comprised of three persons. This modus operandi sought to minimise the overall cost of the Service Review and simultaneously provide a balance between ‘internal’ and ‘external’ inputs, with the External Panel ensuring independent guidance.

A critical element in the Service Review was its reliance on ‘staff groups’, comprised of more than 150 staff who voluntarily participated in these groups in addition to their normal roles, with other employees assisting the groups as ‘subject experts’ and ‘key stakeholders’. Most members of each staff group were selected from outside the

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\(^3\) Dollery, Walker and Bell (2011) provide a detailed analysis of the Service Review and its method of operation.
department that was being reviewed, ensuring an independent ‘fresh perspective’. In their analysis of the Service Review, Dollery, Walker and Bell (2011) argued that The extensive involvement of people at all levels in LMCC guaranteed that the Service Review represented a completely ‘bottom-up’ exercise, thereby enhancing its ‘ownership’ throughout LakeMac.

Staff groups included five groups concerned with ‘core activities’ fundamental to the Service Review. For example, the Workforce Engagement core group was responsible for internal communications and consultation for the Service Review; the Community Engagement core group was responsible for facilitating external communications and consultation activities with the LakeMac community, including the community engagement strategy, its supporting communication plan, and focus groups; the Management Systems core group dealt with the management system framework, including strategic and business planning, communications and customer relations; the Financial Management core group defined financial sustainability indicators and undertook financial modelling; and the Asset Management core group tackled asset management forecasting and estimated the funds needed to maintain the assets at prescribed levels for the next 10 years.

The Service Review proved most effective. Securing Our Future (LakeMac, 2012a, p.4) estimates the ‘total benefit’ of the Service Review in the range of ‘$10 million to $14 million’ secured largely ‘through efficiencies, savings, and additional income’. For instance, LakeMac reaped around $4 million in ‘savings and improvements across the organisation’. Similarly, new purchasing practices yielded $2.4 million. In addition, the
commercial arm of LakeMac - LakeMac Enterprises – is expected to generate more than $1 million per annum within five years.

However, despite the success of the Service Review, it was clear to both elected representatives and senior management at LakeMac that its combined efficiency gains, cost savings and additional revenue could not generate sufficient funds to simultaneously effectively tackle the accumulated infrastructure backlog and maintain current services at satisfactory levels. In essence, LakeMac (2012a, p.4) realised that ‘to achieve financial sustainability and manage the community’s infrastructure, we either need to increase our income by increasing rates, or reduce our expenditure by decreasing the level of services we provide to our community’. Against this background, in 2011 LakeMac decided to engage in extensive consultation with the Lake Macquarie local community to determine its views on the future options, with a view to applying to IPART for a special variation in its rates, if the community was in favour. It thus embarked on a six-month consultation process entitled Securing our Future.

As we have seen in section 2 of this paper, the new regulatory structure for rate-pegging in NSW local government sets out a procedural framework for seeking a special variation above the rate-peg, which includes extensive community consultation. *Securing Our Future* took place in three discrete stages between April and December in 2011. Stage 1 and Stage 2 considered the nature of the Lake Macquarie community, the local services it required, as well as current LakeMac expenditure and service levels as a means of generating three alternative options to put to the local community. Stage 3 set out these options and sought feedback to measure community preferences by means of
four survey techniques (a random telephone survey, a postal ballot, an on-line survey, and electronic polling at community workshops).

The three options submitted to the Lake Macquarie community in *Securing Our Future* were as follows:

- Option 1: increase rates by the rate-peg and reduce services proportionately;
- Option 2: to increase rates above the rate-peg over 7 years and maintain services;
- Option 3: to increase rates above the rate-peg over 7 years and improve services.

All four survey methods found that a higher proportion of respondents supported increases to rates above the rate peg (Option 2 and Option 3) than increases according to the rate-peg only (Option 1). However, the random telephone survey, not as prone to selection bias afflicting the accuracy of the other approaches, found more support for Option 2 at 48% than Option 3 at 36%.

LakeMac duly lodged its completed *Lake Macquarie City Council - Section 508A Special Variation Application 2012/13* with IPART by the 24 February 2012 deadline. In this document, LakeMac applied to increase its general income by a cumulative 73.24 percent over the 7-year period from 2012/13 to 2018/19 and permanently integrate this increase into its general income base. The proposed rate increase encompassed the rate-peg available to all NSW councils, as well as the value of an existing special variation due to expire in June 2014. LakeMac stressed in its application that it sought to employ the additional revenue from the requested special variation to enhance its financial sustainability, while maintaining (Option 2) or improving (Option 3) current service levels and renewing its local infrastructure.
In *Lake Macquarie City Council - Section 508A Special Variation Application 2012/13*, LakeMac spelled out in detail how it intended to expend the additional rate income sought. In the first place, ‘more than $170m would allow the council to maintain current levels of services to the community’, ‘$166.80m would remove the operating deficit expected until 2016/17’, and ‘a further $3.83m would achieve operating surpluses in 2017/18 and 2018/19’. Secondly, $53.32m would be expended on ‘additional infrastructure maintenance and ranger services’, as well as to improve ‘some services and assets’, such as ‘roads, libraries and pools’. Finally, $14.19m would meet new borrowing costs for loans to execute a capital investment program, which would encompass ‘improvements to parks and recreation facilities, major upgrades to 3 pools, 2 new libraries and upgrades to 3 others, upgrades to 9 major town centres, new footpaths and cycleways, upgrades to community facilities and 2 new centres for dementia day care and pensioners and community care’.

In its application, LakeMac argued that selection bias for the other three survey methods was not problematic since they were reasonably representative of the overall Lake Macquarie community. If all four survey results were aggregated, then LakeMac noted that Option 3 had the highest level of support at 50%. On this basis it contended that Option 3 was the preferred alternative of the Lake Macquarie community.

Public interest in the *Lake Macquarie City Council - Section 508A Special Variation Application 2012/13* proved exceptional. IPART received 303 individual submissions on the LakeMac application, 7 petitions with 764 signatures, and 480 letters in 7
different prescribed forms. In its *Determination* published in June 2012, IPART (2012, p.24) observed that these ‘submissions and other representations overwhelmingly opposed the special variation’. Most contended that ‘the proposed cumulative rate increase was large and unaffordable for households and businesses, particularly in the current economic climate’.

Legislation governing the assessment by IPART of applications for special variations above the rate-peg requires that these applications must meet six criteria: a ‘demonstrated need for the rate increase’; ‘demonstrated community support’; a ‘reasonable impact on ratepayers’; a ‘sustainable financing strategy’; ‘productivity impacts and cost constraint strategies’; and ‘implementation of the Integrated Planning and Reporting Framework’. In its *Determination*, IPART found that the LakeMac application met all six criteria. In particular, with respect the second criterion dealing with ‘demonstrated community support’, IPART (2012, p.25) found that ‘Lake Macquarie City Council [had] engaged extensively with the community to determine expenditure priorities and whether there was support for the requested rate increases’.

Moreover, it was satisfied that LakeMac’s consultation strategy fell squarely within the rules set out in the *Guidelines*. More specifically, *Securing Our Future* ‘clearly informed the broad community about the proposed special variation and its impact on rates’, ‘it captured community feedback by a range of methods’ and it ‘also responded appropriately to concerns raised in the consultations’. However, the *Determination* noted that, ‘while the council’s consultation showed clear community support for significant rate increases over a rate-peg-only increase’, community support for Option 3 was ‘harder to assess’.
With respect to the sixth criterion dealing with the NSW IPR Framework, under section 508A of the Act, councils must have implemented the IPR Framework, including a satisfactory 10-year Community Strategic Plan, a 4-year Delivery Program, an Annual Operational Plan and a detailed resourcing strategy. In its Determination, IPART (2012, p.31) found that LMCC had ‘satisfactorily implemented the IPRF by 30 June 2010’.

Moreover, the NSW DLG had ‘reviewed the council’s IPRF documents and verified that the council has met this criterion’.

In its Determination, IPART (2012, p.2/3) held that LakeMac was permitted to increase its general income for a cumulative increase of 57.48% over the next 7 years, or 33.78% above the rate peg increase. During this period, these increases would incorporate the rate-peg increases LakeMac would have received in any event. In effect, IPART thus limited the special variation sought by LakeMac to Option 2 in Securing Our Future rather than Option 3 (with its cumulative 73.24 percent increase over the 7-year period)

In addition, IPART (2012, p.3) attached two major conditions to its decision. Firstly, LakeMac ‘uses the additional income from the special variation to fund service levels and community infrastructure consistent with the council’s application’. Secondly, LakeMac is obliged to record in its annual report for each rating year over the period from 2012/13 to 2021/22 on (a) expenditure on service levels and community infrastructure consistent with the council’s application’, ‘the outcomes achieved as a result of the special variation’, ‘its asset renewal and maintenance expenditure’, ‘productivity savings achieved’, and ‘any significant variations from its financial results
as forecast in its Long Term Financial Plan and any corrective action taken or to be taken.’

