Independent Inquiry into the Financial Sustainability of NSW Local Government

Background and Issues Paper

Prepared by the Independent Inquiry's Panel
Sydney
22 October 2005

Index

PART A: INTRODUCTION

SECTION 1: NATURE OF THE INQUIRY

Background

The Local Government and Shires Associations of NSW (LGSA) have commissioned an Independent Inquiry into the Financial Sustainability of Local Government in NSW to be completed by 30 April 2006. An independent Panel consisting of three persons highly experienced in public policy making who are completely autonomous of local government or its Associations is undertaking the Inquiry

Written submissions on any aspects of the Independent Inquiry's Terms of Reference are invited from both individuals and organisations by no later than 14 December 2005. Ideally, submissions should be provided as a hardcopy as well as per email or CD-Rom in pdf or word format to help the Inquiry post them on its website. Priority of listing on our website will be given to submissions in pdf format.

The Panel has prepared this *Background and Issues Paper* to explain how the Inquiry plans to proceed and to identify issues that it seeks input on from interested parties. If the Inquiry has overlooked any critical issues it would welcome them being drawn to its attention so this document becomes a work in progress subject to changes as further information comes to hand.

Membership of the Independent Inquiry Panel

The Independent Panel appointed to conduct the Financial Sustainability Inquiry comprises:

- Percy Allan AM (Chair and Research Director)
  Background: Public finance and management consultant; Chair of the NSW Council on the Cost and Quality of Government and two commercial Boards; Visiting Professor (Macquarie Graduate School of Management and University of Canberra) and former Secretary, NSW Treasury.

- Libby Darlison
  Background: Social policy and change consultant, Company Director, Chair of Premier's Council on Active Living and member of two government Boards, former Chair of Premier's Council for Women, and formerly an academic and senior Commonwealth official.

- Diana Gibbs
  Background: Management and economic development consultant, CEO of Riverina Woolgrowers Pty Ltd, Company Director, Chair of NSW Regional Communities Consultative Council, and a former winner of Rural Women's Award (NSW)

Independence of the Inquiry

Although the Inquiry is appointed and funded by the LGSA of NSW, the Inquiry shall be its own master in terms of managing its agreed budget, arranging and directing its research, consulting widely with stakeholders, gauging general public opinion and producing findings and recommendations. Independent Panel Members shall only be guided by their contracts of appointment, the formal terms of reference of the Inquiry and an agreed maximum Inquiry budget.

Aims of the Inquiry

The aims of the Inquiry are:

- To assess the current financial position and performance of the NSW local government sector and its individual councils;

- To assess the adequacy of existing NSW local government physical infrastructure and service delivery in terms of (i) its statutory obligations, (ii) community, State Government, and Commonwealth Government expectations of its role and functions, and (iii) challenges posed by changing demographic, economic, social, environmental, technical and governance trends;
- To assess the financial capacity of local government to meet its statutory obligations, expected functions and emerging challenges; and
- To identify possible financial, administrative, governance and intergovernmental reforms that could address any shortcomings and gaps uncovered by the above research.

Specific local government issues that will be addressed as part of this Inquiry include:

- The condition of local government infrastructure and other assets, including environmental assets;
- Responsibility and cost shifting from other tiers of government;
- Impact of rate pegging and rate exemptions compared with other jurisdictions;
- Implications of the Sydney metropolitan and other urban planning strategies;
- The House of Representatives ‘Hawker Committee’ recommendations;
- The accountability, effectiveness and efficiency of local government;
- Appropriate fiscal and other performance benchmarks for local government;
- Intergovernmental fiscal, legal and administrative arrangements; and
- Regional cooperation and partnerships between individual Councils.

Timeframe

The Inquiry will be conducted over the period from 20 October 2005 to 30 April 2006.

Outputs and Critical Dates

The Inquiry will result in three public documents:

- *Background and Issues Paper* to be presented on 22 October 2005*;*
- *Findings and Options Report* to be presented on 24 February 2006; and
- *Final Report* (including recommendations) to be presented on 1 May 2006.

From a stakeholder viewpoint, there are two opportunities to make your views known to the Inquiry:

<u>22 October to 14 December 2005:</u>
Please read all of this *Background and Issues Paper* and express your views to Panel members at regional workshop meetings and by making written submissions to the Inquiry by 14 December 2005 at the latest.

<u>24 February to 24 March 2006</u>
Please read the *Interim Findings and Options Report* and give your feedback to the Inquiry in written form by no later than 24 March 2006.

Inputs

The Inquiry’s *Interim* and *Final Reports* will be based on primary research, including surveys regarding ratepayers’ and residents’ view on local government, administrative capacity benchmarking of Councils, and infrastructure condition and management assessment, as well as secondary ‘desktop’ research and analysis of available statistical data, general information and public reports from Councils, State and Commonwealth Governments and other sources. The Inquiry will also rely on state-wide consultation and workshops with, and written submissions from key stakeholders and other interested parties, as well as any other inquiry methods chosen by the Independent Panel.

Council Assistance

To properly perform its duties the Inquiry will need the full assistance and cooperation of both the LGSA and all Councils in NSW. For some Councils this may involve more effort than for others.

For example, in order to gauge the administrative capacity of local government the Inquiry will seek to benchmark the performance of nine Councils representative of the local government sector in NSW. While this will be time intensive, it will nonetheless involve officials in each Council for only a few days. For each Council involved it also will provide extremely useful management data that can be used in its own strategic planning at no cost to the Council itself.

Furthermore, in order to evaluate the appropriateness of existing performance measures used by Councils and the NSW Department of Local Government the Inquiry will need the assistance of three Councils (one metropolitan, one urban and one rural Council) to produce a generic outcomes framework for local government using logics analysis.

While the Inquiry will attempt to use existing published data to assess the general condition of local government infrastructure including backlog maintenance, the assistance of all Councils will be needed in answering a short questionnaire on the current state of their asset management systems.

Confidentiality

Unless already in the public domain, data collected and assembled on each of the 152 Councils in NSW will not be used to show the position or performance of individual Councils. If this data is published, it will not name nor make it possible to identify any particular Council.

The purpose of such data will be to examine and demonstrate the distribution of strengths, weaknesses, opportunities, threats and risks across the whole of NSW local government or particular sections of it (e.g. metropolitan, urban and rural).

Responsibilities of the Independent Panel

The Independent Panel shall be responsible for:

- Determining the tasks, timelines, costs and appropriate external expertise to undertake the work of the Inquiry based on advice from the Chair;
- Reading submissions from and consulting with relevant stakeholders and interested parties throughout NSW;
- Questioning and ‘brainstorming’ Inquiry findings and recommendations so as to test their validity and relevance;
- Reviewing the draft *Reports* produced by the Chair (in conjunction with external experts) and making any necessary changes thereto; and
- Formally approving each of the Inquiry’s *Reports* after reaching agreement on format, contents and presentation.

The Chair of the Panel shall be responsible for:

- Obtaining agreement between Panel members on the way the Inquiry will be conducted, its findings and recommendations;
- Contracting and coordinating external expertise to undertake research, surveys and analysis on behalf of the Panel;
- Preparing drafts of the three public documents for consideration and approval by the Panel;
- Ensuring that the total expenses of the Inquiry remain within the budget determined by the LGSA of NSW;

- Keeping the LGSA informed of Inquiry progress against the Terms of Reference; and
- Making any public statements on behalf of the Panel after consulting with the Panel.

The members and executives of the LGSA shall assist the Independent Panel to obtain any information from Councils necessary for undertaking the Inquiry. Any confidential information made available to the Inquiry shall be respected as such by the Panel as outlined in the section on confidentiality above.

Specialist Assistance

The Inquiry has hired the following specialists in public finance, asset management, market research, performance benchmarking and measurement, and local government to assist it with its work.

- Financial Analysis:
  Consultant: Access Economics – Alan Tregilgas and Stephen Corcoran
  Assignment: To assess present financial condition and future financial sustainability of NSW local government.

- Infrastructure Assessment
  Consultant: Jeff Roorda and Associates – Jeff Roorda
  Assignment: To assess the present condition of local government infrastructure and backlog maintenance.

- Market Research
  Consultant: Iris Research – Simon Pomfret
  Assignment: To assess public views on the adequacy of local government services and on the desired role for local government under varying rating/charging options.

- Performance Benchmarking
  Consultant: QMI Solutions (agent of CBI/London Business School PROBE methodology) – David Pettigrew
  Assignment: To assess the relative management capacity and performance of NSW local government against other public institutions and private entities

- Performance Indicators
  Consultant: Laurie Young (in a strictly private capacity)
  Assignment: To assess the adequacy of existing local government key performance indicators published by Councils and other tiers of government against those derived from logics analysis.

- Local Government Expertise and General Research
  Consultants: Brian Dollery, Joel Byrnes and others
  Assignments: To research all local government issues not covered above and assist the Chairman in his capacity as Research Director with drafting the Inquiry's three *Reports* for the Panel's consideration.

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SECTION 2: PURPOSE OF BACKGROUND AND ISSUES PAPER

Objectives of Inquiry

The formal Terms of Reference oblige the Inquiry to investigate five major aspects of local government in NSW: the current financial position and performance; the adequacy of existing infrastructure; the adequacy of service delivery; the financial; and the administrative capacity of local government; as well as potential reform measures that could address any problems identified in the Inquiry. To this end, the Inquiry must consult widely amongst stakeholders, draw on the knowledge of experts, and produce both an *Interim* and a *Final Report.*

The *Background and Issues Paper* represents an initial step in this process. It seeks to outline the nature of the Inquiry and identify issues on which views and written submissions will be sought from interested stakeholders during November and December before the preparation of an interim *Findings and Options Report* in January and February for release in late February 2006. Thereafter stakeholder views will be sought on the *Findings and Options Report* before the *Final Report* (including refinements and firm recommendations) is released in early May 2006.

Framework of Analysis

Council's Charter is provided in section 8 of the *Local Government Act (NSW) 1993*. This provides the Parliament's expression of the overall role and purpose of local government. Key points in the Charter include:

- Adequate and appropriate services to be provided after due consultation;
- Community leadership and engagement;
- Cultural diversity;
- Environmental management in accordance with ESD principles;
- Considering the long term and cumulative impacts of decisions (i.e. effective strategic planning that would need to go well beyond the current provisions of the *Environmental Planning and Assessment Act (NSW) 1979*) and;
- Stewardship of assets.

Section 24 the *Local Government Act (NSW) 1993* entitled 'Provision of goods, services and facilities and carrying out of activities' states that 'a council may provide goods, services and facilities, and carry out activities, appropriate to the current and future needs within its local community and of the wider public, subject to this Act, the regulations and any other law'. Accordingly, given the Terms of Reference of the Inquiry, this *Background and Issues Paper* assumes that s24 of the Act determines the role of local government in NSW as consisting of the provision of services (i.e. goods, services and activities pursuant to s24 of the Act) and the provision of infrastructure (i.e. infrastructure facilities pursuant to s24 of the Act). In order to adequately achieve these objectives, local government in NSW must exhibit both financial capacity (in respect to financial position and performance) and managerial capacity (in terms of effectiveness and efficiency).

