Size, Shape and Sustainability

A Report on the Mirani Shire Council
Prepared by Professor Brian Dollery (MA, PhD) and Andrew Johnson (B.Ec (Acc) CPA MBA JP) of the Centre for Local Government at the University of New England.

See http://www.une.edu.au/clg/

Contact Brian Dollery on bdollery@une.edu.au

Copyright © Brian Dollery and Andrew Johnson 2006. All rights reserved.
CHAPTER 3: ALTERNATIVE MODELS OF LOCAL GOVERNMENT .................................................................18

3.1 INTRODUCTION ...............................................................................................................................18
3.2 ALTERNATIVE MODELS FOR AUSTRALIAN LOCAL GOVERNMENT .................................................18
  3.2.1 Existing small councils..........................................................................................................19
  3.2.2 Ad hoc resource sharing models ................................................................................................20
  3.2.3 Regional organizations of councils ............................................................................................20
  3.2.4 Area integration or joint board models ......................................................................................20
  3.2.5 Virtual local governments ........................................................................................................21
  3.2.6 Agency models..........................................................................................................................22
  3.2.7 Amalgamated large councils......................................................................................................23
  3.3 STRUCTURAL CHANGE VERSUS PROCESS CHANGE .................................................................24
  3.4 MODELS SUITABLE FOR REGIONAL QUEENSLAND COUNCILS ...................................................26
    3.4.1 Riverina Regional Organization of Councils (REROC) .............................................................27
    3.4.2 Joint Board or Area Integration Model ......................................................................................28
    3.4.3 New England Strategic Alliance Model ....................................................................................30
  3.5 CONCLUDING REMARKS ............................................................................................................31

CHAPTER 4: FINANCIAL SUSTAINABILITY ............................................................................................32

4.1 INTRODUCTION ...............................................................................................................................32
4.2 LOCAL GOVERNMENT PERFORMANCE MEASUREMENT AND KEY PERFORMANCE INDICATORS 33

PART C - POLICY OPTIONS ................................................................. 103

CHAPTER 9: POLICY OPTIONS FOR MIRANI SHIRE .................................................. 103
9.1 INTRODUCTION ................................................................................................. 103
9.2 RESOURCE SHARING THROUGH SERVICE AGREEMENTS .................................. 103
9.2.1 Size, Shape and Sustainability: Guidelines Kit Specification ................................ 103
9.2.2 Assessment of Specification ........................................................................... 105
9.2.3 Implications for Mirani Shire Council .............................................................. 106
9.3 RESOURCE SHARING THROUGH JOINT ENTERPRISE ..................................... 108
9.3.1 Size, Shape and Sustainability: Guidelines Kit Specification ................................ 108
9.3.2 Assessment of Specification ........................................................................... 108
9.3.3 Implications for Mirani Shire Council .............................................................. 108
9.4 SIGNIFICANT BOUNDARY CHANGE .................................................................. 109
9.4.1 Size, Shape and Sustainability: Guidelines Kit Specification ................................ 109
9.4.2 Assessment of Specification ........................................................................... 111
9.4.3 Implications for Mirani Shire Council .............................................................. 111
9.5 MERGER/AMALGAMATION .............................................................................. 112
9.5.1 Size, Shape and Sustainability: Guidelines Kit Specification ................................ 112
9.5.2 Assessment of Specification ........................................................................... 114
9.5.3 Implications for Mirani Shire Council .............................................................. 115
9.6 OTHER OPTIONS .............................................................................................. 115
9.7 CONCLUDING REMARKS ................................................................................ 116

CHAPTER 10: RECOMMENDATIONS FOR MIRANI SHIRE ........................................... 118
10.1 INTRODUCTION ............................................................................................... 118
10.2 SYNOPTIC REVIEW OF THE REPORT .............................................................. 118
10.2.1 Part A ............................................................................................................ 118
10.2.2 Part B ............................................................................................................ 119
10.3 GENERAL OBSERVATIONS ............................................................................ 120
10.4 RECOMMENDATIONS ..................................................................................... 121

REFERENCES ......................................................................................................... 127

APPENDIXES ........................................................................................................... 135

APPENDIX 1: SSS INDICATORS ................................................................................. 135
APPENDIX 2: LIST OF ORGANISATIONS CONSULTED ............................................ 148
APPENDIX 3: COMMUNITY SURVEY ............................................................................. 149
APPENDIX 4: SURVEY RESPONSES ............................................................................. 152
## ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
</tr>
<tr>
<td>ACIR</td>
<td>Advisory Commission on Intergovernmental Relations</td>
</tr>
<tr>
<td>ALGA</td>
<td>Australian Local Government Association</td>
</tr>
<tr>
<td>ANAO</td>
<td>Australian National Audit Office</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CGC</td>
<td>Commonwealth Grants Commission</td>
</tr>
<tr>
<td>CMAs</td>
<td>Catchment Management Authorities</td>
</tr>
<tr>
<td>COAG</td>
<td>Council of Australian Governments</td>
</tr>
<tr>
<td>CPA</td>
<td>Certified Practising Accountants</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>DDRoC</td>
<td>Darling Downs Regional Organisation of Councils</td>
</tr>
<tr>
<td>DLGPSR</td>
<td>Department of Local Government, Planning, Sports and Recreation</td>
</tr>
<tr>
<td>DOTARS</td>
<td>Department of Transport and Regional Services</td>
</tr>
<tr>
<td>FSRB</td>
<td>Financial Sustainability Review Board</td>
</tr>
<tr>
<td>GIS</td>
<td>Geographic Information System</td>
</tr>
<tr>
<td>IRF</td>
<td>Independent Review Facilitators</td>
</tr>
<tr>
<td>KPI</td>
<td>Key Performance Indicators</td>
</tr>
<tr>
<td>LGAQ</td>
<td>Local Government Association of Queensland</td>
</tr>
<tr>
<td>LGI</td>
<td>Local Government Inquiry</td>
</tr>
<tr>
<td>LGSA</td>
<td>Local Government and Shires Associations</td>
</tr>
<tr>
<td>MWREDC</td>
<td>Mackay Whitsunday Regional Economic Development Corporation</td>
</tr>
<tr>
<td>NERAC</td>
<td>New England Strategic Alliance of Councils</td>
</tr>
<tr>
<td>PIFU</td>
<td>Planning, Information and Forecasting Unit</td>
</tr>
<tr>
<td>QAO</td>
<td>Queensland Audit Office</td>
</tr>
<tr>
<td>QTC</td>
<td>Queensland Treasury Corporation</td>
</tr>
<tr>
<td>REROC</td>
<td>Riverina Regional Organization of Councils</td>
</tr>
<tr>
<td>R2R</td>
<td>Roads to Recovery</td>
</tr>
<tr>
<td>ROCs</td>
<td>Regional Organizations of Councils</td>
</tr>
<tr>
<td>SSS</td>
<td>Size, Shape and Sustainability</td>
</tr>
<tr>
<td>WALGA</td>
<td>Western Australian Local Government Association</td>
</tr>
<tr>
<td>WHaMB ROC</td>
<td>Whitsundays, Highland, and Mackay, Bowen Regional Organisation of Council</td>
</tr>
</tbody>
</table>
LIST OF TABLES