Once IPART had approved the special variation sought by LakeMac, it was clear that the Council had achieved two major successes through innovative ‘bottom-up’ action which had essentially resolved its fiscal difficulties and set it on the path to long-run financial sustainability with a combination of satisfactory operating results and an adequate asset maintenance and renewal strategy. This pleasing outcome derived from the cost savings, productivity improvements, and commercial revenue increases achieved through the Service Review process, together with the additional income secured by the rate variation approved by IPART. In effect, on the one hand, LakeMac has streamlined its operational activities, thereby inducing significant savings and efficiency gains, while on the other hand, LakeMac has increased ‘own-source’ revenue through rate increases and entrepreneurial activity. It should be stressed that this has been achieved (a) without any forced or even voluntary structural change and (b) without any additional funds from higher tiers of government.

5. ASSESSING ‘BOTTOM-UP’ ‘TOP-DOWN’ INTERACTION

The LakeMac case study presented in this paper has already successfully withstood various types of scrutiny. For instance, its Service Review process was not only characterised by enthusiastic participation by both Council staff and the Lake Macquarie community, but it also led to a much improved appreciation of how LakeMac operated and how it could be improved (Dollery, Walker and Bell, 2011). Similarly, its use of the IPR Framework, with its CES, CSP, resourcing strategy, 4-Year
Delivery Program, Annual Operational Plan, Annual Report, as a ‘whole-of-council’ planning instrument met with the approval of both the NSW DLG and IPART. In an analogous vein, community engagement through Securing Our Future, fully endorsed by IPART, secured widespread community involvement and provided valuable insights into what was expected of LakeMac by its local community. Finally, its Lake Macquarie City Council - Section 508A Special Variation Application 2012/13 was accepted by IPART, albeit Option 2 and not Option 3. These efforts were then acknowledged by the NSW local government sector in the form of its highest honour, the 2012 Bluett Award.

While it is easy to appreciate that LakeMac’s success can be ascribed to dynamic leadership by elected representatives and senior management alike, acuity in strategic vision, thorough preparation, planning and implementation, and active staff and community participation, the wider implications of its success for local government reform in NSW are less obvious. In this paper we argue that the experience embodied in the LakeMac case study has significant ramifications for NSW local government reform in the sense that it almost perfectly encapsulates how sensible ‘top-down’ regulation by state governments can provide an efficacious framework which generates the latitude for local authorities to exercise local autonomy and enlist local ingenuity through local ‘bottom-up’ activities within this regulatory framework. In this sense, ‘top-down’ regulation by the state government and ‘bottom-up’ initiative by local authorities form a synergistic whole. From a state government perspective, its local government system operates within a well-ordered regulatory environment designed to maximise accountability and transparency, whereas from a local government perspective the
regulatory framework offers it a high degree of certainty and enables it to conduct extensive community consultation and systematic planning, but nonetheless leaves intact ‘local voice’ and ‘local choice’ thereby enshrining local autonomy.

In the LakeMac case study presented in this paper these dynamics are at work. For instance, the passage of the Local Government Amendment (Planning and Reporting) Act 2009 set in place the IPR Framework and the NSW DLG provided clear guidance on what was expected from local authorities. The IPR was intended by the NSW Government to simplify and streamline the (then) excessively complicated piecemeal statutory planning and reporting processes required of local councils by the Local Government Act 1993 and the Environmental Planning and Assessment Act 1979. It was also aimed at obliging local councils to undertake thorough ‘whole-of-council’ planning and reporting exercises, from annual operational planning to ten-year long-range planning. Its key elements have forced councils to participate in periodic and systematic community engagement, strategic planning, monitoring and evaluation of their activities.

While these ingredients constituted the imposition of a ‘top-down’ regulatory environment, they simultaneously actively fostered the emergence of constructive ‘bottom-up’ action by local councils characterised by local initiative and local ingenuity. Whereas many state government policies intended to improve the operation of local government, such as forced amalgamation, ride roughshod over local authorities by assuming state policy makers possess superior insight and information on what would enhance the performance of a given local authority, and thus negate the possibility of a
constructive ‘bottom-up’ response, by contrast the IPR Framework simply sets the ‘rules of the game’ and local councils can then use their intimate local knowledge of their own circumstances to determine their own future.

In the specific case of LakeMac, senior management has been acutely aware of the positive interplay between NSW Government imposed policy frameworks and LakeMac’s inventive and productive use of these parameters. For example, in his covering letter to the 12 September 2012 LakeMac submission to the NSW Independent Local Government Review Panel, entitled *A Secure Future for Local Government*, LakeMac General Manager Brian Bell observed that:

‘Local government in New South Wales is not all broken. What each council needs is firstly, a rigorous process to determine what its community requires of it, and that with some help, is provided by the Integrated Planning and Reporting process. Secondly, that process should then be further required to go through the rigour of the Independent Pricing and Regulatory Tribunal. The IPART process requirements are the key to a council having the appropriate level of rigour in preparing itself for what its community wants and what it has to do to service that’.

CEO Bell then proposes a ‘policy template’ for NSW local government derived from LakeMac’s successful achievement of ongoing financial sustainability:

Both the IP&R process and the IPART process should be compulsory for all councils in NSW. The IPART process should be required to be undertaken by every council at regular and appropriate intervals, for example say once every eight years, to coincide with political cycles. After the initial cycle where all councils in NSW
have been through the process once, IPART should only then be required thereafter to review each council in its turn. Each council would then have (say) eight year approved finances.

After the initial cycle of IPART review (say eight years) there will be no need for the rate cap to be applied anymore because each council will have its own IP&R and IPART reviewed circumstances with associated finances’.

6. CONCLUSION

In this paper we have argued that extensive Australian experience with forced amalgamation, which has repeatedly failed to generate financial sustainability, has shown that process change rather than structural change represents the best approach to successful local government reform. It has been argued that the optimal method of fostering constructive process change is for state governments to set in place sensible regulatory frameworks which oblige local councils to closely consult their local communities, undergo thorough planning and reporting processes, develop strategic plans, and then carefully monitor progress. Using the LakeMac case study, we have sought to demonstrate that well-designed ‘top-down’ regulation by state agencies can stimulate creative ‘bottom-up’ action which not only empowers local communities, but also draws on local knowledge and local ingenuity to find solutions to local problems.

We have argued that in the NSW local government, the IPR Framework (which is overseen by the NSW DLG) and the rate-pegging system with its special variation processes (administered by IPART) represent an excellent example of thoughtful ‘top-down’ regulation which enhance local autonomy and encourage ‘bottom-up’ grass
roots community engagement and thorough assessment and planning by local authorities. The LakeMac case study illustrates vividly how well this judicious and synergetic combination of ‘top-down’ regulation and ‘bottom-up’ initiative can work. As we have seen, the IPR Framework and the IPART assessment procedure provided an ideal process for LakeMac, which resulted not only in the attainment of long-run and ongoing financial sustainability, but also generated community ‘ownership’ of LakeMac and its future.

Given the success of LakeMac, the Independent Local Government Review Panel would be well-advised in its deliberations to reflect on how best local government reform can build on the positive role of the IPR Framework and IPART. In particular, it could take up Brian Bell’s suggestion - supported by the findings of this paper - that the IPR Framework process and the IPART process be made mandatory for all NSW local authorities, with the DLG and IPART offering advice and expertise where required. Thus, for example, participation in the IPART process could be made compulsory for every council at specified regular intervals, which would involve thoroughgoing use of the IPR Framework at the same time. In this way a positive relationship between the NSW Government and local government would be encouraged rather than the spectre of yet another antagonistic and destructive cycle of forced amalgamation.

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Attachment 4

Process change not more forced amalgamation

Prof. Brian Dollery
Process Change Not More Forced Amalgamation

2013 will see the climax of the local government reform program initiated by Minister for Local Government Don Page at the historic Destination 2036 Workshop in Dubbo in August 2011. The chief outcome of the reform program thus far has been the establishment of an Independent Local Government Review Panel to ‘investigate and identify options for governance models, structural arrangements and voluntary boundary changes for local government in NSW’.

The Review Panel is due to report in July 2013 and it appears likely to recommend forced mergers, probably centred on the Sydney metropolitan region. This will be most unfortunate since it will demonstrate yet again that no lessons have been learned from previous amalgamation programs, including the 2004 NSW forced merger program.

Anyone who still believes that compulsory council consolidation will somehow lead to financial sustainability in local government, with more efficient councils, lower costs and substantial scale economies has not bothered to acquaint themselves with the vast empirical literature on amalgamation. In our book Councils in Cooperation, co-authors Bligh Grant, Mike Kortt and I provide a detailed summary of the empirical evidence on amalgamation which makes for sobering reading.

Indeed, extensive Australian and international experience with forced amalgamation, which has repeatedly failed to generate financial sustainability, has shown that ‘process change’ rather than ‘structural change’ represents the best approach to successful local government reform.
The optimal method of fostering constructive process change is for Australian state governments to provide sensible regulatory frameworks which oblige local authorities to closely consult with their communities, engage in careful planning and reporting processes, develop strategic plans, and then monitor progress. In NSW, these frameworks are already largely in place.

In the NSW local government, the IPR Framework (overseen by the DLG), and the rate-pegging system special variation processes (administered by IPART), represent excellent examples of thoughtful regulation. They not only enhance local council financial viability, but also encourage ‘bottom-up’ community engagement and thorough planning by local authorities.