The *Background and Issues Paper* takes the provisions of s8 and s24 of the Act as its starting point regarding the operation of local government in NSW.

The Inquiry adopts 'gap analysis' as its primary methodology. Following this procedure, it will attempt to determine the current situation in NSW local government for each issue under investigation, seek to identify the expected standard, and then ascertain the 'gap' between the existing and the desired position. Once this has been done, the Inquiry can explore various options for addressing this gap (such as boosting the supply of a service or reducing its demand), the pros and cons of each option as well as potential 'roadblocks' to implementing it, and then formulate an 'action plan' for overcoming such obstacles and winning support for change.

National Context of Australian Local Government

Australian local government stands at a critical period in its history. At least four sets of economic and political forces have combined to put pressure on local government.

Firstly, intensifying financial pressures are challenging the *status quo*. The Commonwealth Grants Commission[1] (CGC 2001, pp.52-53) has identified five main reasons for the financial difficulties faced by local government:

- *'Devolution'* – where a higher sphere of government gives local government responsibility for new functions;
- *'Raising the bar'* – where a higher tier of government raises the complexity and/or standard at which local government services must be provided;
- *'Cost shifting'* – either where a municipal council agrees to provide a service on behalf of a federal or state government (with funding subsequently reduced or stopped) or where some other tier of government ceases to provide an essential service thus forcing a local authority to take over;
- *'Increased community expectations'* – where a given community demands improvements in existing municipal services or the provision of a new service; and finally,
- *'Policy choice'* – where specific councils voluntarily expand and/or enhance their services. Johnson[2] (2003) has observed that in addition to these problems, local governments themselves are also partly responsible for their own financial plight. In particular, a number of councils are reluctant to set their rates and other charges at realistic and sustainable levels.

Given these financial pressures, existing service arrangements appear to have only been maintained at the cost of allowing physical infrastructure to steadily degrade. Indeed, in its final report entitled *Rates and Taxes: A Fair Share for Responsible Local Government*, the House of Representatives Standing Committee on Economics, Finance and Public Administration[3], now colloquially called the Hawker Inquiry after its Chairman David Hawker MP (2004, p.59) observed that 'there is a significant infrastructure renewal gap across the country and asset standards are decreasing'.

Secondly, local government is confronted with the situation of having only a limited revenue base of its own and being dependent on additional funding from the States and the Commonwealth Governments in the form of Financial Assistance Grants (FAGs) and Specific Purpose Payments (SPPs). According to the its enabling Act, local government's own sources of revenue are principally only fees and user charges and taxation on property in the form of Council rates. However, unlike personal income tax, corporate taxation and consumption taxes, Council rates, which are calculated on the basis of land value, do not grow in proportion to other taxes linked to national economic growth rates and are further constrained due to the NSW State Government's policy of rate pegging. This impedes the ability of Councils to expand their services in line with general economic growth.

Despite intensifying demands on local government, these revenue bases have remained unchanged over the years and the share of national tax revenue available to local government through financial assistance from the Commonwealth Government is in steady decline.

Thirdly, state governments across Australia remain concerned over the operational efficiency of Councils. This concern has witnessed a wave of structural reform and other initiatives to improve cost effective local government service provision. During the 1990s, South Australia, Tasmania and Victoria all underwent episodes of forced municipal consolidation of differing degrees of intensity.

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[1] Commonwealth Grants Commission (CGC), *Review of the Operation of Local Government (Financial Assistance) Act 1995*, (2001).

[2] Johnson, A.K., "Financing Local Government in Australia", in B.E. Dollery, N.A. Marshall and A.C. Worthington (eds.), *Reshaping Australian Local Government: Finance, Governance and Reform*, (2005) UNSW Press, Sydney, pp. 37-63.

[3] Commonwealth House of Representatives Standing Committee on Economics, Finance and Public Administration, *At the Crossroads: Inquiry into Local Government and Cost Shifting*, Commonwealth of Australia, (2002).

More recently, restructuring involving councils amalgamating under some measure of State Government duress has occurred in NSW, with the prospect of substantial reform looming in Queensland, the Northern Territory and Western Australia.

Finally, legislative changes in the different local government systems in Australia have witnessed an expansion in the role of local government and growing complexity in its relationships with state and federal governments. For instance, the *Local Government National Report*, *2000-01*[4] outlines highly complicated intergovernmental structures involving the Council of Australian Governments (COAG), over forty Commonwealth-State Ministerial Councils and forums, the Local Government and Planning Ministers' Council, and various other ministerial councils, many of which impinge directly on the activities of local government. Moreover, differences in the functions and responsibilities of the various state systems have widened, and the state government oversight mechanisms are now often quite dissimilar.

NSW local government has not been immune to any of these forces and its current financial situation should thus be viewed in national context. Accordingly, any Inquiry into NSW local government must place its analysis within the broader nation-wide picture.

Stakeholder Input

The pivotal position of local government necessarily means that it affects numerous groups and individuals across NSW. The Inquiry thus intends to consult widely amongst all stakeholders to canvass all points of view. Interested parties are urged to make written submissions to the Inquiry on any of the issues covered in the Inquiry's Terms of Reference and in this *Background and Issues Paper*. The Inquiry is particularly interested in answers to the questions posed at the end of each of the sections under Part C: Key Issues of this *Paper*.

Stakeholder Consultative Process

The Inquiry Panel will be holding consultative workshops in various regional centres of NSW in November where interested parties will be invited to attend, express and discuss their views on local government strengths, weaknesses, opportunities, risks and threats and their hopes for its future.

In addition, the Inquiry invites written submissions (with a copy in pdf or word format sent per email so that it can be reproduced on the Inquiry's website) from both organised interests and individual members of the public to be submitted to it by no later than 14 December 2005.

SECTION 3: NSW LOCAL GOVERNMENT PROFILE

Local Government's Role and Functions

Local government plays an increasingly important role in the political and social life of Australian society. Local government has been in existence since the 1840s with the creation of the Adelaide Corporation in 1840 and the incorporation of the City of Sydney and the Town of Melbourne two years later.

In New South Wales, the *Municipalities Act* of 1858 established a system for the permissive constitution of municipalities leading to the establishment of 50 local government areas. These first local government structures initially delivered only property-based services such as building and maintaining roads, as well as collecting and disposing of rubbish. However, this role has changed dramatically in the last few decades.

[4] National Office of Local Government, *Local Government National Report, 2000-01*, Commonwealth of Australia, (2001).

An analysis of local government expenditure over the period 1961-62 to 1997-98 shows that the composition of services has shifted markedly towards the provision of human services at the expense of traditional property-based services."[5] The current 152 Councils in NSW provide for the diverse needs of rural, regional and metropolitan communities and are involved not only in infrastructure provision, such as roads and drainage, but also in regional and economic development, environmental management, culture, education, and social services in areas like health, safety and welfare.

In addition to the Commonwealth Government and the State and Territory Governments, local government represents the third sphere of government in the Australian Federation. Local government is characterised as a general purpose government, which is representative of, and directly accountable to its local community. There are currently approximately 1,760 councillors in NSW democratically elected by the community in their local government area.[6] Each Council has an elected Mayor (Lord Mayor in Sydney, Newcastle and Wollongong) and a General Manager appointed by the Council.

Although local government has been in existence for more than 160 years it is not yet recognised in the Australian Constitution. In some cases, however, there are references to local government in the state constitutions. Since the Australian Constitution does not specifically confer upon the Commonwealth Government legislative power with respect to local government, the residual power lies with the States and Territories. Local government is thus established under individual State and Territory legislation.

In NSW, local government is recognised in Section 51 of the *Constitution Act 1902*, which ensures the existence of a system of local government, democratic or otherwise. More than 100 Acts extend this system, which is administered by the Minister for Local Government through the Department of Local Government. The principal act providing the regulatory framework for Councils, their function, responsibilities and governance is the *Local Government Act (NSW) 1993*.

This Act replaced the old *Local Government Act (NSW) 1919* with the intention to widen local autonomy and flexibility by moving to a less prescriptive approach in terms of Councils' role and function, but subject to greater public accountability (Council's Charter[7]) and stricter regulation for corporate planning and reporting.[8] Pursuant to s24 of the Act, a Council 'may provide goods, services and facilities, and carry out activities, appropriate to the current and future needs within its local community and of the wider public…" This allows Councils to determine service provision in accordance with the local needs. Examples of such services include:

- Water supply and sewerage services;[9]
- Domestic waste management and recycling services;
- Recreation and leisure services (including management of parks, sport, camping facilities);
- Cultural and educational services (including libraries, art galleries, museums);
- Planning and development services;
- Environmental management services (including natural areas, pollution control, application of ESD principles);
- Health and safety services (including water and food sampling, animal control, noise control, public toilets, immunisation, building inspections);
- Community services (including child care, elderly care and accommodation, refuge facilities, counselling and welfare);
- Local economic development and tourism promotion; and

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[5] Commonwealth Grants Commission (CGC), *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, (2001), p. ix-xiv.
[6] Furthermore there are 3 other local governing bodies, Silverton, Tibooburra, and Lord Howe Island, as well as a large unincorporated area in the far west of NSW.
[7] See Section 8.
[8] Commonwealth of Australia, *The Australian Urban and Regional Development Review: Financing Local Government*, (1994), Chapter 10, page 95.
[9] Water and sewerage services are not provided in the Hunter and Sydney-Wollongong areas.

- Most importantly, local government also provides the infrastructure necessary for general transport and communication purposes as well as for the provision of the described services (roads, footpaths, drainage and sewerage systems, waste management infrastructure, recreational infrastructure, public buildings, etc.)

Some of these services are operated as commercial activities on a full cost recovery basis rather than as general government. Examples include the water and sewerage services and, in some instances, garbage services, and some leisure and recreational activities.

Debate over the appropriate role for local government essentially falls into two distinctive schools of thought. Firstly, the ‘Minimalist’ view holds that Councils are the body corporate of a local community and thus should foster the community’s common property and regulate what owners may do with their own properties. The opposite perspective is the so called ‘Maximalist’ view. This view holds that Councils are the governments of their areas and should thus be concerned with the welfare of the whole community even if this means duplicating the roles of other tiers of government. It has been argued in the literature that the *Local Government Act (NSW) 1993* embraced the ‘Maximalist’ position, particularly the Council’s Charter in s8 of the Act, but by retaining rate pegging effectively constrained Councils to a ‘Minimalist’ role.

In terms of Council governance, the *Local Government Act (NSW) 1993* gave the administrative heads of Councils the normal executive powers of management and Councillors the task of setting strategic policy directions.

Despite these changes, most Councils still see their primary role as making decisions on individual matters (e.g. building applications), not just high level policies (e.g. floor space ratios). This aspect of their role is maintained under some legislation (e.g. *EP&A Act*) and distinguishes Councils from other tiers of government in Australia where executive and legislative functions are notionally separated.

