

ADDITIONAL ITEM

28 October 2015
To the Ordinary Council Meeting

Director's Report
Chief Executive Officer's Unit

4.5 Fit For the Future – IPART report and communications from the Office of Premier & Cabinet

TRIM REFERENCE: F2015/01469 - D12121019
MANAGER: Rob Noble, Chief Executive Officer
AUTHOR: Brian Glendenning; General Counsel

SUMMARY

To provide a report on recent developments in the NSW Government's "Fit for the Future" project and the steps being undertaken in response.

RECOMMENDATION

- 1 ***That the Council note the report.***
- 2 ***That Council further note that a further more detailed report will be provided at a meeting to be held prior to 18 November 2015.***

BACKGROUND

The ILGRP and NSW Government Policy

In March 2012 the then Minister for Local Government, the Hon Don Page MP, appointed the Independent Local Government Review Panel ("ILGRP") in response to a request from the NSW Local Government and Shires Association (as it then was named).

On 25 October 2013 the ILGRP published its final report, which (amongst other things) identified that the options for local government reform on the Central Coast were "*full amalgamation*" between Wyong Shire Council ("WSC") and Gosford City Council ("GCC") or "*a multi-purpose Joint Organisation*", with a preference for amalgamation.

In September 2014 the NSW Government published its response to the final report of the ILGRP. One of the ILGRP's recommendations was to "*encourage voluntary mergers of councils through measures to lower barriers and provide professional and financial support*". The NSW Government's response to that recommendation included the following:

"...The Government expects all councils to reform to meet the needs of their community – to become financially sustainable, efficient, effectively manage infrastructure and deliver services and have the scale, resources and 'strategic capacity' to govern effectively. It calls on all councils to submit a proposal by 30 June 2015, outlining how they will achieve this. The Government encourages Fit for the Future proposals broadly in line with the structural changes proposed by the Independent Panel. To support councils to voluntarily merge, the Government is providing up to \$22.5 million for new councils in Greater Sydney, the Central Coast and the Newcastle/Lake Macquarie and up to \$13.5 million for new councils in regional areas..."

“Fit for the Future” Expert Advisory Panel

On 22 April 2015 the Premier, the Hon. Mike Baird MP, requested the Independent Pricing and Regulatory Tribunal (“IPART”) undertake a review of “Fit for the Future” proposals to be submitted by NSW local councils, and so fulfil the role of the “Fit for the Future Expert Advisory Panel”. The terms of reference for that review included a requirement for IPART to develop an assessment methodology which was to be consistent with the NSW Government’s local government reform agenda and was to include “*an assessment of the scale and capacity criteria as a **threshold criterion***” (emphasis added).

On or about 5 June 2015 IPART published its assessment methodology, which included an approach to assessing the scale and capacity criterion that provided:

1. A council would meet the scale and capacity criterion if a local council submitted the same proposal preferred by ILGRP.
2. A council would not meet the scale and capacity criterion if it does not submit the same proposal as preferred by the ILGRP, unless that proposal presented either:
 - (a) a sound argument for ‘no structural change’ which clearly demonstrates why the option proposed is at least as good as or better than the merger option; or
 - (b) a merger option broadly consistent with the objectives of the ILGRP preferred option supported by a sound argument.

On 30 June 2015 WSC submitted its “Fit for the Future Proposal” to IPART. That proposal was supported by an independent cost benefit analysis undertaken for WSC by Third Horizon. WSC’s proposed that it “*remain as a stand-alone entity whilst implementing planned business improvement initiatives..[and] also notes its willingness to discuss potential joint services opportunities with GCC*”. That proposal included a submission that WSC met the threshold criterion of scale and capacity, in circumstances where GCC was unwilling (at that time) to engage with WSC on potential merger.

On 16 October 2015 IPART delivered its final report, which it published on its website on 20 October 2015 following the NSW Government’s preliminary response to that report. Comment is made on IPART’s final report and of the NSW Government’s response to that report under separate sub-headings below.

Relevant findings in the final IPART report

IPART found that WSC was not “fit for the future”, on the basis that its “Fit for the Future Proposal” did not meet the threshold scale and capacity criterion because WSC did not (in IPART’s view) demonstrate that WSC’s proposal to “stand alone” was not as good or better than the merger with GCC that was preferred by the ILGRP.

Importantly, IPART also found that:

- WSC met sustainability, efficiency, and infrastructure and service management criteria.
- GCC and LMCC also each met sustainability, efficiency, and infrastructure and service management criteria.

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- The formation of a multi-purpose joint organisation between WSC and GCC was an option in the absence of merger, as the second preferred option proposed by the ILGRP.

IPART's final report includes the following:

“In the Central Coast, we find Gosford City Council (Gosford) and Wyong Shire Council (Wyong) are not fit for the future. Gosford and Wyong’s proposals did not meet the scale and capacity criterion although both proposals met the financial criteria overall..

We have approached the assessment of the Central Coast councils on the basis that a merger should be explored first. However, if this is not progressed, then the alternative option identified by the ILGRP is for the councils to participate in a multi-purpose JO.

We consider a merger of Gosford and Wyong would give the councils greater scope to undertake new functions and projects, more capacity to effectively partner with governments and effectively advocate on behalf of their communities. Further, the efficiency improvements in the councils’ proposals could be better realised under the merger option.