Table 2.1 Growth in NSW Local Government Operating Expenditure (1995/96 = 100) .................. 10
Table 4.1 Key Financial Aggregates ...................................................................................... 37
Table 4.2 Key Analytical Balances ....................................................................................... 38
Table 4.3 Indicative Benchmark Values for Council Financial KPIs ................................. 39
Table 6.1 Summary of Key Statistics for Marina shire Council ............................................ 60
Table 6.2 Age by Labour Force Status (Full-Time/Part-Time) Persons aged 15 years and over (excluding overseas visitors) .................................................. 62
Table 6.3 Weekly Individual Income of all Persons (excluding overseas visitors) ............... 63
Table 6.4 Industry by Age Employed (excluding overseas visitors) ........................................ 63
Table 6.5 Relative representation in the Pioneer valley .......................................................... 64
Table 6.6 Age Profile of Work Force ..................................................................................... 65
Table 6.7 Mirani Shire’s Corporate Plan Objectives ............................................................. 66
Table 7.1 SSS Sustainability Indicator-Scores ..................................................................... 82
Table 7.2 Indicative Benchmark Values for Council Financial KPIs ....................................... 84
Table 7.3 Queensland Council’s Considered Financially Vulnerable by the QAO ............. 89
Table 7.4 Assessment of Mirani Shire against QAO Financial Viability Indicators ............. 89
Table 7.5 Mirani Shire Council’s Calculation of Unfunded Depreciation ............................ 91
Table 7.6 Unfunded Depreciation in Queensland Local Government 2003-04 .................... 91
Table 8.1 Importance of Various Services to the Mirani Shire Community ......................... 94
Table 8.2 Community Assessment of Mirani Shire Council’s Performance ....................... 95
Table 8.3 Service Expectation Gap ...................................................................................... 96
Table 9.1 Advantages and Disadvantages of Resource Sharing through Service Agreements .............................................................................................................. 105
Table 9.2 Advantages and Disadvantages of Resource Sharing through Joint Enterprise ... 109
Table 9.3 Advantages and Disadvantages of Boundary Change .......................................... 110
Table 9.4 Advantages and Disadvantages of Merger/Amalgamation Options ................... 113
Table 10.1 SA Sustainability Review Board’s Recommendations in Relation to Service Provision .................................................................................................................. 122
## LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Local Government Outlays by Function</td>
<td>9</td>
</tr>
<tr>
<td>3.1</td>
<td>Structural Change and Process Change</td>
<td>26</td>
</tr>
<tr>
<td>5.1</td>
<td>Competing Roles of Australian Local Government</td>
<td>50</td>
</tr>
<tr>
<td>6.1</td>
<td>Location Map of Mirani Shire Council</td>
<td>59</td>
</tr>
<tr>
<td>6.2</td>
<td>Population of Mackay Statistical Division</td>
<td>59</td>
</tr>
<tr>
<td>6.3</td>
<td>Mirani Shire Council’s Organisation structure</td>
<td>65</td>
</tr>
<tr>
<td>6.4</td>
<td>Summary of Mirani Shire Council’s Revenue 2004/05</td>
<td>67</td>
</tr>
<tr>
<td>6.5</td>
<td>Summary of Mirani Shire Council’s Functional Expenditure for 2004/05</td>
<td>68</td>
</tr>
<tr>
<td>6.6</td>
<td>Mirani Shire Population Projections</td>
<td>70</td>
</tr>
<tr>
<td>7.1</td>
<td>Results of QTC Assessment of Mirani Shire Council</td>
<td>86</td>
</tr>
<tr>
<td>8.1</td>
<td>Road Maintenance Expenditure per Laned Kilometer</td>
<td>97</td>
</tr>
<tr>
<td>8.2</td>
<td>Distribution of Net Residential Rates and Charges 2003/04</td>
<td>100</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

The Report is divided into three main parts. Part A considers theoretical and empirical evidence on structural reform in Australian local government and the Size, Shape and Sustainability exercise in Queensland. Part B provides a detailed analysis of the Mirani Shire Council in the light of the Size, Shape and Sustainability program. Part C examines the various options for reform and makes recommendations.

The analysis conducted in Part A of the Report reached several firm conclusions on structural reform in local government. These conclusions may be summarized as follows:

♦ Amalgamation is only one of several kinds of structural change that can enhance local government operational efficiency.

♦ Compared to other structural arrangements, amalgamation carries very heavy costs in terms of the loss of local autonomy, local democracy and local representation and has seldom achieved substantial cost savings.

♦ Other models of local governance that are based on shared services offer much greater promise since they protect local autonomy, local democracy and local representation and can generate significant cost savings.