Profile of Councils in New South Wales

There are currently 152 general purpose Councils in NSW. This number has fallen over the years, essentially as a result of structural reforms. Of the 324 Councils in 1910, only 177 were left in July 1993 due to voluntary merger or compulsory amalgamations. This number was further reduced to 172 by July 2001.

In September 2003, the NSW Government commenced a further reform program aiming to achieve an appropriate structure for local government and to improve the efficiency and efficacy of Councils’ service delivery. Based on the work of regional facilitators and the Local Government Boundaries Commission 42 Councils were dissolved and 22 new Councils commenced operation between February and September 2004, bringing the total number of local authorities down to the current 152 Councils.

Councils in NSW differ significantly in terms of population, area, and economic structure. For example, Councils like Blacktown, Parramatta or Newcastle are major cities in their own right whereas large area rural Councils, like Balranald or Bourke Shire are almost entirely characterised by agricultural activity. Remote Councils such as Central Darling Shire are sparsely inhabited with an average of only 5 people within 100 square km whereas Waverly Council in urban Sydney has a population density of about 6,700 people per square km.

The area of Councils varies considerably from 5.8 square km (Hunters Hill Council) to 53,510.8 square km (Central Darling Shire Council) with an average area size of 4,660 square km. However, about 25% of all Council areas are smaller than 200 square km.

Councils range in population from less than 1,400 to almost 280,000 (Blacktown Council). Average population size is 44,277. This compares to an average size of approximately 27,700 across the nation, ranging from just over 3,100 in the Northern Territory to 61,000 in Victoria, the State that has easily the largest average population per Council in Australia.

Table 1 compares population ranges and numbers of NSW Councils in the years 1997/98 and after the recent amalgamation in August 2004. The reduction of the total number of Councils was essentially achieved by amalgamating 32 medium to small, rural and agricultural Councils into larger jurisdictional units. Even so, nearly half the councils in NSW have populations less than 20,000.

Table 1: Population of Councils in NSW

Population	**Number of Councils 1997/1998**	**Number of Councils 2004**
Less than 5,000	47	25
5,000 to 10,000	32	28
10,001 to 20,000	23	20
20,001 to 50,000	32	33
50,001 to 100,000	24	26
100,001 to 150,000	11	8
150,001 to 200,000	6	10
More than 200,000	2	2
Total Number of Councils	177	152
Average Population of Councils	About 36,000	44,277

Source: NSW Department of Local Government, *Comparative Information on NSW Local Government Councils 1997-98*, (1998); NSW Department of Local Government, Local Government Grants Commission, *Schedule of estimated Entitlements for Financial Assistance Grants – 2005-2006*

While the population in NSW grew from June 2003 to June 2004 by about 50,000 people, different Councils experienced different growth rates from slight population decline to reasonable growth. The largest growth occurred in Blacktown Council with 5,500 new residents, followed by Sydney City Council with a change of 5,100, rendering it also the fastest growing Council with a rate of 3.6%.

The greater Sydney area recorded the five largest increases and seven of the ten fastest growing Councils, but also the four largest population declines. Coastal areas also experienced considerable population growth with a combined figure of 12,700 people. [10]

As at February 2004, Councils in NSW employed about 51,600 people (about 42,000 full time equivalent positions). In recent years, local government has seen a very considerable improvement in the qualifications and skills of its workforce. However, Councils are now facing significant skills shortages. Strong economic growth, buoyant labor markets and demographic trends have created skills shortages throughout the Australian economy, including metropolitan areas. Nowhere is this shortage felt more acutely than in rural and regional areas in NSW, where local government is one of the single largest employers. Significant ageing of the local government labor force is another central concern.

[10] Australian Bureau of Statistics (ABS), *Regional Population Growth 2003-2004*, cat.-no.: 3218.0, (2005).

NSW Local Government Finances

In order to fulfil their role and functions Councils require an adequate revenue base. Local government revenue derives from three main sources - Council rates (taxes on property calculated on the basis of land value), user charges and fees (mainly for services and infrastructure provided), and funding from the Commonwealth Government in the form of Financial Assistance Grants and Specific Purpose Payments pursuant to the *Local Government (Financial Assistance) Act 1995 (Commonwealth)* and the State in the form of financial grants for specific purposes and services. Other sources of revenue include income from business activities, interest income, dividends, and fines.

Financial Assistance Grants from the Commonwealth Government include general-purpose payments and untied local road funding aimed at equalising Councils capacity to deliver general services. These payments are assessed by the Commonwealth Grants Commission, made to the States and Territories and administered and distributed to local government by the State Local Government Grants Commissions.

Specific Purpose Payments are made directly by the Commonwealth Government to local government to enable it to implement particular policies or deliver specific services on behalf of the Commonwealth Government. Specific Purpose Payments include, among others, funding for childcare and disability services as well as the *Roads to Recovery* program.

According to the 2003-04 Australian Government's *Local Government National Report* in 2002-03 local government in NSW had total revenues of $6.6 billion, up from $6 billion the previous year (see Table 2) [11], making local government in NSW the largest in the Australian Federation with respect to total revenue and the second largest on a per capita basis after Queensland.

Table 2: Local government revenue sources by State, 2002-03

Source		NSW	Vic.	Qld.	WA	SA	Tas.	NT	Total
Taxation revenue	$m	2,346 35.6%	1,826 45.9%	1,423 27.6%	752 45.6%	629 58.8%	175 34.6%	49 26.1%	7,201 37.7%
Sale of goods and services	$m	2,223 33.8%	790 19.9%	2,316 45.0%	351 21.3%	201 18.8%	208 41.1%	65 34.6%	6,152 32.2%
Current grants and subsidies	$m	765 11.6%	516 13.0%	465 9.0%	187 11.3%	152 14.2%	72 14.2%	46 24.5%	2,202 11.5%
Capital grants	$m	109 1.7%	35 0.9%	165 3.2%	93 5.6%	12 1.1%	9 1.8%	3 1.6%	426 2.2%
Interest	$m	210 3.2%	47 1.2%	91 1.8%	38 2.3%	14 1.3%	12 2.4%	4 2.1%	415 2.2%
Other revenue (fines, external works, business activities)	$m	933 14.2%	763 19.2%	691 13.4%	227 13.8%	61 5.7%	31 6.1%	21 11.2%	2,727 14.3%
Total	$m	**6,586**	3,977	5,151	**1,648**	**1,069**	**506**	**188**	**19,124**
Total per capita	$	**996.55**	**822.34**	**1,405.73**	**861.09**	**705.26**	**1,071.77**	**951.34**	**995.60**

Source: Australian Government, Department of Transport and Regional Services, *Local Government National Report – 2003-04 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, (2005), Table 1.17 and 1.18.

[11] Australian Government, Department of Transport and Regional Services, *Local Government National Report – 2003-04 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, (2005) and ibid, *Local Government National Report – 2002-03 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, (2003).

In 2003/04, more than two-thirds of the total revenue of NSW Councils (69.4%) came from rates, user charges and fees. However, only 35.6% of total revenue was derived from rates. Councils received approximately $1.5 billion from residential rates representing about 66% of total rates revenue. Urban Councils levied an average residential rate of $624 compared with rural Councils that levied an average rate of $400. The overall state average was $605. Councils received a total of $179 million from farmland rates (8% of total rates revenue), and approximately $573 million from business rates (26%) of total rates revenue).[12]

Grants and subsidies made up 13.3% of the total revenue, indicating a considerable level of self-sufficiency overall, but with very significant differences between Councils. Metropolitan and regional Councils typically received only 8 - 17% of total revenue from grants, whereas rural Councils are generally more grant-dependent sourcing 26 - 41% of revenue from grants and in a few cases over 50%.

The main proportion of local government funding, namely 71.6% of all grants and specific purpose payments came from the Commonwealth Government ($m 346.6 general purpose grants, $m 131.0 local roads grants, and $m 122.7 Specific Purpose Payments).[13]

Equipped with these funds Councils manage $66 billion worth of public infrastructure and in 2002-03, local government expenditure amounted to about $5.7 billion.[14] This represents an average expenditure of $856.74 per capita, compared to $916 nationwide, with the lowest figure of $709 in South Australia and the highest average spending per capita of $1,226 in Queensland.[15]

The most significant areas of local government expenditure continue to be transport and communication with 29.2% and housing and community amenity with 25.6% (see table 3, these figures do not include capital outlays, mainly on local roads).

Table 3: Local government expenditure by purpose, by State, 2002-03

Purpose		NSW	Vic.	Qld.	WA	SA	Tas.	NT	Total
General public services	**$m**	860 15.2%	464 11.7%	882 19.6%	153 9.6%	184 17.1%	71 13.9%	108 38.0%	2,722 15.5%
Public order and safety	**$m**	222 3.9%	75 1.9%	45 1.0%	59 3.7%	16 1.5%	4 0.8%	2 0.7%	422 2.4%
Education, health and welfare	**$m**	374 6.6%	778 19.6%	90 2.0%	122 7.6%	63 5.9%	28 5.5%	13 4.6%	1469 8.4%
Housing and community amenity	**$m**	1,448 25.6%	729 18.4%	1,355 30.2%	232 14.5%	199 18.5%	186 36.3%	78 27.5%	4,228 24.0%
Recreation and culture	**$m**	634 11.2%	680 17.1%	481 10.7%	362 22.7%	186 17.3%	63 12.3%	19 6.7%	2,423 13.8%
Transport and communication	**$m**	1,656 29.2%	879 22.1%	1,268 28.2%	525 32.9%	264 24.6%	119 23.2%	39 13.7%	4,751 27.0%
Other	**$m**	469 8.3%	365 9.2%	371 8.3%	143 9.0%	162 15.1%	41 8.0%	25 8.8%	1,576 9.0%
Total	**$m**	**5,662**	**3,970**	**4,492**	**1,597**	**1,074**	**512**	**284**	**17.591**

[12] Figures from 2002/2003; excluding mining rates, NSW Department of Local Government, *Comparative Information on NSW Local Government Councils 2002-2003*, (2003) and ibid, *Comparative Information on NSW Local Government Councils 2003-2004*, (2005).
[13] NSW Department of Local Government, *Comparative Information on NSW Local Government Councils 2003-2004*, (2005).
[14] Australian Government, Department of Transport and Regional Services, *Local Government National Report – 2003-04 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, (2005), table 1.22, page 33.
[15] Ibid, table 1.19 and 1.20, page 31f.

Purpose		NSW	Vic.	Qld.	WA	SA	Tas.	NT	Total
Total per capita	**$**	**856.74**	**820.89**	**1,225.89**	**834.44**	**708.56**	**1,084.48**	**1,437.12**	**915.79**

Source: Australian Government, Department of Transport and Regional Services, *Local government National Report – 2003-04 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, (2005), Table 1.19 and 1.20.