We find:

- The proposals submitted by Gosford and Wyong are not consistent with the FFTF objectives for stronger and more strategic governance for the Central Coast as the councils propose to stand-alone and not participate in a Central Coast JO.*
- Based on our indicative analysis, up to \$101 million over 20 years in NPV benefits could be realised from a Gosford and Wyong merger. In addition, Ernst & Young estimated NPV benefits from a merger of Gosford and Wyong is \$196 million over 20 years.*

For these reasons we consider that Gosford and Wyong did not demonstrate their stand-alone proposal was as good as or better than the merger option”.

The NSW Government’s preliminary response to IPART’s final report

On 20 October 2015 the NSW Premier, the Hon. Mike Baird MP, and the NSW Minister for Local Government, the Hon. Paul Toole MP, hosted a webinar conference with Mayors and Lord Mayors concerning IPART’s final report.

On 21 October 2015 the Acting Chief Executive Officer of WSC received a letter from the NSW Department of Premier and Cabinet (“DPC”), a copy of which is **attached**. WSC has until **18 November 2015** to consult with the NSW Government concerning IPART’s findings, including any comments WSC has in respect to those findings and, where IPART found that WSC as not “fit for the future”, WSC’s preferences for merging partners.

WSC must decide whether it wishes to consult with the NSW Government prior to providing a submission to the NSW Government on 18 November 2015.

On 23 October 2015 DPC hosted a webinar conference with General Managers and CEOs from Central Coast and Hunter councils.

During both webinar conferences, and in the letter received from DPC, the NSW Government delivered a strong message that it expects those local councils that IPART found were not “fit for the future” (which includes WSC) to consult with the NSW Government on possible voluntary mergers, and offered up to \$10M in “stronger communities” funding and up to a further \$10M in merger implementation funding to those councils that agree to voluntary mergers and those voluntary mergers are agreed to by the NSW Government. The precise basis on which that funding is to be provided is not currently known. However, it was made clear that should a council, say, either WSC or GCC, want to merge, but the other does not, the incentive funding would not apply.

CURRENT STATUS

WSC staff are continuing to review the final IPART report, including a careful analysis of the business case assumptions adopted by IPART. Staff are also carefully reviewing the NSW Government’s funding packages, as well as consulting with GCC and LMCC concerning possible voluntary mergers and joint organisations.

The relevant provisions of the *Local Government Act 1993* are also being carefully reviewed, to determine the ability of the NSW Government to proceed with mergers, whether voluntary or forced, and the consequences of any such merger on WSC’s employees and key corporate projects.

It is premature to provide the Council with clear and final advice on a response to IPART’s findings, but conceptually the options include:

- Providing no response to IPART’s findings.
- Merger with GCC. *This is the option preferred by the ILGRP.*
- Merger with LMCC.
- Merger with LMCC and GCC.
- No merger but develop comprehensive joint organisation with GCC. *This is the second preferred option recommended by the ILGRP and one that WSC had included as part of its Fit for the Future proposal submitted to IPART.*
- No merger but develop comprehensive joint organisation with GCC and/or LMCC.
- GCC and LMCC effectively takeover parts of WSC’s area, resulting in the effective end of WSC. *It is understood that this option is likely to be at least one of the options proposed by GCC and LMCC, with the proposed boundary between the proposed enlarged Gosford and Lake Macquarie local government areas being around the alignment of Sparkes Road.*

A further more detailed report will be provided to a meeting of the Council, to be held prior to 18 November 2015.

CONCLUSION

The final IPART report is an important document that needs to be carefully considered. A further more detailed report will be provided to a meeting of the Council, to be held prior to 18 November 2015.

ATTACHMENTS

- 1 Letter to Wyong Shire Council from NSW Premier & Cabinet dated 21 October 2015

D12130010



Reference: A1372057

Mr Rob Noble
General Manager
Wyong Shire Council
PO Box 20
WYONG NSW 2259

Email: rob.noble@wyong.nsw.gov.au

Dear Mr Noble

The Premier, the Hon Mike Baird MP and the Minister for Local Government, the Hon Paul Toole MP, have written to your Mayor about the Independent Pricing and Regulatory Tribunal's (IPART) assessment of your council's "Fit for the Future" submission.

The NSW Government has announced a final period of consultation, which will close on Wednesday 18 November 2015. The consultation is an opportunity to inform the Government's position on local government reform, and its response to IPART's findings.

Should you wish to participate in this consultation:

- please provide any comments you wish to make in relation to IPART's findings on your council's submission; and
- if your council's submission was found by IPART to be "not fit" as it did not meet scale and capacity, or if your council adjoins a council that did not meet scale and capacity, please advise of any preferences your council may have regarding merging partners.

To provide advice, please use the online template hosted on the Department of Premier and Cabinet's website. Details will be provided separately on how to access this template.

A significant funding package is available for council mergers that are:

- supported by the merging partners; and
- supported by the Government.

Details of this package are available at www.olg.nsw.gov.au. If you have any questions in relation to this letter, please contact John Clark, Executive Director on (02) 9228 3570 or Steve Orr, Executive Director on (02) 9228 5518.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Blair Comley'.

Blair Comley PSM
Secretary

21 October 2015