♦ No agreement exists on the meaning and measurement of financial sustainability in Australian local government.

♦ Different approaches arrive at different conclusions on the financial status of individual local councils and in any event have a very poor predictive efficacy in identifying which municipalities that will fail.

♦ The inability to determine the financial sustainability of individual councils means policy makers have no reliable method of identifying “at risk” councils and this precludes drawing firm policy implications from data on financial sustainability.

♦ Financial sustainability is only part of the much broader concept of overall council sustainability that includes local democracy, local social capital and local capacity.

♦ While these and other attributes of the functioning of councils are difficult to define and measure, this does not reduce their vital importance.

The analysis conducted in Part B of the Report derived some firm conclusions on the status of Mirani Shire Council. These conclusions may be summarized as follows:

♦ The Council has a relatively young and rapidly growing population with an average taxable income of $33,852.

♦ Current “official” population estimates are unreliable and out of date. Population of the Shire is estimated at in excess of 6,000 people growing conservatively to 8,000 within ten years, at an average annual growth rate of between 2.1% and 2.8%.

♦ Agriculture, and in particular sugar, is the major industry of the Shire generating in excess of $33m per annum in revenue.
The Council has one councillor per 660 persons, compared to the regional average (excluding Mackay) of 1,047 people per councillor, and the City of Mackay with 5,846 people per elected representative.

The key to the future of the district’s prospects, and indeed those of the Council, appears to be based on an assessment as to whether the exponential growth and development of the Council can be sustained into the future.

Current growth levels are underpinned by the emerging mining industry boom, brought on by high resources prices as a result in the development of the Chinese economy.

Mirani Shire has the advantages of providing an alternative, rural-based lifestyle for those looking at escaping the overcrowded and relatively over-priced Mackay.

The SSS Guidelines proved to be inconclusive as a means of assessing Mirani Shires Council’s sustainability due to their incompatibility with “true” sustainability indicators and “best practices” within local government.

Mirani scored highly in the SSS indicators in areas such as rating capacity, financial forecasts, population growth, which are considered essential to be able to maintain the Council’s finances into the future.

Areas where Mirani Shire scores lowest on the SSS indicators include accountability (performance management and internal audit), decision making (corporate planning and risk management), assets sustainability and the level of services (setting and monitoring service level) which are all believed to represent an opportunity for the Council to achieve “best practice” in local government rather than being an indication of its future sustainability.

The high community satisfaction that we obtained from our survey data signifies that the Council is easily meeting community expectations.

The Queensland Treasury Corporation concluded their evaluation of Mirani Shire Council’s financial forecast by assessing the Council as “on current forecasts has a high capacity to meet its financial commitments in the short to medium term and an acceptable capacity in the long term. The Council is expected to be able to manage unforeseen financial shocks (with minor to moderate revenue/expense adjustments) and any adverse changes in local government business and general economic conditions. The capacity to manage core business risk is acceptable”.

In essence, Mirani Shire Council is considered to be sustainable in the medium term on all alternative methods of assessment, except the NSW LGI method of evaluation. The Council has reasonably good financial “fundamentals”, a growing population, and high levels of community satisfaction with the Council’s operations and services.

The Council is vulnerable in the area of asset management and needs to eliminate its predicted small deficit over the coming years.

Mirani Shire is believed to have the capacity (both human and financial), the leadership, and community support to continue its good financial position for many years to come.

Part C examined the various options for reform and made several recommendations. These can be summarized as follows:

The Council should seek to achieve industry “best practice” in the area of asset management, documenting and reporting on service levels, risk management,
implementation of a performance monitoring and reporting system and internal audit, in order to improve its operations.

♦ In the finance area, the Council should seek to eliminate its predicted small operating deficit over the next ten years, and aim to replace its assets at a pace at least equivalent to the rate of deterioration of these assets.

♦ The Council should undertake regular community surveys in order to obtain views of the community, the perception of residents of its performance, and to identify emerging trends.

♦ Implement measures to ensure that it can manage the growth in the Shire with particular attention to infrastructure, human resources, community and financial requirements.

♦ If threatened with forced amalgamation, the Council should commission a professional independent market research firm to ascertain the views of residents on the proposal put forward as it is our view that the Council has incredibly strong support from its community and a mandate not to amalgamate.

♦ The Council should continue to exert regional leadership and seek to ensure greater regional cooperation and the sharing of resources, on a contract basis, through the WHaMB Regional Organisation of Councils to achieve greater efficiency and effectiveness in its operations as well as strengthen the ROC’s political capacities for the benefit of the whole region.

♦ Implement a comprehensive strategic plan to address the above issues, tied to its ten year financial plan and its assets management plan, with progress regularly reported to Council.
CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

National concern over the long-term viability of Australian local government has been reflected in action taken not only by central government, but also in several state local government jurisdictions. For example, the Commonwealth Grants Commission (CGC) (2001) conducted a landmark Review of the Operation of Local Government (Financial Assistance) Act 1995 that identified five main sources of financial distress in Australian local government. Similarly, in its Final Report Rates and Taxes: A Fair Share for Responsible Local Government, the Commonwealth House of Representatives Standing Committee on Economics, Finance and Public Administration (2004) found that a significant infrastructure “renewal gap” existed across Australian local government with asset standards are still decreasing. These landmark documents have seen at least some concrete action by the Commonwealth government. For instance, the Commonwealth government’s Roads to Recovery (R2R) funding program can be viewed as attempt at alleviating infrastructure under-investment in the road network. Along analogous lines, recent efforts at negotiating a comprehensive Intergovernmental Agreement between national, state and local government represents a first step towards tackling the debilitating problem of cost shifting.