The level of debt among NSW Councils is low and continues to fall. In 2003/04 the debt service ratio[16] averaged 5.2% for all metropolitan and regional Councils and 4.1% for all rural Councils, and ranged from a high of 20.5% to a low of 0.0% for 18 Councils (up from 14 in 2001/02, and 8 in 1997/98), indicating that the latter Councils had no long term debt or significant revenues committed to servicing long term debt. 63.5% of Councils had a debt service ratio of less than or equal to 5%, compared with 55.2% in 2001/02. Only 9.2% of Councils, down from 14% in 2001/02 and 26.6% in 1997/98, had a debt service ratio of more than or equal to 10%.[17]

Overall, local government in NSW is debt free and a net lender on the money market: its current financial assets exceed liabilities. However, this does not take into account the declining standard and value of much local government infrastructure and other assets.

These low levels of debt also raise concerns on the intergenerational equity of local government projects, particularly long-lived infrastructure and environmental assets. Low levels of borrowings can be inappropriate where projects are funded through rate increases and thus current ratepayers bear the costs of the benefits of future users. Debt financing, however, allows the cost of such projects to be shared between present and future generations.

Council Cooperation and Partnerships

Structural reforms such as the recent amalgamations are not the only way to increase the efficiency, efficacy, and financial sustainability of service delivery and infrastructure provision. Other forms of cooperation between Councils themselves as well as arrangements with the other spheres of government are becoming increasingly promising and important.

Councils have established cooperative partnerships with adjacent Councils, commonly called Regional Organisations of Councils (ROCs), seeking mutual benefits from joining together. At present, there are 19 of these voluntary groups of Councils in NSW operating a variety of joint projects, like joint purchasing and resource pooling.

There are also other forms of cooperation among local government. For instance, more than 70 Councils in NSW are currently engaged in wider strategic alliances containing a wide range of joint cooperation from joint purchases of assets to sharing the administrative services of specialist staff. In the Hunter region, for example, 13 Councils share training and human resources operation and run joint regional records storage. Under the New England Councils Strategic Alliance, Councils undertake joint tendering, and share core support functions and plant utilisation. Five Councils and a business partner under the Councils Online Program provide 24 hour service via the internet to cater for flexible resource allocation, effective use of capital and improved risk management.

Other examples of Councils cooperation include an industry superannuation fund and pooled insurance arrangements.

[16] This indicator assesses the degree to which revenues from ordinary activities are committed to the repayment of debt. It is generally higher for councils in growth areas where loans have been required to fund infrastructure such as roads and water and sewerage works. Debt service costs include debt redemption from revenue, transfers to sinking funds and bank overdraft interest.

[17] NSW Department of Local Government, *Comparative Information on NSW Local Government Councils 2003-2004*, (2005).

Inter-agency partnerships to facilitate more efficient and effective service delivery are an important trend internationally and elsewhere in Australia. In the UK, for example, Councils are required to establish local strategic partnerships with a range of key stakeholders and service providers. In Tasmania, the State Government has entered into individual partnership agreements with all Councils to pursue agreed priorities. Queensland, South Australia, Western Australia and the Northern Territory are all actively pursuing partnership approaches.

NSW is less advanced in this regard, but a number of formal and informal partnerships exist between the State Government and Councils, in the form of bilateral, regional or state wide arrangements with Councils often being represented by the Local Government and Shires Associations of NSW (LGSA). A successful example of cooperation between State Government and Councils is the long standing arrangement for Councils to access State Government supply contracts and significant proportions of Council purchases are made this way. Other examples include protocols on environmental management and cultural activities. It is also noteworthy that the NSW Department of Local Government's guidelines for social plans highlight the need to explore possible partnerships with State agencies and other organizations for service delivery.

However, local government relations in NSW are generally seen as very poor compared to other States. There's no regular forum to discuss policy issues such as financial sustainability, and there appears to be limited appreciation of common interests, that is that local government is an integral part of the State public sector and, for example, that rate pegging is therefore public sector revenue capping.

Inter-Government Relations

The primary forum for relations among all spheres of government is the Council of Australian Government (COAG) where NSW local government is represented through the Australian Local Government Association (ALGA) whose members are the States' and Northern Territory's local government associations. Furthermore, in 2004 local government of all States and the Northern Territory agreed with the State and the Commonwealth Governments on the commencement of negotiations for an intergovernmental agreement to address issues such as the adequacy of funding, cost shifting, as well as functional reform to allow resource sharing and reduce duplication of services and administrative functions. On completion, this intergovernmental agreement will be a further step in the development of sustainable local government in Australia.

Growing Challenges for NSW Local Government

In common with other local government systems in Australia and abroad, local government in NSW faces stern challenges in the years ahead. Despite inevitable uncertainty surrounding the future, it is nevertheless possible to identify some impending problems that will have to be overcome.

In the first place, substantial demographic changes are already being felt as the Australian population ages. The implications for NSW local government from the rapidly changing population profile are multi-faceted and profound.

For instance, from the perspective of service provision, older residents typically demand a different mix of local services with an emphasis on access, care, and recreation for aged people. Moreover, most of these services depart from the traditional 'minimalist' emphasis of NSW Councils on 'services to property' to a more 'maximalist'-'services to people' orientation, usually involving a larger labor-intensive and thus expensive human services component.

Similarly, population aging also poses staffing challenges as existing employees retire and it becomes more difficult to recruit new staff in a competitive labor market. Furthermore, as the proportion of retired persons rises in the overall population, this is reflected in migration patterns of the 'sea change' and 'tree change' variety as people move from metropolitan areas to regional centers, predominantly along the coast. Affected local authorities are already struggling to cope with these new demands and this can be expected to intensify in future.

Rapid economic change and the attendant spatial changes in the structure of the Australian economy pose considerable challenges to all levels of government in the Australian Federation, including local government. Globalisation and free trade have dramatically altered the composition of output in the Australian economy, with the decline of 'old economy', characterised by traditional manufacturing industries, and concomitant rise in the 'new economy', especially in knowledge-based activities and the service sector (O'Connor, Stimson and Daly, 2001)[18].

This has resulted in a spatially uneven distribution of economic prosperity; major cities and many regional centres have experienced rapid economic growth whereas some areas outside of these growth poles have undergone relative decline. Demands on local government, and especially local government infrastructure provision, have thus varied across the country and this process is bound to continue.

Spatially uneven development also implies the need for more proactive local government leadership to stimulate economic growth in areas afflicted by economic decline and to manage economic growth in regions blessed with economic prosperity. Local economic development requires Councils to formulate coherent development strategies that harness regional strengths in declining areas and encourage the growth of new industries.

By contrast, growth management strategies are needed in fast growing regions to ensure orderly and sustainable development. These processes are not easy and will impose taxing demands on the capacity of local government in future.

Environmental concerns and environmental protection already form part of the core business of NSW local government. This area is not only characterised by legislative complexity, but also by its policy dilemmas and the financial impost of acquiring specialised staff to tackle environmental issues. The difficulties experienced by local government are likely to become more acute, especially as the imperatives of growing urbanisation and demographic shifts clash with environmental goals.

The complexities of the future environmental demands faced by local government are manifold. Two salient examples serve to illustrate the onerous problems that will have to be confronted. Firstly, environmental concerns over water and wastewater issues loom large. According to the Australian Bureau of Statistics (2003), 49% of all water emissions and 42% of land emissions were produced by the water supply, sewerage and drainage services sector. Similarly, 72% of Australia's waste water (used for some purpose then usually treated) was disposed of into coastal waters, 17.5% to inland waters, 9.5% to land and only 1% was directly reused.

This costly and complicated problem will have to be resolved in future. Australia-wide, current expenditure on wastewater management was $649m, with capital expenditure at $394m in 1999-2000. Obviously, greater future efforts will impose much larger costs.

Secondly, solid waste management also presents a difficult challenge. For instance, 21.2 million tonnes of solid waste were received and disposed of at landfills throughout Australia in 1996-97. This amount was approximately evenly distributed between privately operated and local government operated landfills. Future solid waste disposal will thus have to embody a greater recycling component. In 1991, 2 Councils collected steel cans for recycling, by the end of the year 2000, 375 councils were participating in steel can recycling. This represented an increase from 0.01% in 1991 to 40% in 2000.

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[18] O'Connor, K., Stimson, R. and Daly, M, *Australia's Changing Geography: A Society Dividing*, (2001) Oxford University Press, Melbourne.

In sum, in 1999-2000, Australian local government current expenditure on solid waste management was $1,048m, while capital expenditure was $96m. Total current environmental protection expenditure by local government was $1,899m, while capital expenditure was $607m[19]. Additional efforts in this area will clearly produce substantial benefits but will also impose significant financial costs on Councils.

Australian society is undergoing a process of fundamental change that will also impose severe challenges on local government in future (Smyth, Reddel and Jones, 2005)[20]. For instance, the decline of the traditional family and associated social trends mean that the number of people per household is falling steadily. This has implications for local government service provision since more households exist as a proportion of the population in any given local government jurisdiction; per capita fixed costs of infrastructure must thus rise as a consequence.

Moreover, the emergence of an urban 'underclass' of poorly paid or unemployed single parents will increase demands on Councils in areas outside of their traditional service provision, especially in terms of human services. Changes in the composition of the population as a result of large-scale immigration will mean changes in the mix of council services, particularly to meet diverse demands for the recreational needs of different cultures.

In addition, public concern over rising crime and disorder in public streets and municipal facilities have already led to demands for Councils to appoint security personnel and install security cameras and this process seems likely to intensify. In sum, local government will require additional capacity and flexibility in future to cope with social challenges of this kind.

Finally, rapid technological change and the so-called Information Revolution present NSW local government interesting challenges and opportunities. Considerable progress has already been made in adopting IT processes, developing online service delivery, and fashioning 'virtual local government', but in this rapidly changing field new methodologies constantly emerge that could be useful to councils and thus require ongoing assessment.

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[19] Australian Bureau of Statistics (ABS), *Australians and the Environment*, cat.-no.: 4601.1, (2003).
[20] Smyth, P., Reddel, T. and Jones, A. (eds.), *Community and Local Government in Australia*, (2005), UNSW Press, Sydney.

PART B: REQUIREMENTS OF LOCAL GOVERNMENT

SECTION 4: DRIVERS OF LOCAL GOVERNMENT

The Inquiry will determine what local government must do to meet exogenous requirements such as:

- Statutory obligations
  What do Commonwealth and State Governments require of Councils (e.g. Occupational Health and Safety laws, environmental impact statement requirements)?
- Stakeholder expectations
  What do ratepayers, business, state government, creditors, etc want of Councils – more services, lower rates or stronger finances?
- Independent standards
  What professional standards (e.g. AAS 27, AS/NZS4360:1999), best practices (e.g. ISO 9001 & 9004) and financial structures (e.g. credit rating criteria) impact on Councils?
- Emerging challenges
  What demographic, intergovernmental, economic, social, technical and environmental changes (e.g. the massing of retirees along the coastal belt, the impact of the internet and electronic commerce on public communications and business transactions) are affecting Councils?