By way of concrete examples of how best to proceed, the Independent Review Panel would be well advised to take careful note of how the Lake Macquarie City Council used the IPR and IPART frameworks to attain financial viability, for which it won the coveted Bluett Award in 2012.

The LakeMac case illustrates vividly how a synergetic combination of ‘top-down’ regulation and ‘bottom-up’ initiative can work. Through its thorough adoption of the IPR Framework and the IPART rate variation assessment procedure, LakeMac not only secured long-run and ongoing financial sustainability, but also generated community ‘ownership’ of LakeMac and its future.
Given the success of LakeMac, the Independent Review Panel would be prudent in its deliberations to reflect on how best local government reform can build on the positive role of the IPR Framework and IPART. In particular, it should recommend that the IPR Framework process and the IPART process be made mandatory for all NSW local authorities, with the DLG and IPART offering advice and expertise where required.

Thus, for example, participation in the IPART process should be made compulsory for every council at specified regular intervals, such as every 7 years, which would involve thoroughgoing use of the IPR Framework at the same time. In this way, a positive relationship between the NSW Government and local government would be encouraged, rather than yet another antagonistic, destructive and expensive cycle of forced amalgamation.

Brian Dollery is Professor of Economics and Director of the Centre for Local Government at the University of New England in Armidale.
Attachment 5

Local co-government in New South Wales: Lake Macquarie City Council and its delegation model for section 355 committees

Prof. Brian Dollery and Dr. Michael Kortt
LOCAL CO-GOVERNMENT IN NEW SOUTH WALES: LAKE MACQUARIE CITY COUNCIL AND ITS DELEGATION MODEL FOR SECTION 355 COMMITTEES

Brian Dollery and Michael Kortt*

Abstract: In its Better, Stronger Local Government, the Independent Local Government Review Panel (2012) advanced several pre-emptive claims regarding the performance of NSW local government, including the purported need for additional ‘sub-council’ governance structures in NSW modelled along the lines of community boards in New Zealand. No evidence of any kind was offered by the Panel in support of these proposed ‘sub-council’ governance entities. Sub-municipal governance entities – commonly referred to as ‘local co-governance’ in the requisite scholarly literature – exist in many local government systems around the world, including NSW local government, with varying degrees of success. This paper demonstrates that there is no need to ‘reinvent the wheel’ in NSW local government by introducing additional, expensive and redundant ‘sub-council’ local co-governance structures since existing regulation already enables local authorities to engage in extensive local co-governance. Using the thriving example of the Lake Macquarie City Council (‘LakeMac’) ‘delegation model’ established under Section 355 of the NSW Local Government Act 1993, the paper shows that LakeMac has been successful in its endeavours to engage widespread community participation in co-governance to manage Council facilities in a range of different areas.

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1. INTRODUCTION

On 17 August 2011 NSW Local Government Minister Don Page set the stage for a new program of local government reform when he opened the Destination 2036 Workshop in Dubbo, which was attended by mayors and general managers from all NSW local councils. Through Destination 2036, an Implementation Steering Committee (ISC) was constituted to develop an Action Plan for local government reform and an Independent Local Government Review Panel established to consider ‘options for governance models’, ‘structural arrangements’ and ‘voluntary boundary changes’ (NSW Division of Local Government, 18 May 2012). With the Review Panel due to present its final report in July 2013, it appears certain to recommend further forced mergers, probably centred on the Sydney metropolitan region.

The Review Panel was formally appointed in April 2012 and it explained its modus operandi in July 2012, with the publication of a consultation paper entitled Strengthening Your Community. In November 2012, the Review Panel described its broad approach in Better, Stronger Local Government: The Case for Sustainable Change, and it has also commissioned an array of consultant reports on various elements of contemporary local government by way of background research, such as Assessing Processes and Outcomes of the 2004 Local Government Boundary Changes in NSW by Jeff Tate Consulting (2013).

In its Better, Stronger Local Government, the Independent Panel (2012, p.23) made a number of pre-emptive claims regarding the performance of NSW local government. One such claim centred on the putative need for additional ‘sub-council’ governance structures, usually referred to as 'sub-councils'.
to as ‘local co-governance’ in the scholarly literature (Lowndes and Sullivan, 2004; Somerville, 2005; Somerville and Haines, 2008):

‘Another possible gap in structures occurs at the ‘sub-council’ level. This has not been a major issue in the past simply because there are so many councils and only a few have really large populations. However, with the expected growth of metropolitan fringe councils around Sydney to populations of 250,000 or more, there may be a case to make available a sub-council option along the lines of New Zealand’s community boards. A similar arrangement could also provide a suitable form of local governance for small communities in some rural and remote regions (see below). However, it may be possible to avoid the need for additional structures by strengthening the role of ward councillors and improving community engagement and customer service systems. ...The Panel will investigate the need for new local government structures – to be used where required – at regional and sub-council levels’.

In *Strengthening Your Community*, the Panel repeatedly stressed that its final recommendations would be ‘evidence-based’. This paper thus seeks to furnish the Independent Panel with firm empirical evidence derived from the community engagement practices of Lake Macquarie City Council (‘LakeMac’) in the Hunter region of NSW. In particular, the paper argues that the claims made in *Better, Stronger Local Government* on the need for more ‘sub-council’ or local co-governance governance structures not only ignore existing practice in well-run NSW local authorities, but have also neglected empirical evidence on the efficacy of ‘sub-council’ governance structures in other countries, including New Zealand, which the Panel has cited as a
specific example to follow. Indeed, we demonstrate that NSW local government already has in
place the legislative framework necessary for extensive ‘sub-council’ governance which allows
for community representation and draws on community expertise.

Using the example of LakeMac and its successful use of the Section 355 of the Local
Government Act 1993 to establish its ‘delegated authority management model’ to manage
Council facilities through volunteer groups, we argue the requisite framework for ‘sub-council’
or co-governance entities in NSW already exists. Moreover, the LakeMac experience illustrates
emphatically that the current legislative powers given to local councils provide an entirely
satisfactory basis for thriving ‘sub-council’ governance. There is thus no need for the creation of
an additional, expensive and unnecessary avenues for local co-governance through New
Zealand-style community boards, as advocated in Better, Stronger Local Government. Instead,
all that is required for flourishing ‘sub-council’ community engagement is for the NSW Division
of Local Government to encourage local authorities to make full use of their existing delegation
powers under Section 355 of the Local Government Act 1993. Put differently, ‘process change’
on the part of councils and not ‘structural change’ or ‘structure creation’ should be pursued by
the NSW Government.

The paper is divided into four main parts. Section 2 presents a brief outline of the embryonic
scholarly literature on local co-governance in the United Kingdom. Section 3 provides a synoptic
assessment of New Zealand community board system. Section 4 outlines the operation of
LakeMac’s successful ‘delegated authority management model’ established under Section 355 of
the Local Government Act 1993 as a salient example of how well existing legislative power can
be used. The paper ends in section 5 with an assessment of the policy implications of the LakeMac experience for NSW local government in general.

2. LOCAL CO-GOVERNANCE

Three distinctive generic models of governance have been identified in the literature: ‘hierarchical governance’, ‘self-governance’ and ‘co-governance’ (Kooiman, 2005). Following Somerville and Haines (2008, p.62), in terms of local government, local hierarchical governance represents a ‘top-down’ form of governance, local self-governance epitomises ‘bottom-up’ governance, and local co-governance occurs ‘where a collectivity works co-operatively with other collectivities in a process of mutual shaping and mutual representation’. Somerville and Haines (2008, p.62/3) argue that in local government, ‘co-governance can occur on any one scale, and can also occur across a plurality of scales’. When local co-governance is operating on different scales – such as a neighbourhood as distinct from a town or city – there is ‘greater potential for local hierarchical governance to displace local co-governance, as the governance capacity of collectivities on the “higher” scale is typically much greater than that of those on the “lower” scale”. It follows that stimulating local co-governance hinges on ‘increasing capacity on the “lower” scale in order to counteract this tendency to hierarchical governance’ (see, also Lowndes and Sullivan, 2004; Somerville, 2005).

Lowndes and Sullivan (2008, p.344) advanced for general reasons why ‘sub-council’ or community groups could form an important element in co-governance at the local government level:
• The ‘civic rationale’ holds that ‘neighbourhood’ groups can create ‘greater opportunities for direct citizen participation and community engagement and empowerment’, where ‘neighbourhoods are areas where citizens identify with and feel a sense of belonging’.

• The ‘social rationale’ perceives a neighbourhood as ‘a focal point for a more citizen-centred approach to governance’, especially, given the potential of neighbourhood groups to participate in ‘co-production to design and develop services that are more tailored to their needs’.

• The ‘political rationale’ focuses on greater ‘accessibility, accountability and responsiveness’ associated with ‘decision making at the neighbourhood level’.

• The ‘economic rationale’ stresses the potential ‘effectiveness and efficiency gains’ which can flow from working with ‘sub-council’ groups.