At the state level, several similar initiatives have been conducted. For example, the South Australian Financial Sustainability Review Board’s (2005) Rising to the Challenge Final Report considered the difficult question of “financial sustainability” of local government in that state and drew some alarming conclusions. A broader, but nonetheless similar inquiry was held in NSW under the auspices of the NSW Local Government and Shires Association. The resultant Independent Inquiry into the Financial Sustainability of NSW Local Government’s (LGI) (2006) produced a Final Report entitled Are Councils Sustainable. It also generated some rather bleak conclusions on the long-term financial sustainability of NSW councils under present circumstances. The recent Western Australian Systemic Sustainability Study: In Your Hands – Shaping the Future of Local Government in Western Australia, produced under the auspices of the Western Australian Local Government Association (WALGA, 2006, pp.1-2), represents a third attempt at the state government level that is ongoing.

The Queensland Size, Shape and Sustainability (SSS) Review Framework represents an additional attempt by an Australian state to assess financial sustainability of its local government and seek to improve the present situation. The SSS represents the outcome of a long process of deliberation in Queensland local government. In 2004, the Local Government Association of Queensland (LGAQ) resolved to consider the financial and other pressures confronting councils in Queensland and to examine the various options for local government reform to ensure the long-run viability of local authorities. As a first step, a Discussion Paper entitled Size, Shape and Sustainability of Queensland Local Government was released on 3rd March 2005 and a Special Conference of the LGAQ held in Brisbane in early June 2005, which formulated a Communique approving a “comprehensive reform blueprint”.

A “ten point Action Plan” followed from the Communique that was subsequently endorsed by both the LGAQ Executive and the Queensland Minister for Local Government and Planning. The Action Plan provided for a local government reform program embodying the Size, Shape and Sustainability (SSS) Review Framework, sustainability indicators, “options for change”, “Independent Review Facilitators” (IRF), and funding arrangements for state government
support. The reform program itself is outlined in the *Size, Shape and Sustainability: Guidelines Kit* (LGAQ, 2006).

The *Guidelines Kit* (LGAQ, 2006, Chapter 1, p.6) prescribes that all local councils must “assess their current and future sustainability against a number of key indicators”. It further mandates the use of SSS indicators to assist councils to determine how they are performing. The *Guidelines Kit* suggests that the SSS indicators may “help identify where there might be present or future vulnerabilities, opportunities, and strengths”. These three terms are carefully defined: “Vulnerabilities” consist of “risks or weaknesses within specific areas of council operations”; “opportunities” focus on “areas within council operations that could be improved”; and “strengths” consider excellence in council operations and areas where a given council could “provide assistance/benefit to other councils”.

In addition to the mandatory use of these prescribed indicators, the SSS also allows individual councils scope for employing other ways of assessing their performance, including other performance indicators. A further avenue of appraisal is furnished through the offices of the Queensland Treasury Corporation (QTC) that has agreed to undertake Financial Sustainability Reviews for local councils.

The SSS review process outlines four main “options for change”:

- Resource sharing through Service Agreements;
- Resource sharing through Joint Enterprise;
- Significant boundary change; and
- Merger/amalgamation of adjoining councils.

It is significant that these options do not include the possibility of “business as usual”.

Against this background, the Mirani Shire Council decided to participate fully and promptly in the SSS process. Indeed, as an initial step in this process, the Council was one of the first local authorities in the entire state of Queensland to seek and receive a Financial Sustainability Review from the QTC. As a second step, the Council agreed to engage the Centre for Local Government at the University of New England to prepare a detailed Report on the current position of Mirani Shire Council, its future prospects, and the various options available to the Council. This was done in the full knowledge that members of the Centre had not been included on the list of approved IRF persons appointed by the LGAQ. The Council not only sought a completely independent assessment panel, but also engaged members of the Centre for Local Government because the Centre represented the pre-eminent source of local government economic and finance research in Australia.

To this end, Mayor Dave Price and Mirani Shire CEO Ray Geraghty held a meeting with Centre of Local Government members Professor Brian Dollery and Andrew Johnson in Toowoomba on 27 April 2006. At this meeting, Professor Brian Dollery and Andrew Johnson made a presentation of previous research projects undertaken by the Centre and the subsequent publications produced by Centre members, as well as their thoughts on an evaluation of the Mirani Shire Council under the SSS framework. This was followed by a thorough discussion of the SSS process and the position of Mirani Shire Council.

After due consideration by the Mirani Shire Council, Council decided to engage Professor Brian Dollery and Andrew Johnson to undertake a thorough investigation of Mirani Shire Council and
prepare a full report on the present state of the Council, its future prospects, and the various options open to the Council. This Report represents the outcome of that process.

In preparing the Final Report, Mirani CEO Ray Geraghty provided Professor Brian Dollery and Andrew Johnson with a wealth of background material, including the Financial Sustainability Review by the QTC. After carefully studying this material, Professor Brian Dollery and Andrew Johnson spent the period 9 to 14 July in Mirani Shire Council consulting with various people, including Mayor Dave Price, CEO Ray Geraghty, a full meeting of elected representatives of the Mirani Shire Council, a Community Forum meeting, a meeting of selected community leaders, a meeting of all senior Mirani Shire Council managers, and a meeting with the Mayor of the City of Mackay. In addition, additional written material was provided to the investigating team.

An Interim Report was provided to the Mirani Shire Council and Professor Brian Dollery and Andrew Johnson met with Mayor Dave Price and CEO Ray Geraghty on 1 September 2006 in Toowoomba to discuss the Interim Report. In the light of these discussions some amendments were made to the document that was then presented to the Council in the form of a Final Report.

1.2 OUTLINE OF THE REPORT

The Final Report is divided into three main parts. Part A considers the SSS process against the broader background of Australian local government reform. Part B focuses on the Mirani Shire Council. Part C sets out the various policy options available to the Mirani Shire Council and assesses the merits of these different options.

1.2.1 Part A

Part A comprises four substantive chapters. Chapter 2 is divided into three main sections. Section 2.2 sets out the reasons for the current difficulties faced by Australian local government. Section 2.3 considers structural reform in local government, and especially council amalgamation, as the predominant policy instrument used by state and territory governments to enhance the effectiveness of local government. The chapter ends with some brief concluding remarks in section 2.4.