These and other external forces will shape what ordinary citizens, businesses, Council professionals, Councillors, State ministers and officials and others consider to be the essential elements of local government in terms of its:

- Infrastructure assets (e.g. adequate physical assets to meet essential services; adequate rates of return on commercial assets after allowing for community service subsidies, the existence of asset registries and other information systems to properly manage infrastructure);
- Environmental assets and responsibilities for environmental management in accordance with ESD principles
- Service delivery (e.g. an appropriate range of Council services, equitable provision, adequate access to essential services, 'value for money' in service provision);
- Revenue sources (e.g. affordable, efficient, fair and administratively simple forms of rates and charges, differential charging between services deemed commercial and non-commercial, appropriate use of borrowing, adequate funding from other tiers of government);
- Governance and administration (e.g. appropriate legislative foundations of local government; management of conflicts of interest; effective, efficient and prudent execution of decisions; public transparency and accountability);
- Community leadership and responsiveness to community views, including the means by which it engages and involves residents and stakeholders in council activities, forms partnerships, deals with cultural diversity, advocates on behalf of local communities to State and federal governments, etc ; and
- Financial management (e.g. ability to avoid either tax or expenditure shocks into the future, containing debt and other financial liabilities to a manageable level).

PART C: REALITY

In this part of the Inquiry process, NSW local government will be examined in detail using the gap analysis methodology in order to establish the actual situation in its infrastructure, services, revenues, governance and administration, and financial management, and then to ascertain how far that *status quo* differs from the desired situation.

Hence the two most important considerations in each section of this part of the Inquiry will be:

- What is the current reality?; and
- How does it differ from generally accepted requirements (having regard to inevitable differences from one local government area to another)?

SECTION 5: LOCAL GOVERNMENT ASSET MANAGEMENT

We have seen that management of local government infrastructure and other assets, including environmental assets is a primary area of concern. The Inquiry will thus need to establish the current position in NSW local government, determine stakeholder expectations for infrastructure especially in relation to their capacity and willingness to pay for such works, and to develop policy options to address serious shortcomings.

An investigation of this kind should consider the following aspects of local government infrastructure and assets distinguishing between condition and management:

- Scope of assets;
- Value of assets;
- Condition of assets;
- Planning and design of infrastructure;
- Acquisition of infrastructure and other assets;
- Operation of infrastructure;
- Maintenance of assets
- Asset depreciation;
- Rehabilitation and renewal of infrastructure;
- Disposal of infrastructure and other assets;
- Asset management systems;
- Asset data and knowledge;
- Risk management ;
- Reporting on infrastructure and other assets;
- Funding of infrastructure and asset management (e.g. rates versus user or developer charges, funding from the State or Commonwealth Government);
- Existing adequacy of infrastructure and asset condition and management (in terms of legal obligations, stakeholder expectations, recognised asset management standards and economies of scale, etc.);
- Future adequacy of asset condition and management (given emerging future challenges); and
- Other salient aspects of NSW local government asset management.

Key questions that will be addressed include:

- <u>Scope, value and quality of infrastructure and other assets</u>
  Do they vary greatly between Councils?
- <u>Condition of infrastructure and other assets</u>
  What is the extent of backlog maintenance and is it growing?

- Asset management
  Are assets properly monitored and managed over their entire lifecycle? How are they funded?
- Adequacy of infrastructure and other assets
  Does infrastructure meet existing local asset need and have future local asset needs been anticipated and planned for?

SECTION 6: LOCAL GOVERNMENT SERVICES

The provision of local government services in an appropriate, equitable, effective, efficient and safe manner is a critical dimension of local government that has immense ramifications for all citizens of NSW and the broader national economy. Given its Terms of Reference, the Inquiry will therefore determine the present state of local government service provision in NSW local government and compare these with stakeholder expectations of the availability and standard of service provision now and in the future especially in relation to their capacity and willingness to pay for such outcomes.

The Inquiry will thus examine the following elements of local government services:

- Scope of services;
- Level of services;
- Adopting and shedding functions;
- Quality of services;
- Accessibility of services;
- Funding of services (e.g. rates versus user charges);
- Pricing of services;
- Options for service provision;
- Marketing of services;
- Appropriateness of services;
- Effectiveness of services;
- Stakeholder satisfaction with services;
- Efficiency of services;
- Measurement and evaluation of services (e.g. performance monitoring);
- Reporting on services;
- Existing adequacy of services (in terms of legal obligations, stakeholder expectations and recognised service management standards);
- Likely future needs and demands for services (given emerging challenges); and
- Other important elements of NSW local government services.

Key questions that will be addressed include:

- Procurement and funding of services
  How are services procured and funded; are Councils exploring all available options for efficient and effective service delivery and using them appropriately?
- Quality of service delivery
  Are Council services appropriate and delivered effectively to acceptable standards? Are people satisfied with them?
- Scope and adequacy of services
  Does the range of services vary greatly between Councils and does this matter? Do services meet existing local needs and have future local needs been anticipated and planned for?
- Efficiency of service provision
  Is there scope for further gains in the efficiency of service delivery and to what extent would this reduce current and anticipated pressures on Council finances?

SECTION 7: LOCAL GOVERNMENT REVENUE SOURCES

Local government rates and charges represent a contentious, but nevertheless crucial dimension of financing the operations of NSW local government. All previous inquiries into local government funding have concluded that property rates should remain the primary source of revenue and are suitable for this task. The Terms of Reference of the Inquiry oblige it to examine all aspects of rates and charges. Following the gap methodology, the Inquiry will evaluate the current state of local government rates and charges in NSW, determine stakeholder willingness and capacity to pay the necessary rates and charges that equate with the range, level and quality of infrastructure and services either demanded or required now and in the future.

The terms of reference also require the Inquiry to examine the adequacy, equity and past trends of funding from other tiers of government, especially Financial Assistance Grants and Specific Purpose Payments from the Commonwealth Government and tied grants from the State Government.

The Inquiry should therefore examine the following aspects of local government revenues:

- Appropriateness (i.e. whether the current mix and balance of revenue sources is viable and justified)
- Statutory incidence (i.e. legal liability for council rates and charges);
- Economic incidence (i.e. who ultimately pays for council taxes and charges);
- Council revenue policies for collective (i.e. public) services (i.e. subsidies, taxes, general revenue methods, etc.);
- Council revenue policies for merit services;
- Council pricing policies for commercial services (e.g. full or partial cost recovery, cross-subsidisation, community service obligation funding, etc.);
- State government council price controls and oversight;
- State government-enforced rate pegging;
- State government-enforced rate concessions;
- Equity of council rates and charges;
- Efficiency of council rates and charges;
- Spatial distribution of council rates and charges;
- Administration and compliance costs of council rates and charges;
- Tax avoidance;
- Commonwealth Financial Assistance Grants (e.g. adequacy and equity);
- Commonwealth Specific Purpose Payments (e.g. appropriateness, adequacy, equity and efficiency);
- State tied grants (e.g. library grants – appropriateness, adequacy, equity and efficiency)
- Scope for increased borrowing
- Other relevant aspects of NSW local government revenues, including potential needs and options for additional sources of revenue.

Key questions that should be addressed include:

- Revenue base
  Are the principal sources of Council revenues appropriate, equitable, efficient and administratively simple?
- Rates and charges
  Do these vary greatly between Councils and who ultimately pays for them? Has rate pegging constrained and/or distorted Council revenue raising? Is the level of rating appropriate relative to service and infrastructure needs, property values and community capacity to pay?

- Commonwealth and State Government grants
  What was their original purpose? Is this still being fulfilled? Have they kept pace with the cost of services and infrastructure they are meant to fund? What is the realistic likelihood of substantial increases in grant funding? Would it be desirable in terms of local autonomy for Councils to become substantially more dependent on federal and State support?
- Commercial income
  What activities are considered commercial and to what extent do Councils recover costs through their client charges? Should more services be commercialised?

SECTION 8: LOCAL GOVERNMENT GOVERNANCE AND ADMINISTRATION

The past two decades have witnessed a revolution in public sector management and administration practices, especially in terms of New Public Management and emerging concepts of governance that have been reflected in local government systems across the developed world. NSW local government has not been immune to these changes. The Inquiry will thus need to examine the current governance models and management practice in NSW local government, determine stakeholder expectations of governance and administration, examine pressures to improve professional standards and management practices, and highlight any significant gaps between reality and requirements.

In order to meet its Terms of Reference, the Inquiry will examine the following elements of local government governance and administration:

- Respective roles and responsibilities of councillors and management in ensuring sound financial governance;
- Council elections, including direct and indirect mayoral election systems;
- Optimal number of councillors per council jurisdiction;
- Community consultation;
- Ratepayer and client satisfaction;
- Strategy and policy making;
- Business planning;
- Leadership, values and culture;
- Cooperation between Councils and establishment of partnerships with other stakeholders
- Internal and external communications and relations;
- Organisational structure;
- Human resources;
- Work practices and processes,
- Information systems and technology;
- Risk management and internal controls;
- Management information systems;
- Performance evaluation and performance indicators;
- Role and effectiveness of the NSW Department of Local Government;
- Role and effectiveness of the NSW Local Government and Shires Associations;
- Public accountability and reporting;
- Freedom of Information;
- Appeals and dispute resolution;
- Local government failure' and 'at risk' councils;
- Existing adequacy of governance and management (in terms of legal obligations, stakeholder expectations and modern management practices);
- Future adequacy of governance and management (given emerging future challenges and rising standards); and
- Other salient aspects of local Council governance and administration.

Key questions that will be addressed include:

- Governance and community relations
  How well do Councils manage conflicts of interest, transparency and accountability? How do Councils consult their communities to determine needs and priorities? Should they be accountable to voters or other tiers of government or both? Should voters or the state government deal with Council crises?
- Councillor-management relations
  Is the current division of roles between councillors and senior management effective and appropriate? Are relationships generally being handled well? Should Mayors play a stronger role (eg in accepting more responsibility for the quality of financial governance)?
- Administrative performance and Council scale
  How well are Councils managed compared with other public institutions? Are existing local government performance indicators adequate for evaluating and comparing Councils? Do Councils represent value for money?
- Scale, cooperation and partnerships
  What are the economies and diseconomies of scale in local government? Do Councils make sufficient use of outsourcing or cooperative arrangements for planning, service delivery or other activities when appropriate? Are Councils exploring opportunities to form partnerships and shared service centres with community organisations, business or other government agencies to promote more efficient and effective service delivery?

SECTION 9: LOCAL GOVERNMENT FINANCIAL MANAGEMENT

As we have seen, across Australia local government is experiencing financial difficulties due largely to the effects of ‘devolution’, ‘raising the bar’, ‘cost shifting’, ‘increased community expectations’, and ‘policy choice’. The main consequence of financial pressures has been a downgrading of infrastructure and asset maintenance relative to current service provision.