In the local government sphere, Somerville and Haines (2008, p.67/71) have identified the most common arrangements associated with local co-government in the United Kingdom, where local constituents can participate as local residents, local tenants, local service users or simply as members of the local public. They note that, in Britain, ‘the most common such arrangements are community forums (also known as neighbourhood or area forums/panels/networks)’. In general, community forums of this kind are typically ‘non-governmental arenas where citizens are free to organise and have their say’. Other types of local co-governance entities in British local government which operate on a sub-municipal scale include ‘area committees’, ‘parish councils’ (sometimes termed ‘town councils’), ‘neighbourhood management’ groups (which help organise local service delivery is organised on a neighbourhood scale), ‘housing-led governance’ (mainly comprised of tenant management organisations) where community groups take on partial
responsibility for local service provision, and ‘devolved budgeting’ or ‘community budgeting’
groups which provide indicative information on how local government expenditure decisions
should be made.

At present, unfortunately little is known about the efficacy of different types of local co-
government entities. However, in the British local government milieu at least, there is reason to
be optimistic. In this regard, Somerville and Haines (2008, p.76) have observed that:

‘A major strategic decision that local authorities developing co-governance have to take
is on the primary focus of their activities, e.g. neighbourhood or local authority scale,
governmental or non-governmental arenas, etc. This decision is likely to be strongly
influenced by the needs of their particular context...Co-governance remains poorly
understood or encouraged by national government, and probably within local government
generally as well, but a significant number of local authorities and their partners are
already developing sophisticated co-governance structures, processes and cultures’.

3. NEW ZEALAND COMMUNITY BOARDS

Given the apparent endorsement in Better, Stronger Local Government for New Zealand style
community boards in NSW local government, it is worthwhile considering these entities in some
detail. The community board system in New Zealand was first established as part of the broader
reform of local government in that country in 1989. As at the end of 2012, 116 boards functioned
across urban and rural local authorities throughout New Zealand.
In general, community boards exercise functions and powers delegated to them by their local councils. New Zealand community boards have a twin purpose to (a) represent and advocate on behalf their local communities and (b) consider any matter referred to them by their local councils. In addition, community boards can make annual submissions to local councils on expenditure questions, review the local services provided by the local council to the local community, engage with local community organisations and other local interest groups in the community, and undertake any other responsibilities delegated to them by their local council. In terms of the *Local Electoral Act 2001* Section 19 (f), New Zealand community boards must have at least four members and not more than twelve members, of which at least four persons must be elected members. Moreover, the number of appointed members must be less than half the total membership.

In *Roles and Functions of Community Boards: Report for the Community Board’s Executive Committee*, Richardson (2008) provided a useful survey of the effectiveness of the functioning of New Zealand local community boards. Richardson sought to determine the functions carried out by community boards, investigate community board ‘satisfaction’ with the working relationships between local councils and community boards, and how the functions of community boards may have changed over time. The *Roles and Functions of Community Boards* covered two local authority terms of office (i.e. the period 2003/2007 and the period 2007/2010). It *inter alia* surveyed all councils with community boards, community boards themselves, and conducted interviews with local councillors, community boards members and associated staff. In the *Roles and Functions of Community Boards* Richardson (2008, pp.6/9) found that:
Amongst different local councils there was a ‘wide variation in the number of decision-making and advisory powers delegated’, with 45% of community boards enjoying advisory roles; 7% decision-making roles, and 46% addressed council functions.

Respondents indicated that community board advisory roles ranged from formal advisory to *ad hoc* roles, and it was typically at the discretion of council officers, council committees or council meetings whether community board advice was sought on specific questions.

Some respondent local authorities had alternative engagement mechanisms in place apart from community boards for seeking community advice, which included advisory structures and designated ward committees.

A wide ‘variation in delegation of decision-making and advisory roles across functions’ existed with community boards most commonly exercising ‘advisory roles in policy and planning’, but with ‘decision-making roles in planning and policy were rarely delegated to community boards’.

Resource management roles were ‘largely performed by councils only’ and community boards mostly exercised advisory roles in service delivery functions.

Community boards were most likely to have delegated decision-making in areas ‘concerning community centres and halls, community grants, sports and recreation activities, and parks, reserves and gardens’.

The role of community boards has change over time. The survey established that ‘overall it appears that councils were less likely to delegate decision-making or advisory roles to community boards in 2007 than in 1995’. Moreover, ‘there was a significant reduction in
the number of community boards that had a decision-making role from 1995 to 2007’. In addition, ‘in most functional areas community boards also had fewer advisory roles in 2007 than in 1995’.

Following the reported survey results in *Roles and Functions of Community Boards: Report for the Community Board’s Executive Committee*, Richardson (2008) drew some interesting conclusions, not least that while ‘the majority of respondents (65%) were satisfied with the overall relationship between their board and council, a sizeable minority of respondents (35%) indicated that they were dissatisfied’. However, from the perspective of NSW local government, perhaps the most important findings was that, although the *New Zealand Local Government Act 2002* enabled community boards to carry out numerous functions, Richardson (2008, p.9) established that ‘community boards appear to have fewer delegations in 2007 than in 1995’. Put differently, local authorities were not making full use of community boards as allowed in the legislation.

3. THE LAKEMAC DELEGATION MODEL FOR SECTION 355 COMMITTEES

The LakeMac delegation model derives its power from Section 355 of the NSW *Local Government Act 1993*, which specifies how a council may decide to exercise its functions. More specifically, a function of a council may be exercised:

a) ‘by the council by means of the councillors or employees, by its agents or contractors, by financial provision, by the provision of goods, equipment, services, amenities or facilities or by any other means, or’
b) ‘by a committee of the council, or’
c) ‘partly or jointly by the council and another person or persons, or’
d) ‘jointly by the council and another council or councils (including by means of a Voluntary Regional Organisation of Councils of which the councils concerned are members), or’
e) ‘by a delegate of the council (which may, for example, be a Voluntary Regional Organisation of Councils of which the council is a member).’

We now set out and examine: (i) the key features of the LakeMac delegation model, (ii) the framework which governs the operation of this model, (iii) the economic and social benefits which flow from this model of co-governance, and (iv) examples of the successful implementation of the LakeMac delegation model.

**Key features of the LakeMac delegation model**

Under Section 355 of the NSW *Local Government Act 1993*, LakeMac has developed two different types of ‘delegated’ management structures to assist local community volunteers to manage and operate local amenities on behalf of Council:

- Community Operating Committees; and
- Incorporated Clubs and Associations.
The LakeMac delegation model allows an individual or a group of individuals – designated Community Operating Committees and Incorporated Clubs and Associations – to undertake the management and administration of local amenities, such as recreational facilities and community halls. The LakeMac delegation model not only empowers members of the local community to make decisions regarding local facilities, but it also provides the necessary legislative safeguards, including insurance coverage as well as occupational health and safety training to promote a safe working environment.

There are a number of key features of the LakeMac delegation model which are worth noting. First, the delegation model is essentially ‘volunteer driven’: its operation and success hinges on a high degree of close collaboration between local community volunteers and LakeMac staff. Under the LakeMac delegation model, a total of 109 facilities are managed and operated by 542 community volunteers (or an average of 5 volunteers per facility managed). Of this total, 99 recreational facilities (such as sporting fields, tennis courts and equestrian centres) are managed by 476 volunteers (at an average of 4.8 volunteers per facility managed) and 10 community halls managed by 66 volunteers (or an average of 6.6 volunteers per facility managed). While these numbers provide useful insights into the relative strength of volunteering within the LakeMac local community it should be borne in mind that these figures do not include leased facilities, which are also managed under the auspices of the LakeMac delegation model.

Second, the LakeMac delegation model is unusual insofar as it essentially adopts a ‘hands off’ approach towards the day-to-day operation and management of local council facilities. Instead,
Community Operating Committees and Incorporated Clubs and Associations have effectively been empowered to take on this management role with appropriate oversight and support from LakeMac staff and management. This approach inherently offers delegated committees a high degree of control and flexibility in the management of their local facilities – such as annual bookings for the usage of tennis courts – while concurrently freeing LakeMac management to focus on substantive matters pertaining to policy development and long-term strategic planning. Under this arrangement, LakeMac has the distinct advantage of being able to draw upon the invaluable ‘local knowledge’ of local community volunteers to assist in the policy development process.

Finally, whereas the delegation model acknowledges the importance of volunteers in delivering a wide range of services, in 2012 LakeMac also formally recognised the contribution of local volunteers by hosting the inaugural Volunteer Recognition Evening on 16 May as part of National Volunteer Week. A survey by LakeMac of 119 volunteers (out of a total of 212 volunteers) who attended the Volunteer Recognition Evening revealed that 91% of respondents felt that the event was either ‘very effective’ or ‘effective’ in acknowledging the contribution of volunteers (Ellitt, 2012). Moreover, 71% of respondents reported that the event made them ‘feel appreciated by Council’ and – as a result of this formal recognition – 61% of respondents would ‘continue doing volunteer work for Council’ (Ellitt, 2012, p. 8). Although volunteers stressed that ‘fees/finance/funding’ and ‘balancing work/family/volunteering commitments’ represented major constraints on the effective discharge of their duties, it is nonetheless interesting to note that ‘seeking new volunteers’ was not raised as a major challenge by respondents (Ellitt, 2012). This finding is not only indicative of a strong volunteering culture within the LakeMac
community, but it also seems to demonstrate the efforts taken by LakeMac to initiate and stimulate a strong local volunteering sector have been successful. This obviously bodes well for the on-going success of the LakeMac delegated authority model.