Chapter 3 is divided into five main parts. Section 3.2 provides a brief outline of five promising alternative governance models, some of which have already been implemented in Australia. Section 3.3 provides a conceptual stem for considering alternative models of local governance involving structural change and process change more suited to councils in non-metropolitan areas. Section 3.4 seeks to determine which of the models developed by Dollery and Johnson (2005) are the most suitable vehicles for the structural reform in non-metropolitan Australia, with the focus falling on three recent examples drawn from the Riverina Regional Organization of Councils (REROC), the NSW Shires Association (2004) Joint Board model, and the New England Strategic Alliance. Chapter 3 ends with some short concluding remarks on the policy implications of the analysis in section 3.5.

Chapter 4 is divided into seven main parts. Section 4.2 provides a synoptic discussion of the generic problems associated with local government performance measurement and Key Performance Indicators. Section 4.3 considers the work of the South Australian Financial Sustainability Review Board (2005). Section 4.4 focuses on the relevant parts of the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (2006) Final Report. Section 4.5 deals with the approach to sustainability developed by Murray and Dollery.
whereas the Walker and Jones (2006) method is assessed in section 4.6. Section 4.7 examines the criteria advanced in the Queensland (2006) *Size, Shape and Sustainability* manual. Chapter 4 ends with some brief evaluative comments in section 4.8.

Chapter 5 is divided into three main parts. Section 5.2 considers the problem of defining adequately council sustainability and identifying the chief determinants of this broader conception of local government sustainability. Section 5.3 examines each of the putative attributes of community or social sustainability in local government and tries to develop operational measures for these characteristics. The chapter ends with some brief concluding remarks in section 5.4.

1.2.2 Part B

Part B mirrors the structure of Part A but brings it to bear on the specific circumstances of the Mirani Shire Council. Part B comprises three substantive chapters. Chapter 6 is divided into six main parts. Section 6.2 profiles Marini Shire and the surrounding region. Section 6.3 analyses the demographic composition of Mirani Shire from data predominantly contained in the 2001 Census and provides a discussion of the types of industries operating in Mirani Shire and the major sources of employment for its residents. Section 6.4 represents a preliminary discussion on the Council itself and sets the scene for the detailed analysis in Chapter 7. Section 6.5 examines the future growth and economic prospects for the Shire. The chapter ends with some brief evaluative comments in section 6.6.

Chapter 7 is divided into seven main parts. Section 7.2 evaluates Mirani Shire Council against the Queensland *Size, Shape and Sustainability* manual (LGAQ, 2006) indices of sustainability. Section 7.3 assesses Mirani under the South Australian Financial Sustainability Review Board (2005) criteria for a sustainable local government authority. Section 7.4 focuses on applying the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (LGI, 2006) recommendations to determining sustainability in the case of Mirani Shire. Section 7.5 reviews the results and conclusions from the Queensland Treasury Corporation (QTC, 2006c) analysis of Mirani Shire. Section 7.6 considers the results from the annual audits of municipalities in Queensland undertaken by the Auditor General and his determination of financial viability. The chapter ends with some brief evaluative comments in section 7.7.

Chapter 8 is divided into six main parts. Section 8.2 evaluates the results of community surveys conducted with a number of representative groups from Mirani Shire. Section 8.3 considers representation within Mirani Shire Council and the likely effect on this representation if the council were to be merged with one or more of its neighbours. Section 8.4 seeks to evaluate the capacity of Mirani Shire in terms of its technical expertise and its ability to implement the requirements of residents. Section 8.5 discusses other aspects of sustainability (as analysed in detail in Chapter 5) as they relate to Mirani Shire. The chapter ends with some brief evaluative comments in section 8.6.

1.2.3 Part C

Part C draws the Report together and sets out its major findings. Part C consists of two chapters.

Chapter 9 is divided into six main parts. Section 9.2 examines resource sharing by means of service agreements. Section 9.3 considers resource sharing through joint enterprise. Section 9.4
evaluates the “significant boundary change” option. Section 9.5 deals with the drastic possibility of the dissolution of Mirani Shire Council and its amalgamation into a larger municipality. Section 9.6 focuses on other reform options available to Mirani Shire. The chapter ends with some brief concluding remarks in section 9.7.

Chapter 10 is divided into three main parts. Section 10.2 provides a synoptic review of the overall thrust of the Report. Section 10.3 advances some general observations on the manner in which the Mirani Shire Council should deal with the Size, Shape and Sustainability program. The chapter concludes with a set of specific recommendations for the Mirani Shire Council.
CHAPTER 2: LOCAL GOVERNMENT REFORM IN AUSTRALIA

2.1 INTRODUCTION

The Size, Shape and Sustainability (SSS) project by the Queensland Government forms part of a larger national drive by state and territory governments to reform local government across Australia by enhancing the efficiency and effectiveness of local councils. A significant part of this process involves analysing the current financial circumstances of local authorities in an effort to secure their longer run financial sustainability. The Queensland Minister for Local Government Desley Boyle has emphasised this dimension of the Queensland reform initiative by observing that the SSS program is aimed at encouraging Queensland municipal councils “in focusing on and evaluating their long term sustainability in a changing local environment” with the prime object of enabling “councils to work together in setting their own agenda, responding to the pressures they face, making changes and securing their long-term position” within Queensland (LGAQ, 2006, p.1).

Since Queensland local government is subject to much the same forces as other Australian local government systems and since the Queensland state government reform process has very similar aims to analogous reform programs in other states, the Queensland reform initiative is best understood when placed in national perspective. In this way, it is possible to evaluate not only the nature of the process set in train through the SSS initiative, but also to assess its prospects of success in the light of experience elsewhere in Australia and abroad. Chapter 2 thus seeks to locate the SSS program within the broader national and international context.