Under its Terms of Reference, the Inquiry is obliged to examine the question of local government finances in NSW. This will require *inter alia* an assessment of the following issues:

- Expected future roles and responsibilities and long-term financial outlook for NSW local government;
- Financial governance framework of Councils and the performance of both Councillors and senior management in discharging their responsibilities for sound financial governance;
- Key indicators of local government finances in NSW;
- Data sources and deficiencies (and any attendant data adjustment and estimation);
- Current financial position and performance of NSW local government sector;
- Current financial position and performance of NSW councils;
- Historical trends in local government finance;
- Comparisons with other Australian local government systems;
- Influence of State and Commonwealth Governments on Council finances;
- Budgeting, accounting and financial reporting of local government;
- Treasury policies and management practices of local government;
- Long-term financial outlook for NSW local government;
- Defining and measuring ‘financial capacity’, ‘financial adequacy’ and ‘financial sustainability’ in local government;
- Existing adequacy of finances (in terms of legal obligations, stakeholder expectations, existing challenges and prudent financial standards);
- Future adequacy of finances (given emerging challenges); and
- Other significant features of NSW local government finance.

Key questions that will be addressed include:

- Financial yardsticks
  What benchmarks should be used to review a Council's finances?
  Do Councils produce and publish relevant financial data and information?
- Financial situation
  What is NSW local government's present financial position and performance? How do they compare with other states and it's own past record?
- Financial outlook
  Are Councils' finances sustainable on existing policies? Could they cope with future demographic and other challenges? Could Councils afford to borrow more for infrastructure development? Are councils making sufficient use of loans to fund infrastructure and asset management, and what might be the implications of increased borrowing for rates and funding of other services?
- Financial governance
  Are Councillors and senior managers contributing sufficiently to sound financial management? Is long-term financial planning adequate? Do Councils manage their treasury functions well? Are Councils receiving appropriate guidance and support on such matters from the State government?

PART D: REMEDIES

Once the Inquiry has determined the current realities of NSW local government, stakeholder expectations of the municipal sector, and the gap between the *status quo* and the desired position of local government, it then can focus on methods of remedying the situation and bridging this gap. Accordingly, the Inquiry must determine the various feasible options for reform, the advantages and disadvantages of each option, make firm recommendations regarding the optimal approach to reform, and prepare an 'action plan' that not only identifies potential 'road blocks' to change, but also makes suggestions on how to overcome these technical and political impediments and if possible convert potential opposition into supporter for reform.

SECTION 10: REFORM OPTIONS

The Terms of Reference of the Inquiry ensure that the Independent Panel will investigate all possible ways of addressing the gap between the current position of NSW local government and its desired position. The Inquiry will canvass all potential options, evaluate the relative pros and cons of each option and then consult with stakeholders on the comparative feasibility and acceptability of each option.

In its deliberations on the way forward, the Inquiry will focus on the five topics of local government examined in both Sections D (Requirements) and E (Reality):

- Condition of assets;
- Adequacy of services;
- Robustness of revenues;
- Efficacy of governance and management; and
- Capacity and sustainability of finances.

In its identification and evaluation of all potential avenues for improvement, the Inquiry must consider the following questions:

- What options are available to bridge the gap?
- What does each of these options involve?
- What advantages and disadvantages attach to each option?

SECTION 11: RECOMMENDATIONS

In the light of stakeholder feedback on the feasibility and acceptability of options for change identified for local government in NSW, and the benefits and costs associated with each option, the Terms of Reference of the Inquiry require that it consider these avenues for improvement and make recommendations regarding the optimal approach to change. In doing so, the Inquiry must provide a clear rationale for the options that it might recommend. A key consideration is the most effective way of closing the gap between the current and desired position for local government in terms of local government infrastructure, services; rates and charges, funding from other spheres of government, governance and management, and local government finances.

In formulating its recommendations, the Inquiry must therefore address the following fundamental questions:

- What is the most appropriate policy option for each problem or opportunity identified?
- Why is that option the best?
- Notwithstanding its superiority to other options, what are the costs and benefits associated with the recommended approach?
- What are the potential technical obstacles or political objections to the route proposed?

SECTION 12: ACTION PLAN

All public sector reform programs face various hurdles, not least organisational inertia and resistance to change. Clearly articulating the need for improvement, developing alliances to push reform, explaining and campaigning for changes and consolidating gains when made are critical for translating recommendations into reality. This requires the formulation of a realistic action plan that identifies potential roadblocks to change and suggests ways of overcoming them

The Inquiry will thus explore the following elements drawn from empirical evidence on what is necessary to effect change:

- Recognising the potential roadblocks and barriers to change and improvement;
- Establishing a sense of urgency ;
- Creating a guiding coalition for change;
- Developing a vision and strategy ;
- Communicating this vision for change;
- Obtaining and empowering broad-based action ;
- Generating 'short-term wins' to boost further change and improvement;
- Consolidating gains and producing more change; and
- Anchoring successful changes and improvements in an organisation's culture.

Appendix A

Comparative Information on the current 152 Councils in New South Wales

No.	Local Government Area (LGA)	Type of LGA ACLG Cl.	Location	Area km²	Population Estimate 30/06/04	Pop. Density 30/06/04 Inhab./km²	Pop. Growth Annual Av. 1999-2004 %	Total Revenue 2003/2004 $	Total Revenue Per Capita 2003/2004 $	Rev. Growth Annual Av. 1998/99-2003/04 %	Total Expend. 2003/2004 (see expl.) $	Total Expend. Per Capita 2003/2004 $	Exp. Growth Annual Av. 1998/99-2003/04 %
1	Albury (City of) **NEW**	URM (prob.)	South	n/a	46,520	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2	Armidale Dumaresq	URS	North	4,234.9	24,596	5.81	-0.3	30,433,000	1,237.32	5.31	27,990,000	1,137.99	1.64
3	Ashfield	UDM	Central	8.3	40,258	4,850.36	-0.2	20,548,000	510.41	5.41	20,554,000	510.56	3.53
4	Auburn	UDM	Central	32.4	62,797	1,938.18	1.7	41,475,000	660.46	7.98	31,193,000	496.73	5.57
5	Ballina	URM	North	484.4	39,546	81.64	1.4	49,264,000	1,245.74	7.79	39,122,000	989.28	5.87
6	Balranald	RAM	West	21,699.4	2,737	0.13	-1.1	7,154,000	2,613.81	6.39	6,713,000	2,452.69	7.46
7	Bankstown	UDV	Central	76.8	175,428	2,284.22	0.8	107,300,000	611.65	4.73	99,973,000	569.88	5.44
8	Bathurst Regional **NEW**	URM (prob.)	Central	n/a	36,630	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
9	Baulkham Hills	UFV	Central	400.6	157,854	394.04	3.3	116,797,000	739.91	1.81	82,195,000	520.70	7.30
10	Bega Valley	URM	South	6,279.5	31,955	5.09	1.4	42,157,000	1,319.26	6.43	40,716,000	1,274.17	7.04
11	Bellingen	RAV	North	1,602.4	12,720	7.94	0.0	17,963,000	1,412.19	6.66	16,809,000	1,321.46	4.65
12	Berrigan	RAL	South	2,066.6	8,188	3.96	0.1	13,703,000	1,673.55	5.33	10,645,000	1,300.07	-0.71
13	Blacktown	UDV	Central	240.0	278,532	1,160.55	1.8	192,276,000	690.32	5.05	145,671,000	523.00	6.15
14	Bland	RAL	Central	8,559.8	6,552	0.77	-0.1	17,173,000	2,621.03	8.16	16,036,000	2,447.50	8.38
15	Blayney	RAL	Central	1,524.5	6,688	4.39	0.6	11,009,000	1,646.08	8.21	8,153,000	1,219.05	-1.35
16	Blue Mountains	UFL	Central	1,431.6	77,011	53.79	0.2	62,782,000	815.23	2.07	69,808,000	906.47	4.88
17	Bogan	RAM	West	14,611.3	3,122	0.21	-0.8	9,660,000	3,094.17	8.32	7,715,000	2,471.17	-4.70
18	Bombala	RAM	South	3,944.3	2,545	0.65	-1.9	7,028,000	2,761.49	0.72	5,534,000	2,174.46	-3.51

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19	Boorowa	RAM	Central	2,578.6	2,476	0.96	-0.2	6,767,000	2,733.04	4.93	6,875,000	2,776.66	0.96
20	Botany Bay	UDM	Central	22.1	37,192	1,682.90	0.2	36,264,000	975.05	6.75	38,794,000	1,043.07	7.27
21	Bourke	RAM	West	41,678.8	3,924	0.09	0.0	10,858,000	2,767.07	-1.57	13,403,000	3,415.65	2.17
22	Brewarrina	RAM	West	19,188.0	2,143	0.11	-0.3	7,828,000	3,652.82	-1.79	7,468,000	3,484.83	-1.05
23	Broken Hill	URS	West	170.4	20,440	119.95	-1.0	21,305,000	1,042.32	3.96	23,834,000	1,166.05	1.41
24	Burwood	UDM	Central	7.2	31,085	4,317.36	0.7	20,633,000	663.76	5.21	22,306,000	717.58	4.86
25	Byron	URM	North	566.8	30,724	54.21	1.5	50,244,000	1,635.33	9.64	40,660,000	1,323.40	7.58
26	Cabonne	RAV	Central	6,026.0	12,626	2.10	0.3	25,542,000	2,022.97	5.19	21,556,000	1,707.27	3.01
27	Camden	UFM	Central	201.3	50,302	249.89	4.5	42,517,000	845.23	4.58	32,148,000	639.10	6.03
28	Campbelltown	UFV	Central	312.2	149,961	480.34	0.1	88,695,000	591.45	2.18	85,470,000	569.95	3.50
29	Canada Bay	UDM	Central	19.8	66,148	3,340.81	2.1	41,132,000	621.82	4.89	40,632,000	614.26	3.26
30	Canterbury	UDV	Central	33.6	135,048	4,019.29	-0.4	75,626,000	559.99	6.41	66,027,000	488.92	4.96
31	Carrathool	RAM	West	18,939.5	3,308	0.17	0.6	14,134,000	4,272.67	4.67	12,507,000	3,780.83	-3.13
32	Central Darling	RTM	West	53,510.8	2,418	0.05	-0.4	9,605,000	3,972.29	2.54	9,346,000	3,865.18	2.06
33	Cessnock	URM	Central	1,966.4	48,143	24.48	0.6	46,207,000	959.79	8.40	41,576,000	863.59	3.72
34	Clarence Valley **NEW**	RAV (prob.)	North	n/a	49,422	n/a	0.7	n/a	n/a	n/a	n/a	n/a	n/a
35	Cobar	RTL	West	45,606.2	5,020	0.11	-1.5	15,305,000	3,048.80	2.46	14,079,000	2,804.58	-5.87
36	Coffs Harbour	URM	North	960.9	66,529	69.24	1.7	102,011,000	1,533.33	n/a	69,817,000	1,049.42	n/a