**Operation of the LakeMac delegation model**

LakeMac has developed a detailed operating manual (the ‘Manual’) for recreation and community facilities managed by delegated authorities (LMCC, 2011). The Manual itself contains four major sections covering: (i) roles and responsibilities, (ii) administrative requirements, (iii) workplace guidelines, and (iv) environmental guidelines.

The roles and responsibilities for both delegated authorities and LakeMac are clearly set out in the Manual. In broad terms, the role of LakeMac is to (LMCC, 2011, p. 11):

- Provide the appropriate level of ‘resources, training, and assistance’ to ensure that delegated authorities are aware of and exhibit competency in ‘all relevant aspects’ of the Manual;
- Uphold efficient management of the Manual in order to meet legislative requirements;
- Undertake a ‘strategic planning role for the long term provision of facilities and major capital works’;
- Institute ‘internal and external communications’ on recreational and community amenities ‘with relevant stakeholders’;
• Exhibit ‘due diligence’ and ‘take all possible care and precaution to prevent foreseeable’ work-related hazards;

• ‘Provide basic maintenance to the facility’; and

• ‘Provide Personal Accident Insurance and Public Liability Insurance for volunteers whilst undertaking activities on behalf of Council.’

The corresponding responsibilities of the delegated authority are to (LMCC, 2011, 11):

• Hire recreation and community amenities in accordance with the Manual;

• Welcome and ‘train new volunteers in regard to their role and responsibilities as a volunteers, including how to assess risk and establish controls related to the facility’ and understand the content of the Manual.

• ‘Collect and manage fees’ for the use of recreation and community amenities.

• ‘Provide day to day maintenance as required’; and

• Furnish LakeMac with ‘financial statements of public money’ held by the delegated authority on behalf of LakeMac, ‘submit an Annual Report, and meet all other requirements’ as specified in the Manual.

The administrative section of the Manual provides a schedule on when delegated authorities (i.e. Community Operating Committees and Incorporated Clubs and Associations) are required to submit official paperwork to LakeMac, such as Minutes from the Annual General Meeting and
Membership Details) The administrative section provides practical information to delegated authorities on how to execute day-to-day administrative requirements, which include record keeping, financial management, fees and charges, advertising, the hiring of recreation and community facilities, insurance (i.e. private accident insurance and public liability insurance), and purchasing and procurement. While this section of the Manual provides practical information to delegated authorities on how to execute their administrative responsibilities, it is important to note the critical supporting role played by LakeMac. For instance, LakeMac conducts bi-annual workshops for volunteers to attend. Moreover, it is ‘a requirement of Council’s delegated authority that a member of every Community Operating Committee or Incorporated Association managing a facility attend each Council workshop’ (LMCC, 2011, p.16). These workshops are not only designed to provide volunteers with the requisite training, but in addition it affords volunteers the opportunity to connect with and build a rapport with Council Liaison Officers whose principal role is to directly support and facilitate the work of delegated authorities.

The ‘workplace guidelines’ in the Manual are based on the overarching principle that members of the community have ‘the right to return home from our community and recreation facilities in the same state of health and wellbeing as when they arrived’ (LMCC, 2011, p.32). Adhering to this principle involves undertaking all activities with a ‘duty of care to the health and safety of all users’ as well as visitors to LakeMac facilities. Within these overarching rules, the ‘workplace guidelines’ provides practical information, including workplace health and safety, duty of care, hazard identification, first aid, accident and incident reports, food safety, and smoke free outdoor areas. In a similar vein, the final section of the Manual sets out the ‘environmental guidelines’
which reflect LakeMac’s commitment to ‘taking proactive action on environmental issues’ (LMCC, 2011, p.49). It is expected that delegated authorities will adhere to these ‘environmental guidelines’ in an effort to support LakeMac’s environment policies. More specifically, the ‘environmental guidelines’ provides useful information to delegated authorities with respect to waste management, electricity usage, water usage, noise, drainage and new capital works.

**Benefits of the LakeMac delegation model**

A number of financial and social benefits flow from the LakeMac delegated authority model. In the first place, the financial benefits which accrue to LakeMac are substantial. For example, LakeMac has estimated that local volunteers contribute approximately 50,000 hours per annum to the management of Council facilitates and that the associated cost-savings are in the order of $1.8 million per annum. Expressed differently, the delegated authority model has effectively ‘freed up’ considerable Council resources (and the associated costs) which would have been devoted to the day-to-day management of recreation and community amenities.

In addition to the direct financial benefits, there are also a number of broader social benefits which flow from the model. Firstly, the delegated authority model not only supports but also encourages civic participation among members of the community, which is an important ingredient in building and maintaining social capital. In the scholarly literature, it has been argued that local government can play a crucial role in fostering local social capital, together with its associated components of community trust and reciprocity (Dollery, Grant and Crase, 2011). The concept of ‘social capital’ was first conceived by Coleman (1988) and later refined
by Putnam (1993). In generic terms, social capital refers to those features of social life that enable participants to act together more effectively to pursue shared objectives. In the local government milieu, social capital is thought to engender local civic awareness which manifests itself in a variety of community projects, ranging from the formation of local social associations and sports clubs to local business initiatives. The determinants of local social capital are complex and not well understood (Quibria, 2003), but include a ‘sense of community’ and a ‘sense of place’ which derive from living in a distinctive community, such as a local government area.

Given that the delegated authority model creates a fertile environment for the formation of social capital, LakeMac is in a position to reap the benefits from ‘local knowledge’ to assist in terms of community planning and policy development, and at the same time community trust and community civility are improved.

**Successful examples of the LakeMac delegation model**

The ‘flavour’ of how the successful LakeMac delegated authority model operates can perhaps best be appreciated by means of a few concrete examples of actual community groups. For example, Ron Hill Oval in Toronto West represents a case in point. This sports facility had traditionally been the home ground of Southern Lakes Cricket Club. However, the local Croquet Club approached LakeMac for a ‘home base’ after they lost access to original facility and LakeMac agreed that both clubs could form part of the Ron Hill Oval Community Operating Committee. Subsequently, the Toronto Netball Club also became a member of the Ron Hill Oval Community Operating Committee following their relocation. Since becoming a delegated authority, the Ron Hill Oval Community Operating Committee has made many improvements to
the facility, including the installation of an automatic irrigation system as well as a suitable drainage system. Apart from the direct benefits flowing from the improvements to Ron Hill Oval and the increased use of this facility by more sports clubs, it is worth stressing the new governance arrangements at the Ron Hill Oval have also delivered indirect social benefits to the community. Thus, the Croquet Club is the only club of its kind to be operating on public land and the composition of its membership aligns strongly with LakeMac’s population ageing and sports strategies.

A second example of the successful functioning of the LakeMac delegation model worth highlighting is the operation of the Feighan Oval in Warner’s Bay. Under the delegation model, the Feighan Oval is run by its Operating Committee which consists of Australian Football League (AFL) junior and senior players and junior and senior cricketers who have worked together to secure grants worth $220,000 in 2011/12 to the develop the facility for the mutual benefit of both sporting codes. These improvements encompass the establishment of second AFL oval, a second turf square, the purchase of new wickets, the relocation of concrete wickets to allow simultaneous games to be played, and the installation of an automatic irrigation system.

Finally, Lake Macquarie Petanque was looking for a facility to use as a consequence of the closure of Teralba Tennis with its four tennis courts. After it had been approached, LakeMac offered delegated authority to the Petanque club and developed two courts into petanque pistes, with a condition that the Petanque club continue to manage the remaining two tennis courts. The net result was the continuation of tennis in the area with the addition of additional sport of
petanque. Taken together, these examples illustrate how the application of the delegated authority model has achieved significant benefits for both LakeMac Council and the wider LakeMac community.

4. POLICY IMPLICATIONS FOR NSW LOCAL GOVERNMENT

As we have seen, in its *Better, Stronger Local Government*, the Independent Panel (2012, p.23) observed that a ‘possible gap’ existed in the current representational structures in NSW local government at the ‘sub-council’ level, especially in councils with large populations. Moreover, the Panel advocated the establishment of New Zealand style community boards to fill this ‘gap’. This paper has argued that Independent Panel (2012) has erred in its perception that (a) a ‘gap’ exists in contemporary NSW local government ‘sub-council’ representational structures and that (b) it might thus be necessary to create such structures modelled along the lines of New Zealand community boards.

We have also argued that not only do the legislative foundations for effective local co-governance through ‘sub-council’ representational structures already exist in NSW local government in the form of Section 355 of the NSW Local Government Act 1993, but that it is possible to identify flourishing instances of participatory local co-governance through ‘sub-council’ groups. In order to demonstrate the validity of these claims we have set out in detail the example of the LakeMac delegation model established under Section 355 of the *Local Government Act 1993*. The LakeMac delegation model, which works through Community Operating Committees and Incorporated Clubs and Associations, has a total of 109 facilities
which are managed and operated by 542 community volunteers. This has generated direct economic benefits of around $1.8 million per annum, derived largely from approximately 50,000 hours per annum in time by local community volunteers, as well as considerable non-pecuniary benefits by encouraging civic participation among members of the community, thereby building and maintaining local social capital.