The chapter itself is divided into three main sections. Section 2.2 sets out the reasons for the current difficulties faced by Australian local government. Section 2.3 considers structural reform in local government, and especially council amalgamation, as the predominant policy instrument used by state and territory governments to enhance the effectiveness of local government. The chapter ends with some brief concluding remarks in section 2.4.

2.2 PROBLEMS CONFRONTING AUSTRALIAN LOCAL GOVERNMENT

Four distinct sets of economic and political factors have combined to produce the current impasse in Australian local government. We shall examine each of these four factors in turn.

2.2.1 Financial Pressures and Local Infrastructure Depletion

Firstly, intensifying financial pressures mean that the status quo in local government simply cannot be sustained indefinitely. The Commonwealth Grants Commission (CGC, 2001, pp.52-53) has identified five main reasons for the current financial crisis in Australian 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, through legislative or other changes, raises the complexity and/or standard at which local government services must be provided, thereby increasing the cost of service provision;

“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

“Policy Choice” – where specific councils voluntarily expand and/or enhance their services.

Andrew Johnson (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 monetary pressures, it is no exaggeration to stress that existing arrangements have only been maintained at the cost of steadily depreciating physical infrastructure; an approach with ominous long-run implications. 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 (2004, p.59) observed that “there is a significant infrastructure renewal gap across the country and asset standards are decreasing”.

This state of affairs has been repeatedly confirmed in several other recent inquiries into Australian local government, including the Commonwealth Grants Commission’s (CGC) (2001) Review of the Operation of Local Government (Financial Assistance) Act 1995, the South Australian Financial Sustainability Review Board’s (2005b) Rising to the Challenge, and the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (LGI) (2006) Are Councils Sustainable. While the main reasons for this financial distress are generally well understood, debate continues on how best to deal with the problem.

It is also widely acknowledged that the financial plight of Australian local government would have been substantially worse had it not been for the introduction of the Commonwealth government’s Roads to Recovery (R2R) funding program. The R2R initiative began life as a response to the looming problem of a local road stock that was reaching the end of its useful life. The finance required to renew the declining network of local roads was deemed beyond the capacity of local government. As a consequence, in November 2000, the Commonwealth government announced that it would inject $1.2 billion into local road renewal, 70% (or $850m) of which was to be spent in rural and regional Australia (DOTARS, 2003, p. 1).

The R2R program was initially designed to cover the period January 2001 through to June 2005. However, following a review of Commonwealth transport infrastructure funding in 2002, R2R was extended (under the banner of AusLink) and will now finish in 2009. In total, covering the period 2001 through 2009, the program will outlay about $2.55 billion in local road funding (DOTARS, 2006, p. 7). The financial arrangements underlying R2R completely by-pass state and territory governments, and thus represent a direct grant from the Commonwealth to local councils. One of the many conditions placed on use of the funds is the maintenance of a weighted average of previous local road expenditure by recipient councils. This stipulation enables us to classify R2R grants as targeted close-ended conditional block grants. While the
requirement to maintain previous funding levels makes it tempting to characterize the program as a matching grant, a matching rate is not explicitly stated.

Despite the undoubted financial relief that the R2R program has brought to struggling local councils across Australia, it remains embroiled in controversy. In the first place, although the Commonwealth has been previously involved in the direct finance of local government through various programs, R2R has broken with longstanding tradition in Australian fiscal federalism by its sheer scale in bypassing state and territory governments that have typically redistributed federal funding to local government through their Local Government Grants Commissions. In addition, political opponents of the program have stigmatised it as “pork barreling” on a grand scale that has been calculated to secure the federal government partisan advantages in marginal electorates, particularly in non-metropolitan seats. Other critics have questioned the efficacy of R2R in achieving its stated aims of upgrading the local roads network (see, for example, ANAO (2006)).

2.2.2 Operational Efficiency of Local Government

Secondly, state and territory governments across Australia remain concerned over the operational efficiency of municipalities, particularly small regional and rural councils. As we have seen, in part the Size, Shape and Sustainability initiative by the Queensland Government represents its attempt to tackle the question of the efficiency and effectiveness of Queensland local councils. A key feature of local government reform across Australia in this regard has been its heavy emphasis on council amalgamations as the primary engine in the drive for more cost effective local services (Vince, 1997). Thus, during the nineties South Australia, Tasmania and Victoria all underwent episodes of municipal consolidation of differing degrees of intensity (May, 2003). More recently, a program of compulsory amalgamation was conducted in NSW. Finally, the prospect of substantial municipal reform now looms large in Queensland, the Northern Territory and Western Australia (see, for example, ALGA News, 2005).

The question of the efficacy structural reform generally, and amalgamation in particular, will be taken up in Section 3 of this chapter in much greater detail.

2.2.3 Expansion in the Role of Local Government

In Australia, local councils have traditionally provided a comparatively narrow range of local “services to property” - caricatured in the expression “roads, rates and rubbish” – and financed through a complex mix of property taxes, local government grants, and fees and charges. However, amendment of the different Local Government Acts across all Australian state and territory local government systems have created the legislative scope for a much greater role for municipalities. The powers of general competence embodied in these statutes has facilitated a dramatic transformation in the composition of local government service provision away from traditional services to property towards human services.

In its Rates and Taxes: A Fair Share for Responsible Local Government, the Hawker Report (2004, p. 9) observed that it had discerned not only increasing diversity across Australian local government service provision, but also an “expansion of the roles beyond those traditionally delivered by the local sector”. This shift in mode of service delivery had two main characteristics: Firstly, local authorities had assumed responsibility many more social issues, including “health, alcohol and drug problems, community safety and improved planning and accessible transport”.
Secondly, councils have been increasingly active in the application and monitoring of regulation, especially in “development and planning, public health and environmental management”.

In its *Local Government National Report, 2003-04*, the Commonwealth Department of Transport and Regional Services (DOTARS) (2005, p. 2) has also recognized the changing role of Australian local government, noting that local authorities are “increasingly providing services above and beyond those traditionally associated with local government”. By way of qualification, it observed that “local government now delivers a greater range of services, broadening its focus from ‘hard’ infrastructure provision to spending on social services such as health, welfare, safety, and community amenities”.