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37	Conargo	RAS	West	8,750.9	1,791	0.20	-0.7	5,856,000	3,269.68	7.57	4,428,000	2,472.36	-1.76
38	Coolamon	RAM	South	2,432.5	4,111	1.69	0.4	8,694,000	2,114.81	8.94	6,166,000	1,499.88	2.98
39	Cooma-Monaro **NEW**	RAL (prob.)	South	n/a	9,773	n/a	0.0	n/a	n/a	n/a	n/a	n/a	n/a
40	Coonamble	RAM	North	9,926.2	4,728	0.48	-0.8	11,965,000	2,530.67	0.53	10,968,000	2,319.80	-0.38
41	Cootamundra	RAL	South	1,523.6	7,596	4.99	-0.1	10,777,000	1,418.77	4.74	11,404,000	1,501.32	2.70
42	Corowa **NEW**	RAV (prob.)	South	n/a	10,964	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
43	Cowra	RAV	Central	2,810.1	13,147	4.68	0.5	20,903,000	1,589.94	8.59	18,412,000	1,400.47	5.22
44	Deniliquin	URS	West	129.9	8,214	63.23	-0.1	11,203,000	1,363.89	2.02	10,160,000	1,236.91	3.10
45	Dubbo	URM	Central	3,427.8	39,077	11.40	0.7	57,839,000	1,480.13	4.48	50,485,000	1,291.94	3.93
46	Dungog	RAL	Central	2,251.2	8,379	3.72	0.7	12,162,000	1,451.49	9.97	8,885,000	1,060.39	3.19
47	Eurobodalla	URM	South	3,422.2	35,902	10.49	2.1	68,342,000	1,903.57	8.49	53,164,000	1,480.81	6.78
48	Fairfield	UDV	Central	101.7	187,683	1,845.46	0.0	108,969,000	580.60	4.38	105,144,000	560.22	3.27
49	Forbes	RAV	Central	4,719.9	9,974	2.11	-0.4	19,768,000	1,981.95	7.96	15,536,000	1,557.65	1.10
50	Gilgandra	RAM	North	4,836.0	4,682	0.97	-0.8	14,073,000	3,005.77	5.37	13,225,000	2,824.65	1.22
51	Glenn Innes Severn **NEW**	URS (prob.)	North	n/a	8,765	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
52	Gloucester	RAM	North	2,951.6	4,902	1.66	-0.3	14,489,000	2,955.73	13.92	12,585,000	2,567.32	11.28
53	Gosford	UFV	Central	940.2	162,841	173.20	0.8	181,959,000	1,117.40	2.74	150,141,000	922.01	5.08
54	Goulburn Mulwaree **NEW**	URS (prob.)	South	n/a	27,003	n/a	0.6	n/a	n/a	n/a	n/a	n/a	n/a

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55	Greater Hume **NEW**	RAV (prob.)	South	n/a	10,652	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
56	Greater Taree	URM	North	3,730.4	46,474	12.46	1.0	41,344,000	889.62	12.19	34,931,000	751.62	2.80
57	Great Lakes	URM	Central	3,375.8	34,186	10.13	2.2	45,968,000	1,344.64	9.70	42,075,000	1,230.77	7.09
58	Griffith	URS	West	1,640.4	24,909	15.18	1.3	32,974,000	1,323.78	6.63	28,010,000	1,124.49	4.61
59	Gundagai	RAM	South	2,457.7	3,763	1.53	0.0	5,776,000	1,534.95	0.51	5,810,000	1,543.98	2.77
60	Gunnedah	RAV	North	5,021.2	12,287	2.45	-0.7	22,877,000	1,861.89	5.65	24,315,000	1,978.92	3.00
61	Guyra	RAM	North	4,394.7	4,441	1.01	0.1	8,364,000	1,883.36	4.19	7,236,000	1,629.36	-0.14
62	Gwydir **NEW**	RAL (prob.)	North	n/a	5,581	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
63	Harden	RAM	South	1,869.0	3,771	2.02	-0.4	9,205,000	2,441.00	8.03	9,166,000	2,430.65	-0.75
64	Hastings	URM	North	3,687.4	69,737	18.91	2.4	96,783,000	1,387.83	8.87	68,374,000	980.46	5.14
65	Hawkesbury	UFM	Central	2,775.7	63,598	22.91	0.7	50,389,000	792.30	2.30	47,314,000	743.95	3.46
66	Hay	RAM	West	11,328.4	3,549	0.31	-0.7	7,643,000	2,153.56	6.61	6,529,000	1,839.67	1.96
67	Holroyd	UDL	Central	40.3	91,211	2,263.30	1.2	52,868,000	579.62	4.23	49,858,000	546.62	4.22
68	Hornsby	UFV	Central	462.4	156,929	339.38	0.9	92,816,000	591.45	6.20	81,780,000	521.13	3.91
69	Hunter's Hill	UDS	Central	5.8	13,911	2,398.45	1.1	8,777,000	630.94	6.16	8,675,000	623.61	5.80
70	Hurstville	UDL	Central	22.8	75,640	3,317.54	1.0	43,864,000	579.90	3.91	49,436,000	653.57	7.28
71	Inverell	RAV	North	8,605.9	15,729	1.83	0.3	27,102,000	1,723.06	8.02	23,394,000	1,487.32	0.30
72	Jerilderie	RAS	South	3,375.4	1,883	0.56	-0.4	6,208,000	3,296.87	5.02	5,912,000	3,139.67	4.00

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73	Junee	RAL	South	2,030.6	5,887	2.90	-0.1	8,353,000	1,418.89	6.43	7,486,000	1,271.62	0.92
74	Kempsey	URS	North	3,379.6	28,114	8.32	0.8	43,276,000	1,539.30	7.99	35,522,000	1,263.50	8.44
75	Kiama	URS	Central	257.8	20,176	78.26	1.0	31,635,000	1,567.95	7.85	32,303,000	1,601.06	7.36
76	Kogarah	UDM	Central	15.6	55,012	3,526.41	1.6	29,474,000	535.77	5.63	30,846,000	560.71	5.91
77	Ku-ring-gai	UDL	Central	85.5	108,830	1,272.87	0.5	64,454,000	592.24	4.51	62,239,000	571.89	2.28
78	Kyogle	RAL	North	3,589.1	9,628	2.68	-0.5	14,469,000	1,502.80	3.78	12,984,000	1,348.57	-1.97
79	Lachlan	RAL	Central	14,973.3	7,431	0.50	-0.4	22,672,000	3,051.00	7.63	19,344,000	2,603.15	0.57
80	Lake Macquarie	URV	Central	643.5	189,196	294.01	0.7	114,462,000	604.99	2.26	103,967,000	549.52	3.76
81	Lane Cove	UDM	Central	10.6	32,341	3,051.04	0.5	23,384,000	723.05	4.47	23,478,000	725.95	6.34
82	Leeton	RAV	South	1,167.3	12,028	10.30	1.0	14,383,000	1,195.79	5.28	11,427,000	950.03	4.00
83	Leichhardt	UDM	Central	10.6	51,430	4,851.89	1.1	51,688,000	1,005.02	n/a	49,095,000	954.60	n/a
84	Lismore	URM	North	1,290.2	43,229	33.51	0.0	54,961,000	1,271.39	6.44	45,938,000	1,062.67	3.99
85	Lithgow City **NEW**	URS (prob.)	Central	n/a	20,831	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
86	Liverpool City	UFV	Central	305.4	167,880	549.71	3.0	108,967,000	649.08	2.07	90,783,000	540.76	5.55
87	Liverpool Plains **NEW**	RAL (prob.)	North	n/a	7,910	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
88	Lockhart	RAM	South	2,895.3	3,528	1.22	-0.3	8,652,000	2,452.38	7.08	7,285,000	2,064.91	-1.66
89	Maitland	URM	Central	391.7	59,949	153.05	2.1	55,645,000	928.21	9.23	34,725,000	579.24	5.75
90	Manly	UDM	Central	14.5	38,987	2,688.76	0.5	38,563,000	989.12	3.71	37,413,000	959.63	2.84

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91	Marrickville	UDL	Central	16.5	75,870	4,598.18	-0.5	63,253,000	833.70	4.45	55,703,000	734.19	3.16
92	Mid Western Regional **NEW**	RAV (prob.)	Central	n/a	22,137	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
93	Moree Plains	RAV	North	17,927.7	16,027	0.89	0.4	31,564,000	1,969.43	5.29	28,501,000	1,778.31	0.43
94	Mosman	UDS	Central	8.7	28,420	3,266.67	0.5	30,172,000	1,061.65	8.09	25,980,000	914.14	4.61
95	Murray	RAL	West	4,344.6	6,604	1.52	2.3	13,458,000	2,037.86	9.50	11,050,000	1,673.23	6.50
96	Murrumbidgee	RAM	West	3,505.0	2,636	0.75	0.2	4,478,000	1,698.79	3.49	3,593,000	1,363.05	3.01
97	Muswellbrook	RAV	Central	3,405.6	15,195	4.46	-0.1	23,598,000	1,553.01	10.61	19,227,000	1,265.35	5.31
98	Nambucca	RAV	North	1,490.5	18,525	12.43	0.5	21,666,000	1,169.55	6.62	18,434,000	995.09	3.37
99	Narrabri	RAV	North	13,030.6	14,239	1.09	-0.2	24,818,000	1,742.96	-1.57	23,485,000	1,649.34	-5.29
100	Narrandera	RAL	South	4,116.6	6,594	1.60	-0.9	12,877,000	1,952.84	5.79	10,846,000	1,644.83	4.24
101	Narromine	RAL	Central	5,263.6	7,020	1.33	0.2	12,466,000	1,775.78	4.70	11,232,000	1,600.00	-0.53
102	Newcastle	URV	Central	182.6	145,633	797.55	0.9	142,875,000	981.06	5.00	133,809,000	918.81	3.79
103	North Sydney	UDM	Central	10.5	60,789	5,789.43	1.0	62,610,000	1,029.96	6.30	54,038,000	888.94	3.12
104	Oberon **NEW**	RAL (prob.)	Central	n/a	5,396	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
105	Orange	URM	Central	284.8	37,546	131.83	0.8	60,184,000	1,602.94	7.27	49,387,000	1,315.37	4.32
106	Palerang **NEW**	RAV (prob.)	South	n/a	11,325	n/a	1.9	n/a	n/a	n/a	n/a	n/a	n/a
107	Parkes	RAV	Central	5,958.0	15,034	2.52	-0.1	26,836,000	1,785.02	6.58	21,600,000	1,436.74	-2.00
108	Parramatta	UDV	Central	61.0	151,076	2,476.66	0.9	113,539,000	751.54	6.21	109,206,000	722.85	6.29