In the light of these circumstances, this paper contends that there is thus no need to ‘reinvent the wheel’ in NSW local government by introducing additional, expensive and redundant ‘sub-council’ local co-governance structures. As we have seen, existing regulation under Section 355 already allows local authorities to engage in extensive local co-governance with local community groups. Furthermore, the application of the LakeMac delegation model demonstrates that not only can local co-governance yield substantial cost savings to the council involved, but it also has wider intangible benefits for local communities.
REFERENCES


Attachment 6

Local co-governance and environmental sustainability in New South Wales Local Government: The Lake Macquarie City Council Sustainable Neighbourhoods Program

Prof. Brian Dollery and Dr. Michael Kortt
LOCAL CO-GOVERNANCE AND ENVIRONMENTAL SUSTAINABILITY IN NEW SOUTH WALES LOCAL GOVERNMENT: THE LAKE MACQUARIE CITY COUNCIL SUSTAINABLE NEIGHBOURHOODS PROGRAM

Brian Dollery and Michael Kortt*

Abstract: While the Independent Local Government Review Panel underlines the central importance of local environmental sustainability as a ‘key challenge’ facing NSW local government, in its Better, Stronger Local Government: The Case for Sustainable Change it proposes that the creation of larger local government entities through compulsory boundary changes and forced amalgamation represents the best method of dealing with these challenges. However, the Independent Panel has not only ignored empirical evidence on forced amalgamation in Australia, and neglected ‘best-practice’ in local environmental management in other developed countries, but it has also overlooked world-class instances of community participation in local environmental management through co-governance initiatives at the local government level in NSW. This paper seeks to address this imbalance by outlining the pioneering initiative undertaken by Lake Macquarie City Council (‘LakeMac’) in its Sustainable Neighbourhoods Program, placing it in the context of contemporary literature on local environmental management, and drawing various policy implications for NSW local government.

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1. INTRODUCTION

In contemporary local government systems across the world, it is now widely recognised that the responsibilities of local authorities extend beyond the satisfactory provision of local infrastructure and local services to include a much more holistic approach to the needs of local communities (Dollery, Crase and Grant, 2011). This recognition has been echoed by the Independent Local Government Review Panel (2012) with its *Better, Stronger Local Government: The Case for Sustainable Change* in its deliberations on reform in New South Wales (NSW) local government. For example, the Independent Panel (2012, p.19) has observed that ‘communities need their councils to be able to provide adequate infrastructure and service to facilitate economic and community development, maintain environmental amenity and ensure quality of life’. *Better, Stronger Local Government* (2012, p.10) sought to define the ‘essential values of and qualities of local government’ by noting that ‘to be an effective partner in the broader system of local government, local government must be both truly “local” in the way it relates to communities, and the ability to address problems and emerging issues at a larger scale’. In this regard, an important ‘key challenge’ hinges on preserving environmental sustainability in the face of ‘more extreme weather events, seal level rise and coastal erosion and carbon management’ (p.12), as well as local developmental and population pressures.

Both *Better, Stronger Local Government* and the Panel’s earlier consultation paper *Strengthening Your Community* strongly suggest that structural change through boundary adjustments and council mergers aimed at creating larger local government entities represents the best method of strengthening NSW local government to meet these environmental challenges. This presumption is most unfortunate. Indeed, it not only ignores the weight of empirical evidence on forced
amalgamation in Australia (see, for instance, Drew et al 2013a; 2013b), but also neglects ‘best-practice’ in local environmental management which emphasises the importance of local community participation through co-governance initiatives at the local government level.

This paper thus seeks to address the lack of balance in the Independent Local Government Review Panel’s deliberations to date by exploring the question of local environmental sustainability through community participation. It is argued that community participation in local co-governance structures established by local authorities represents by far the most promising avenue for tackling the daunting environmental challenges facing NSW local government. In particular, we show that the pioneering efforts undertaken by Lake Macquarie City Council (‘LakeMac’) in its Sustainable Neighbourhoods Program demonstrates conclusively that NSW local government already enjoys the legislative foundations necessary to initiate successful local co-government initiatives through local community participation. Accordingly, rather than setting in train yet another divisive, expensive and futile round of compulsory councils amalgamations, the Independent Panel would be much better advised to recommend that the NSW Government focus instead on encouraging the local government to emulate LakeMac’s ingenious example in discharging its environmental responsibilities.

The paper is divided into four main parts. Section 2 provides a synoptic account of contemporary approaches to environmental policy in local government. Section 3 briefly considers community participation through local co-governance structures with local authorities. Section 4 describes the LakeMac Sustainable Neighbourhoods Program. The paper ends in section 5 by considering
the policy implications of LakeMac’s path-breaking community-centred environmental program for NSW local government at large.

2. ENVIRONMENTAL SUSTAINABILITY IN LOCAL GOVERNMENT

In its seminal form, the concept of sustainability derived originally from the World Commission on Environment and Development (‘Brundtland Commission’) (1987, p.8), which defined sustainable development as a process that ‘meets the needs of the present without compromising the ability of future generations to meet their own needs’. For the first time, this definition conflated environmental protection with economic growth, propositions which had always previously been juxtaposed (Romero-Lankao, 2000). The Brundtland Commission (1987) definition was speedily adopted by numerous commentators and initially unified a wide range of differing perspectives on economic development and environmental stewardship. However, this came at the price of ambiguity and imprecision (Adger and Jordan, 2009; Leuenberger and Bartle, 2009), which has subsequently decayed into ‘dozens of definitions that are being passed around among experts and politicians, because many and diverse interests and visions hide behind the common key idea’ (Sachs, 1995, p.8). Notwithstanding a lack of consensus on its exact meaning, in practice definitions of sustainability commonly contain the ‘three E’s’ of economic growth, environmental protection and social equity.

Despite the absence of an agreed definition on sustainability, the past two decades have witnessed a revolution in sustainability activity in local government systems across the world, frequently originating as efforts to monitor and report environmental quality indicators (see, for example, Portney, 2003). Sustainability programs at the local level include planning and land use
policies, recycling programs, energy efficiency programs, local infrastructure investment, carbon emission reduction strategies, job training programs and the like (Slavin, 2011). Despite their ubiquity, local government sustainability programs are far from uniform and often tend to reflect the specific requirements of the local communities in question (Zeemering, 2012).

As a broad generalisation, sustainability programs by local governments have typically not arisen solely as a consequence of public interest in the environment. In particular, a large number of programs hinge on the existence of ‘co-benefits’, such as energy efficiency improvements which enable local authorities to secure cost savings while simultaneously addressing environmental concerns (Pitt, 2010). In addition, in some metropolitan areas sustainability programs have been used to stimulate local economic development by focusing on green industries and green jobs (Fitzgerald, 2010). The vigour of local sustainability programs appears related to the degree of community engagement in sustainability strategies at the local level, with local people and community organisations working in co-governance partnerships with local authorities, to contribute to local sustainability efforts.

Successful sustainability initiatives in the local sphere appear to depend heavily on engagement through networks. In general, it has been argued that community participation represents a key ingredient for flourishing local sustainability programs. Networks which serve to connect interested individuals, non-profit groups and community-based organisations with local authorities were more likely to result in well-run programs (Portney and Cuttler, 2010). In some cases, community engagement through networks of non-profit and community organisations has also become a pre-condition for government funding in some countries. In addition, programs
which have been designed to engage the public through networks seem to enhance their prospects of success.

3. LOCAL CO-GOVERNANCE AND LOCAL ENVIRONMENTAL SUSTAINABILITY

The term ‘governance’ refers to the practices through which societies and communities are governed, whereas ‘good governance’ is a normative concept evaluated against numerous yardsticks, such as accountability, effectiveness, efficiency, participation and transparency. Some writers, including Jessop (2000, p.14), have viewed governance as ‘dialogic rationality’, where goals are ‘modified in and through ongoing negotiation and reflection’. At a more specific level, local co-governance involves local authorities and local communities and describes the capacity for local councillors, council officers and local residents to work together in a participatory manner. In addition to pursuing local specific goals, like local environmental sustainability projects, local co-governance can generate a number of other benefits, including enhanced democratic accountability, improved community well-being, and greater community cohesion (Somerville and Haines, 2008).

Four generic reasons or ‘rationale’ have been advanced by Lowndes and Sullivan (2008, p.344) to explain why ‘sub-council’ or local community groups can contribute positively through local co-governance initiatives with local authorities. In the first place, the ‘civic rationale’ alludes to the notion that ‘neighbourhood’ groups can facilitate ‘direct citizen participation and community engagement and empowerment’, where ‘neighbourhoods are areas where citizens identify with and feel a sense of belonging’. Secondly, the ‘social rationale’ views a neighbourhood as ‘a focal point for a more citizen-centred approach to governance’, which can be particularly useful
in ‘co-production to design and develop services that are more tailored to their needs’. The
‘political rationale’ centres on greater ‘accessibility, accountability and responsiveness’ often
generated through ‘decision making at the neighbourhood level. Finally, the ‘economic
rationale’ stresses the potential gains in ‘effectiveness and efficiency’ which can be reaped by
local councils by working with ‘sub-council’ groups.