How marked has this shift been? The Commonwealth Grants Commission (2001) has calculated trends in the composition of municipal outlays across Australian local government by function over the period 1961-62 to 1997-98. The outcome is reproduced in Figure 1 below:

![Figure 2.1: Local Government Outlays by Function](image)

*Figure 2.1: Local Government Outlays by Function*
*Source: Commonwealth Grants Commission (2001, p. 173).*

Figure 1 vividly illustrates the fact that local councils have expanded human service functions sharply relative to their longstanding services to property focus over a 35-year time period. For example, “general public services” has fallen from slightly in excess of 20% of expenditure in 1961-62 to around 13% in 1997-98 and the decline in “transport and communication” has been even more pronounced.

The CGC (2001, pp. 53-4) ascribed four main characteristics to the observed changes in the composition of Australian local government expenditure over the period 1961-62 to 1997-98. Firstly, it comprised a continuous shift from “property-based services to human services”. Secondly, the relative eight of “recreation and culture” and “housing and community amenities” had increased to about 20% of expenditure in each case. Thirdly, expenditure on roads declined from more than 50% in the 1960s to slightly more than 25% by 1997-98. Finally, expenditure on “education, health, welfare and public safety” expanded. The Commission concluded that “the
composition of services being provided by local government has changed markedly over the past 30-35 years”. In essence, “local government is increasingly providing human services at the expense of traditional property-based services (particularly roads).”

These trends appear to have continued. For example, in the context of NSW local government outlays, the LGI (2006, Chapter 7, p. 153) observed in its Final Report *Are Councils Sustainable?* that changes in local government expenditure since 1995-96 contained three noteworthy features. Firstly, “the fastest growing activities have been housing and community amenities, public order and safety, and economic affairs, particularly within Sydney City”. Secondly, “transport and communications (largely road maintenance and depreciation, though not necessarily renewal) had a marked increase in 1996-97, but has stabilised since then”. Finally, “health” and “mining, manufacturing and construction” both fell relative to the Consumer Price Index (CPI).

A further indication of the magnitude of this process in NSW at least can also be gathered from *Are Councils Sustainable?* based on a statistical analysis commissioned from Brooks (2006). Table 1 from the Final Report *Are Councils Sustainable?* is reproduced below with illuminating information on the change in composition of local government operating expenditure. Operating outlays in Table 1 include infrastructure maintenance and depreciation, but not the construction of new or upgraded infrastructure.

**Table 2.1: Growth in NSW Local Government Operating Expenditure (1995/96 = 100)**

<table>
<thead>
<tr>
<th>Function</th>
<th>2003-04</th>
<th>Consumer Price Index</th>
<th>Gross State Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing &amp; Community Amenities</td>
<td>187.6</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Public Order &amp; Safety</td>
<td>179.2</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Economic Affairs</td>
<td>175.5</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Transport &amp; Communication</td>
<td>170.1</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Community Services &amp; Education</td>
<td>158.4</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Recreation &amp; Culture</td>
<td>152.0</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Water Supplies</td>
<td>130.0</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Administration</td>
<td>130.2</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Sewerage Service</td>
<td>128.5</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Health</td>
<td>108.7</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Mining, Manufacturing, Construction</td>
<td>107.0</td>
<td>120.9</td>
<td>158.8</td>
</tr>
</tbody>
</table>


It is thus evident that a significant change has occurred in the composition of the services provided by Australian local government. However, a caveat to this conclusion is warranted. These aggregate trends in the service mix disguise the high degree of diversity in municipal service provision between different local government systems across Australia, between metropolitan, regional, rural and remote local authorities, and between individual councils within each of these categories. For instance, water supply and sewerage is a local government responsibility in Queensland, Tasmania and country NSW, but not in other jurisdictions. Similarly, municipalities spatially far from major urban centres often provide services previously supplied by Commonwealth agencies and state governments, such as aged care facilities, postal services and even facilities for general practitioners.
2.2.4 Complexities in Intergovernmental Relationships

Finally, legislative changes in the respective enabling acts of the different local government systems in Australia over the past few decades has witnessed a significant 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 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 many 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 and territory municipal systems have widened over time, and the state government oversight mechanisms are now often quite dissimilar, severely diminishing the prospects of a uniform national approach to local governance. An uneven devolution of additional functions to local government within and between the different state and territories further complicates an already incoherent network of intergovernmental relations.

2.3 STRUCTURAL REFORM AND COUNCIL AMALGAMATION

We have already seen that structural reform has almost always been the chief policy response by Australian state and territory governments to real and perceived problems with local governments. While other policy initiatives have also been attempted, perhaps most notably the redesign of the various state Local Government Acts over the past twenty years, structural reform has centred on compulsory and occasionally voluntary council amalgamations seem to have retained an iron grip on the imaginations of state government policy makers, despite not only disappointing results from amalgamation programs, but strong theoretical and empirical reasons to the contrary. The emphasis placed by the Size, Shape and Sustainability policy initiative of the Queensland Government on structural reform, including council consolidation, means that it falls within this tradition. In this section of Chapter 2, we examine the various arguments surrounding amalgamation.

2.3.2 Scepticism on the Results of Amalgamation

Although the notion that “bigger is better” in local governance may still represent the bedrock of consensus amongst state and territory local government policy makers, successive episodes of council amalgamations in Australia over the years have eroded this consensus to the point where open scepticism amongst the broader local government community has become the order of the day, especially in non-metropolitan areas of the country. In large part, this cynicism derives from a deep disillusionment with the observed real-world outcomes of actual amalgamation programs. For example, despite extravagant claims from proponents of both South Australian and Victorian council mergers in the nineties, the economic results of these programs have been most disappointing. Thus, while the Victorian state government claimed at the time that its radical reform process would generate direct cost savings of 20%, the actual outcome has been a mere 8.5%, most of which has flowed from competitive tendering and not the restructuring program (Allan, 2003, p. 75). In much the same way, the South Australian authorities heralded savings of 17.4%, but in fact only achieved 2.3% (Allan, 2003, p. 75). It should also be added that these realised savings did not take into account the massive indirect costs of council consolidations, such as lower economic activity and falling employment in rural and regional areas.
As a consequence of these disappointing outcomes, many in the Australian local government community are no longer convinced that municipal restructuring based primarily on amalgamation represents an effective means of improving council performance.