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109	Penrith	UFV	Central	404.8	177,554	438.62	0.5	120,041,000	676.08	2.88	113,942,000	641.73	5.82
110	Pittwater	UDM	Central	90.6	56,954	628.63	0.5	55,270,000	970.43	8.16	45,208,000	793.76	5.55
111	Port Stephens	URM	Central	857.7	62,448	72.81	2.1	71,862,000	1,150.75	5.97	62,271,000	997.17	5.12
112	Queanbeyan City **NEW**	URM (prob.)	South	n/a	36,331	n/a	3.2	n/a	n/a	n/a	n/a	n/a	n/a
113	Randwick	UDV	Central	36.4	126,431	3,473.38	0.3	78,443,000	620.44	5.83	74,074,000	585.88	5.61
114	Richmond Valley	URS	North	2,608.7	20,838	7.99	-0.2	30,249,000	1,451.63	1.87	28,999,000	1,391.64	0.75
115	Rockdale	UDL	Central	28.1	95,036	3,382.06	0.9	51,062,000	537.29	4.96	46,770,000	492.13	4.94
116	Ryde	UDL	Central	40.5	99,662	2,460.79	0.4	60,108,000	603.12	4.72	58,492,000	586.90	5.19
117	Shellharbour	URM	Central	147.4	62,338	422.92	1.7	61,232,000	982.26	10.82	41,664,000	668.36	6.92
118	Shoalhaven	URL	South	4,568.0	91,765	20.09	1.8	139,895,000	1,524.49	6.05	106,717,000	1,162.94	4.46
119	Singleton	URS	Central	4,895.9	21,913	4.48	0.9	31,459,000	1,435.63	9.24	25,320,000	1,155.48	3.56
120	Snowy River	RAL	South	6,029.6	7,322	1.21	1.5	16,671,000	2,276.84	4.26	15,038,000	2,053.81	2.54
121	Strathfield	UDS	Central	13.9	31,129	2,239.50	1.7	23,378,000	751.00	9.21	18,157,000	583.28	5.01
122	Sutherland Shire	UDV	Central	334.5	214,784	642.10	0.4	147,539,000	686.92	2.93	136,795,000	636.90	4.81
123	Sydney City **NEW**	UCC (prob.)	Central	26.7	146,297	5,479.29	3.6	344,771,000	2,356.65	n/a	256,451,000	1,752.95	n/a
124	Tamworth Regional **NEW**	URM (prob.)	North	n/a	54,312	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
125	Temora	RAL	South	2,802.2	6,295	2.25	0.4	10,266,000	1,630.82	8.20	7,801,000	1,239.24	2.80
126	Tenterfield	RAL	North	7,176.8	6,785	0.95	-0.1	11,960,000	1,762.71	7.24	14,879,000	2,192.93	2.55

No.	Local Government Area (LGA)	Type of LGA ACLG Cl.	Location	Area km²	Population Estimate 30/06/04	Pop. Density 30/06/04 Inhab./km²	Pop. Growth Annual Av. 1999-2004 %	Total Revenue 2003/2004 $	Total Revenue Per Capita 2003/2004 $	Rev. Growth Annual Av. 1998/99-2003/04 %	Total Expend. 2003/2004 (see expl.) $	Total Expend. Per Capita 2003/2004 $	Exp. Growth Annual Av. 1998/99-2003/04 %
127	Tumbarumba	RAM	South	4,373.4	3,623	0.83	-0.9	11,126,000	3,070.94	9.89	9,021,000	2,489.93	1.89
128	Tumut **NEW**	RAV	South	n/a	11,382	n/a	0.2	n/a	n/a	n/a	n/a	n/a	n/a
129	Tweed	URL	North	1,309.0	79,910	61.05	2.5	109,581,000	1,371.31	7.99	77,671,000	971.98	6.18
130	Upper Hunter **NEW**	RAV (prob.)	North	n/a	13,376	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
131	Upper Lachlan **NEW**	RAL (prob.)	Central	n/a	7,621	n/a	0.2	n/a	n/a	n/a	n/a	n/a	n/a
132	Uralla	RAL	North	3,229.8	6,040	1.87	0.1	11,467,000	1,898.51	7.12	10,442,000	1,728.81	6.38
133	Urana	RAS	South	3,357.4	1,395	0.42	-1.6	5,236,000	3,753.41	5.22	4,878,000	3,496.77	1.23
134	Wagga Wagga	URM	South	4,824.0	57,557	11.93	0.3	65,678,000	1,141.09	7.05	52,162,000	906.27	3.86
135	Wakool	RAM	West	7,519.7	4,837	0.64	-0.2	12,956,000	2,678.52	9.26	11,347,000	2,345.88	10.51
136	Walcha	RAM	North	6,266.9	3,261	0.52	-0.2	8,866,000	2,718.80	2.66	8,628,000	2,645.81	6.28
137	Walgett	RAL	North	22,336.2	8,096	0.36	-0.8	15,775,000	1,948.49	1.19	14,874,000	1,837.20	-0.87
138	Warren	RAM	North	10,760.3	3,282	0.31	-0.4	10,249,000	3,122.79	1.92	9,838,000	2,997.56	2.58
139	Warringah	UDV	Central	149.6	138,646	926.78	0.8	102,144,000	736.73	5.40	91,949,000	663.19	3.77
140	Warrumbungle **NEW**	RAV (prob.)	North	12,379.6	10,550	0.85	-0.6	21,600,000	2,047.39	2.88	22,743,000	2,155.73	3.20
141	Waverley	UDM	Central	9.3	62,096	6,676.99	-0.6	67,356,000	1,084.71	10.09	61,104,000	984.02	8.42
142	Weddin	RAM	Central	3,409.7	3,823	1.12	-0.2	6,446,000	1,686.11	0.10	6,787,000	1,775.31	-2.33
143	Wellington	RAL	Central	4,113.1	8,668	2.11	-0.4	17,837,000	2,057.80	4.52	14,576,000	1,681.59	-1.84
144	Wentworth	RAL	West	26,268.7	7,236	0.28	0.2	13,488,000	1,864.01	4.35	11,983,000	1,656.03	2.69

No.	Local Government Area (LGA)	Type of LGA ACLG Cl.	Location	Area km²	Population Estimate 30/06/04	Pop. Density 30/06/04 Inhab./km²	Pop. Growth Annual Av. 1999-2004 %	Total Revenue 2003/2004 $	Total Revenue Per Capita 2003/2004 $	Rev. Growth Annual Av. 1998/99-2003/04 %	Total Expend. 2003/2004 (see expl.) $	Total Expend. Per Capita 2003/2004 $	Exp. Growth Annual Av. 1998/99-2003/04 %
145	Willoughby	UDM	Central	22.6	63,905	2,827.65	1.6	58,917,000	921.95	5.62	54,436,000	851.83	5.42
146	Wingecarribee	URM	Central	2,688.8	44,311	16.48	1.7	58,650,000	1,323.60	3.65	49,673,000	1,121.01	5.62
147	Wollondilly	UFM	Central	2,556.6	40,661	15.90	2.0	29,549,000	726.72	6.34	27,872,000	685.47	3.17
148	Wollongong	URV	Central	684.1	191,558	280.01	0.5	141,128,000	736.74	2.58	146,965,000	767.21	2.98
149	Woollahra	UDM	Central	12.3	53,095	4,316.67	0.1	49,754,000	937.08	5.56	50,375,000	948.77	2.16
150	Wyong	UFV	Central	745.0	141,764	190.29	1.9	171,361,000	1,208.78	5.29	133,151,000	939.24	4.47
151	Yass Valley **NEW**	RAV (prob.)	South	n/a	12,549	n/a	2.2	n/a	n/a	n/a	n/a	n/a	n/a
152	Young	RAV	Central	2,693.7	11,957	4.44	0.4	15,444,000	1,291.63	6.16	12,774,000	1,068.33	-3.73
	Total Population				6,730,217								
	Average Population per Council				44,278								

	Unincorporated NSW				1,172	
	Lord Howe Island (Bd)				344	
	Silverton (VC)				57	
	Tibooburra (VC)				128	
	Total Population				**6,731,918**	
	Total New South Wales, ABS data				**6,731,295**	

Sources:

Australian Bureau of Statistics (ABS), *Regional Population Growth, Australia and New Zealand*, cat.-no.: 3218.0 (2005)
NSW Local Government Grants Commission, *Schedule of Estimated Entitlements for Financial Assistance Grants - 2005-2006*
NSW Department of Local Government, *Comparative Information on NSW Local Government Councils 2003/2004*
NSW Department of Local Government, *Comparative Information on NSW Local Government Councils 1998/1999*

Abbreviations and explanations

n/a:	not available
ACLG:	Australian Local Government Classification (see appendix B)
Annual Av.:	Annual average growth is calculated as a percentage using the formula below, where S_o is the status at the start of the period, S_n is the status at the end of the period and n is the length of the period between S_o and S_n in years. $[(S_n/S_o)^{1/n} - 1] \times 100$
Total Expend.:	Total Expenditure only includes operating outlays (which includes depreciation of non-current assets), but not capital outlays such as infrastructure building or acquisition, and renewal or improvement

Appendix B

Australian Classification of Local Government (ACLG)

Australian Classification of Local Government (ACLG)

Urban (U)

- *Local Government area (LGA)'s population is larger than 20,000, or population density higher than 30 persons per square km, or 90% of its population is urban.*

Urban (U), Capital City (CC)

UCC Population scale not applicable.

Urban (U), Metropolitan developed (D)

- *LGA is part of an urban centre that is larger than 1 million in population or has a population density higher than 600 persons per square km.*

UDV	V - Very large (population >120000)
UDL	L - Large (population 70001–120000)
UDM	M - Medium (population 30001–70000)
UDS	S - Small (population <30000)

Urban (U), Regional town/city (R)

- *LGA is part of an urban centre that is larger than 1 million in population and is predominately urban in nature.*

URV	V - Very large (population >120000)
URL	L - Large (population 70001–120000)
URM	M - Medium (population 30001–70000)
URS	S - Small (population <30000)

Urban (U), Fringe (F)

- *LGA is developing on the margin of a developed or regional urban centre.*

UFV	V - Very large (population >120000)
UFL	L - Large (population 70001–120000)
UFM	M - Medium (population 30001–70000)
UFS	S - Small (population <30000)

Rural (R)

Rural (R), Significant Growth (SG)

- *LGA with an average annual population growth of more than 3%, a population of more than 5000 and not remote.*

RSG Population scale not applicable

Rural (R), Agricultural (A)

- *LGA with a population density of more than 30 persons per square km.*

RAV	V - Very large (population 10001–20000)
RAL	L - Large (population 5001–10000)
RAM	M - Medium (population 2001–5000)
RAS	S - Small (population <2000)

Rural (R), Remote (T)

- *Less than 90% of LGA's population is urban.*

RTL	L - Large (population 3001–20000)
RTM	M - Medium (population 1001–3000)
RTS	S - Small (population 401–1000)
RTX	X - Extra small (population <400)

Source:
Australian Government, Department of Transport and Regional Services, *Local Government National Report – 2003-04 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, (2005), Appendix F.