Somerville and Haines (2008, p.67/71) have identified the most ubiquitous arrangements in
British local co-government, where local people frequently participate in their capacities as
residents, tenants and users of local government services: ‘the most common such arrangements
are community forums (also known as neighbourhood or area forums/panels/networks)’. This
type of community group usually focuses on ‘non-governmental arenas where citizens are free to
organise and have their say’. However, numerous other kinds of local co-governance entities
exist in local government in the United Kingdom which operate on a sub-municipal scale. They
embrace ‘area committees’, ‘parish councils’ (also referred to ‘town councils’), ‘neighbourhood
management’ groups (which assist in organising local service delivery at the neighbourhood
scale), ‘housing-led governance’ (typically made up of mainly tenant management organisations)
where community groups assume partial responsibility for local service provision, and ‘devolved
budgeting’ or ‘community budgeting’ groups which offer indicative preferences on how local
authority expenditure should be directed.

Almost no empirical evidence exists on the comparative efficiency of different models of local
cogovernment. However, Somerville and Haines (2008, p.76) have noted that ‘a major strategic
decision that local authorities developing co-governance have to take is on the primary focus of
their activities’, which involves decisions on factors such as ‘neighbourhood or local authority scale’ and ‘governmental or non-governmental arenas’. These decisions are ‘strongly influenced by the needs of their particular context’. Nonetheless, despite the paucity of empirical evidence, in Britain ‘a significant number of local authorities and their partners are already developing sophisticated co-governance structures, processes and cultures’.

4. LAKE MACQUARIE SUSTAINABLE NEIGHBOURHOODS PROGRAM

The LakeMac Sustainable Neighbourhoods Program has been designed and implemented to mitigate the ecological imprint of the City. While LakeMac itself is making a concerted effort to alleviate its own ecological footprint, it is concomitantly creating a range of opportunities to work with local business and the local community to lessen the total City imprint. More specifically, the Sustainable Neighbourhoods Program has been developed to provide the necessary support to local communities – via the creation and support of Sustainable Neighbourhood Groups – to facilitate reductions in their ecological imprint. In turn, this ‘neighbourhood by neighbourhood’ approach contributes to the aggregate reduction in the ecological imprint of the entire City. In essence, this program empowers neighbourhoods to determine how they can best contribute to achieving ecological sustainability while receiving the requisite support and guidance from LakeMac.

Against this background, we now set out to examine: (i) the key attributes of the LakeMac Sustainable Neighbourhoods Program; (ii) the framework which governs the operation of this initiative; (iii) the benefits stemming from this program; and (iv) successful examples of program.
Key attributes of the LakeMac Sustainable Neighbourhoods Program

The LakeMac Sustainable Neighbourhoods Program (LMCC, 2011, p.3) is founded on the following set of four principles:

- **Shared responsibility**, which conveys that the collective experience and efforts of the group are superior to those of the individual.

- **Everything is possible**, which denotes that individuals will take action on local matters which directly affect them, assume ownership of the process, and are devoted to achieving an end result.

- **Collaboration and inclusion**, which advocates that procedures need to be created so that ‘every voice is important in creating a shared future’.

- **Connections and relationships**, which advocates promoting ‘cooperative relationships between people or groups, by strengthening community networks, and creating opportunities for citizens to participate in public life’.

In line with these four principles, the main objective of the LakeMac Sustainable Neighbourhoods Program (LMCC, 2011, p.3) is to alleviate the City’s impact on the environment by working collaboratively with neighbourhoods to create opportunities which will promote sustainable outcomes that are designed to:

- Mitigate ‘the ecological footprint of the City’.

- Develop ‘strong and resilient neighbourhood connections’.
Advance a shared ‘understanding of the environmental systems, strengths, challenges, and aspirations and resources’ in the LakeMac local community.

Enrich and safeguard ‘natural resources’ particularly in regard to ‘water (both quality and conservation), urban bushland, backyard ecosystems, creeks, urban wildlife, erosion and sediment control’.

Enhance the ‘sustainability performance of households and individuals in our neighbourhood’ chiefly with regard to ‘overall resource consumption, effective waste management, chemical use, energy conservation, and water conservation’.

Enhance the readiness of the LakeMac community to ‘prevent and respond’ to environmental threats including ‘natural disasters, environmental health hazards, and the impacts of climate change’.

In an effort to realise the underlying principles and objectives of the Sustainable Neighbourhoods Program, LakeMac provides the necessary support to the local community through the establishment and backing of Sustainable Neighbourhood Groups. The procedure for creating a Sustainable Neighbour Group typically involves the following six steps (LMCC, 2011, p.3):

- The initial group is formed. LakeMac staff work collaboratively with an interested community group to initiate and arrange a series of three community workshop. The purpose of these workshops is to ‘engage interest and commitment from the broader community to take part in a process to improve neighbourhood sustainability’.
• **Community workshops.** The purpose of the community workshop process is to foster the ‘development of a community vision and a collective understanding of the particular neighbourhood including its strengths, challenges, resources, neighbourhood connections, and opportunities for change’. Through this process members may decide to organise a ‘Sustainable Neighbourhood Group’.

• **Sustainable Neighbourhood Group.** Members of the newly formed Sustainable Neighbourhood Group will then ‘develop a Sustainable Neighbourhood Action Plan (SNAP)’ in an effort to achieve its local sustainability goals. It is important to note that the LakeMac staff ‘work alongside this group to facilitate the development of the SNAP’.

• **Sustainable Neighbourhood Action Plan.** The SNAP itself ‘details the passions of that community and their wishes for the future, the particular issues that are important to them, the skills and resources that exist in the neighbourhood, and the actions/activities they will undertake’.

• **Implementation of the SNAP.** Following completion of the SNAP, it is then the responsibility of members to implement the plan. Against this background, it is anticipated that ‘many people in the community will volunteer to take part in particular activities to improve sustainability in their community’. While members of the group are tasked with implementation of the plan, they will also as the ‘conduit between residents and Council staff on matters that are included in the SNAP’.

• **Evaluation of the Sustainable Neighbourhoods Program.** The heart of this program is based on the ‘belief that collective action at the neighbourhood level will result in a measurable reduction in the ecological footprint of the City.’ In order to evaluate the
program, LakeMac is committed to an ‘ongoing and open evaluation process of the Sustainable Neighbourhoods Program in conjunction with participants’.

It is also important to emphasise the critical role that LakeMac plays in supporting those communities which opt to participate in the Sustainable Neighbourhoods Program. More specifically, this support may include (LMCC, 2011, p.3):

- Providing a suitable agenda and ‘resources to host three community workshops’.
- Conducting the necessary research ‘to assist with the development of Sustainable Neighbourhood Action Plans’.
- Supporting community groups with the necessary level of ‘resourcing and coordination for the launch of the Sustainable Neighbourhood Action Plans’.
- Providing the necessary skills and training to assist with preparing grant applications, advertising and media promotions.
- Supporting the ‘the Sustainable Neighbourhood Groups to establish sound governance arrangements’.
- Aiding the community group to ‘mentor a new Sustainable Neighbourhood Group in a different neighbourhood area’.
- Supporting the ‘evaluation framework and documentation of outcomes for the Sustainable Neighbourhoods Program’.
**Operation of the LakeMac Sustainable Neighbourhoods Program**

LakeMac has developed a detailed Sustainable Neighbourhoods Community Resource Toolkit (the ‘Toolkit’) to assist Sustainable Neighbourhood Groups reduce their ecological imprint (LMCC, 2012). The Toolkit itself contains three major parts covering: (i) options for governance, (ii) project planning and implementation, and (iii) the promotion of activities.

The LakeMac Toolkit lists four main governance options available to Sustainable Neighbourhood Groups. The first governance option is to formalise membership by encouraging membership of the LakeMac Sustainable Neighbourhood Alliance (the ‘Alliance’). Those Sustainable Neighbourhood Groups who join the Alliance are eligible to apply for funding under the auspices of the LakeMac Alliance in addition to benefitting from ‘established resources, networks, and procedures’ (LMCC, 2012, p.2). The second governance option that a Sustainable Neighbourhood Group may wish to pursue is to ‘incorporate as an independent association’, which also affords ‘a group with the highest level of autonomy’ (LMCC, 2012, p.2). The third governance option for a Sustainable Neighbourhood Group is to operate as a ‘sub-committee under the auspices of an existing incorporated association or group’, which can operate ‘effectively in a community where there is already a strong and functional community group with an existing constitution that could include the activities’ of a specific Sustainable Neighbourhood Group (LMCC, 2012, p.2). The fourth and final governance option presented in the Toolkit is for a Sustainable Neighbourhood Group to continue operating ‘without formalising membership’, although this option ‘provides the least protection for its members, is not
transparent, and is restricted in its functions due to the lack of insurance coverage’ (LMCC, 2012, p.2).

With regard to project planning and implementation, the Toolkit contains detailed guidelines to assist in the planning and management of Sustainable Neighbourhood Activities. More specifically, the purpose of the guide is to help Sustainable Neighbourhood Groups to (LMMC, 2012, p.1):

- ‘effectively plan for and manage Sustainable Neighbour activities and projects’;
- ‘follow consistent procedures for notifying the Alliance of upcoming activities and projects’; and
- ‘manage risks associated with Sustainable Neighbour activities and projects.’

In essence, the guide provides clear and practical advice to Sustainable Neighbourhood Groups on how to assess, plan, implement and evaluate their ecological activities. Advice on ‘assessment’ covers inter alia how to identify the principal aims and objectives of the ecological activity, the target audience, and the key stakeholders. Advice on ‘planning’ covers, among other things, issues relating to the managing equipment and resources, budgeting, risk mitigation, and insurance. Advice on ‘implementation’ covers matters pertaining to securing the necessary personnel and equipment, conducting risk assessments, ensuring that events start and finish punctually, and the like. Finally, advice on ‘evaluation’ provides concrete information of how to (i) obtain valuable feedback from participants and (ii) prepare a case study that showcases the outcomes from the event.
The LakeMac Toolkit also provides valuable information on how Sustainable Neighbourhood Groups can promote their activities. For example, clear and concise information is provided on how to design, write and distribute a media release for the press. The Toolkit also contains a practical guide – and an excellent template – demonstrating how Sustainable Neighbourhood Groups can effectively use the internet to promote their upcoming activities and projects.

**Benefits of the LakeMac Sustainable Neighbourhoods Program**

There are number of benefits which flow from the LakeMac *Sustainability Neighbourhoods Program*. In the first place, the Sustainable Neighbourhoods Program – designed in-house by LakeMac – not only supports but encourages participation in LakeMac initiatives among community members, which is an important element in creating and maintaining social capital. In the academic literature (Coleman, 1988; Putnam, 1993), it has been suggested that local government can play an important role in promoting local social capital, together with its central attributes of trust and reciprocity (Dolley, Grant and Crase, 2011).

Social capital describes those characteristics of social life which allow people to act cooperate with each other efficaciously to pursue shared goals. In local government, social capital is thought to foster civic awareness which can blossom into a range of community initiatives, from the establishment of social associations and sports clubs to local enterprise. The origins of local social capital are complicated and poorly grasped. However, sociologists contend its attributes incorporate a ‘sense of community’ and a ‘sense of place’ associated with which derive from living in a specific local community, like a local government area (Quibria, 2003). Given that the *Sustainable Neighbourhoods Program* creates a rich environment for the formation of social
capital, LakeMac is in a position to reap the benefits from ‘local knowledge’ to assist in terms of community planning and policy development while at the same time enhancing local trust and reciprocity.

Second, the LakeMac Sustainability Neighbourhoods Program is essentially ‘volunteer driven’: its operational success in terms of reducing the ecological imprint of the City rests on the high degree of close collaboration between LakeMac staff and local community volunteers. For example, in the 2012/13 financial year to date, LakeMac has been involved with 1,804 sustainable neighbourhood volunteers through a variety of ecological projects and initiatives. This figure is not only indicative of the community’s deep-seated interest in sustainability questions, but it is also indicative of the strong volunteering culture within the LakeMac local community. This level of interest and commitment obviously bodes well for the future success of the LakeMac Sustainability Neighbourhoods Program.

Third, the LakeMac Sustainable Neighbourhoods Program has been principally designed to engage and empower local neighbourhoods to develop their own vision for the future. The key strength of the Program is that it not only facilitates the genesis of volunteer groups, but also provides the necessary framework in order to encourage the participation of vastly different neighbourhoods – with their different visions and strengths – within the LakeMac local government area. In other words, the LakeMac not only recognises the heterogeneous nature of its neighbourhood groups, but has created the foundations for their successful operation.
Finally, an additional benefit of the LakeMac Sustainable Neighbourhoods Program resides in the fact that it has been specifically crafted to spawn the capacity, resilience and self-reliance of local neighbourhood communities to develop and implement successful local programs which are designed to reduce the ecological footprint of neighbourhoods. Furthermore, the close collaborative relationship between LakeMac and Sustainable Neighbourhood Groups affords LakeMac the distinct advantage of being able to draw upon the invaluable ‘local knowledge’ of community volunteers to assist in the strategic planning and policy development process. More specifically, LakeMac is able to draw upon ‘local knowledge’ and identify common themes from the Summary of Sustainable Neighbourhood Action Plans (SNAPs). This summary provides a detailed – and up-to-date – overview of the activities being undertaken by Sustainable Neighbourhood Groups. Examples of the activities being undertaken by LakeMac groups include: waste reduction, water and energy conversation, wetlands rehabilitation, litter education and monitoring, illegal dumping, and enhancing community pride.

Successful examples of the LakeMac Sustainable Neighbourhoods Program

The success of the LakeMac Sustainable Neighbourhood Program can best be appreciated by way of a few concrete examples of actual projects. For example, the Belmont wetlands, running along the coastline between Nine Mile Beach and Lake Macquarie, represent a noteworthy success. The Belmont Sustainable Neighbourhood Group sought to clean up the wetlands in an effort to deter further dumping in the area. To address this concern, the Belmont Sustainable Neighbourhood Group created a strategic alliance with Belmont MacDonald’s, LakeMac, Landcare, Rotary and local schools to hold a ‘Clean-Up Australia Day’ event at the Belmont...
wetlands. LakeMac contributed to the clean-up by agreeing to remove and dispose of all bulky and hazardous items, while the Belmont Sustainable Neighbourhood Group devoted its efforts to removing all non-hazardous waste. Belmont McDonald’s donated refreshments and the Rotary Club organised lunch for all participants. By all accounts, this initiative proved to be highly successful. Around 60 local community members volunteered their time and approximately 4.3 tonnes of waste was removed from the site. In addition, the Belmont Sustainable Neighbourhood Group also assisted LakeMac in securing funding for continued work to maintain and enhance the Belmont wetlands.

A second instance of the successful operation of the LakeMac Sustainable Neighbourhood Program can be ascribed to the efforts of the Dora Creek Sustainable Neighbourhood Group which sought to mitigate the risk of flooding in their neighbourhood. Dora Creek is a low-lying creek-side locality which is adversely affected by local flooding. The Dora Creek Sustainable Neighbourhood Group recognised that, in some cases, local flooding was exacerbated by an inadequately designed and maintained stormwater drainage system. To address this concern, the group undertook a survey of the local stormwater drainage system in the area. This survey included a visual inspection in addition to conducting a series of face-to-face interviews with ‘at risk’ local residents.

In conducting this survey the group identified five main problems with the drainage system at Dora Creek and submitted these concerns to LakeMac. This initiative by the Dora Creek Sustainable Neighbourhood Group resulted in: (i) three of the five draining problems being
tackled by LakeMac within weeks of being identified; (ii) one drain being slated for significant work, (iii) efforts to convert one drain to support a local wetland; (iv) the establishment of a ‘Landcare Group’ to monitor and care for the wetland; (v) the establishment of ‘Waterwatch Group’ by the Dora Creek Public School to monitor the water quality at the planned wetland site; and (vi) the advancement of a process to identify any future problems with the stormwater drainage system in the area.

Finally, the sterling efforts of the Valentine Sustainable Neighbourhood Group are noteworthy. Members of the Valentine comminute wanted to make it safer and more pleasurable for local residents to walk and cycle in their neighbourhood. The Valentine Sustainable Neighbourhood Group’s vision was to encourage physical activity and improve pedestrian and cyclist safety while concurrently easing the burden of local traffic and its associated environmental costs. To realise their vision, the group followed three strategies: (i) identify the principal walking and cycling paths and their chief safety concerns; (ii) engage with students from the Valentine Public School to promote the benefits of walking or cycling to school; and (iii) make representations to LakeMac and Local Members of the NSW Parliament on the health and safety benefits of improved pedestrian crossing and footpaths.

To date, the Valentine Sustainable Neighbourhood Group has realised the following outcomes for their local community: (i) the introduction of a 40km/hour school zone on the notoriously busy Croudace Bay Road, (ii) the installation of ‘flashing lights’ at the school, and (iii) improvements to the footpaths outside the front of the school. In addition to these benefits, the
Valentine Sustainable Neighbourhood Group has also prepared and made a submission to LakeMac’s Cycleways Strategy. This group continues to advocate for further enhancements while also putting in place strategies to encourage local residents to participate in more energetic transportation options.

5. CONCLUSION

In this paper we have argued that Better, Stronger Local Government (2012, p.19) has accurately observed that local government in NSW must be ‘truly “local” in the way it relates to communities’ since in so doing it can enlist local communities to assist in the preservation of local environmental sustainability in the face of more frequent ‘extreme weather events’, local development and population pressures. However, we have questioned the Independent Panel’s concomitant claim that this can best be achieved by means of structural change through boundary adjustments and council mergers which established larger local government entities. Not only did this latter contention by the Panel neglect available scholarly empirical evidence on forced amalgamation in Australia and elsewhere (Dolley, Grant and Kortt, 2012), but it also ignored ‘best-practice’ in local environmental management which was critically dependant on local community participation through local co-governance programs with local authorities.

In order address this unfortunate oversight by Independent Panel, in this paper we have explored the preservation of local environmental sustainability through community participation in local co-governance structures created by local councils. Using the pioneering work of LakeMac with its Sustainable Neighbourhoods Program, we have demonstrated that NSW local government already enjoys the requisite legal powers to initiate successful local co-government initiatives.
through local community participation. It follows that rather than initiating yet another
destructive, divisive and wasteful program of compulsory council mergers, the Independent
Panel should instead recommend that the NSW Government focus on persuading the NSW local
government to follow the successful LakeMac example in tackling local environmental
challenges.
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