This scepticism is widespread. For instance, following the recent NSW Government Inquiry into the optimal structure of local government in the Sydney metropolitan area, Commissioner Kevin Sproats (2001, p. 36) concluded the purported benefits of amalgamation that were derived from empirical evidence were “suggestive rather than conclusive”. Moreover, in their analysis of both the international literature and Australian experience on municipal consolidation, Dollery and Crase (2004, p. 274) argued that “there are scant grounds for anticipating substantial financial benefits to flow from amalgamation, except possibly in terms of local government capacity and scope economies”.

Along similar lines, in assessing the outcomes of recent council amalgamation programs in New Zealand, Australia (and more particularly Victoria and Tasmania), Britain and Canada (especially Nova Scotia and Ontario) in his *Merger Mania*, Andrew Sanction (2000, p. 83) concluded that “the efficient delivery of municipal services does not require large municipalities”. Finally, Percy Allan (2003, p. 80) has presented a strong case that in Australia “at the administrative level the efficiency and effectiveness of a local council is not a function of size” and “all the empirical evidence suggests that big is not better when it comes to local government”. Similar sentiments have been expressed by Allan (2001), Bish (2000), Dollery (1997), Dollery (2003), Jones (1989), Katsuyama (2003), May (2003), Oakerson (1999), and Thornton (1995), amongst others.

2.3.3 Reasons for Disappointing Outcomes of Local Government Amalgamation

Why has council amalgamation failed to improve the effectiveness of Australian local government? Dollery *et al.* (2006) have identified five main economic arguments typically advanced in favour of amalgamation and assessed the problems surrounding these arguments in the Australian local government milieu.

2.3.3.1 Economies of scale

In the first place, advocates of municipal amalgamation invariably premise their arguments on the existence of significant economies of scale in Australian local government. This has proved largely illusory.

The term “economies of scale” refers to a decrease in average cost as the quantity of output rises and are frequently cited as a rationale for larger council jurisdictions. Accordingly, the bigger the jurisdictional unit, the better will be the per capita costs of service provision. In comparison to its counterparts in comparable countries, excepting New Zealand, Australian local government has a predominantly “services to property” orientation in terms of the goods and services it provides. However, despite its relatively narrow range, Australian local governments still provide a wide range of goods and services that are produced by heterogeneous technological means. Thus, for a given benefit region for a given type of service, there is no *a priori* reason for different goods and services to exhibit the same cost characteristics.

On the contrary, there is every reason to expect that no uniform pattern of economies of scale will emerge across the range of good and services produced by Australian councils. For example, it is highly unlikely that the optimal service district for libraries will coincide with, or even resemble, optimal service districts for, say, domestic garbage collection, public parks, or sewage treatment services (Dollery, 1997). Thus while larger councils may capture economies...
of scale in some outputs, they could equally reap diseconomies of scale in other areas. Sancton (2000, p. 74) has crystallized the argument as follows: “There is no functionally optimal size for municipal governments because different municipal activities have quite different optimal areas”.

After evaluating the international and Australian empirical evidence on economies of scale in municipal service provision, Byrnes and Dollery (2002) drew three main conclusions. In the first place, “given the mixed results that emerge from the international evidence, it seems reasonable to conclude that considerable uncertainty exists as to whether economies of scale do or do not exist” (Byrnes and Dollery, 2002, p. 405). Secondly, existing Australian empirical work was almost uniformly miss-specified and thus did not measure scale economies at all. Finally, from a policy perspective, the lack of rigorous evidence of significant economies of scale in municipal service provision casts “considerable doubt on using this as the basis for amalgamations”. Thus while “advocates of amalgamation have based their arguments on the proposition that substantial efficiency gains would flow from the formation of larger local authorities”, to the contrary “research on economies of scale in local government does not support this proposition” (Byrnes and Dollery, 2002, p. 405).

In this regard, it should be noted that the recent NSW amalgamation program invoked the work of Stephen Soul (2000) in his empirical analysis of the relationship between size and per capita service costs in NSW local government. However, as Byrnes and Dollery (2002) have demonstrated, simple statistical correlation between population size and total council costs per capita does not properly measure economies of scale.

Even where economies of scale are significant, this may still not be relevant to optimal municipal size if provision of the service can be separated from production of that service (the so-called purchaser-provider split), since scale economies typically only arise during the production phase. Municipal councils too small to achieve all economies of scale on their own can nevertheless accrue the advantages of any scale economies by purchasing the good or service in question from other public agencies or private firms that are large enough production units to secure economies of scale.

By contracting with commercial firms or other governments (and through analogous joint purchasing agreements with other councils, such Regional Organizations of Councils (ROCs)), small councils can provide the quantity and quality of services desired by their limited number of constituents and simultaneously enjoy the cost advantages deriving from scale economies in production (Witherby et al., 1999). Some evidence exists to support this contention. For instance, Dollery et al. (2005) have shown that the Riverina Eastern Regional Organization of Councils (REROC) has secured considerable economic advantages from the scale economies through joint arrangements between its members. Similarly, Oakerson (1999) cites several examples of the savings that can be reaped from separating provision from production through outsourcing and other analogous techniques.

This theme will be taken up in greater detail in Chapter 3.

2.3.3.2 Economies of scope

Economies of scope refer to the economic advantages that flow from providing a broad range of goods and services in a single organization, like a municipal council. In particular, economies of scope arise when the cost of producing a given set of services in a single organization is lower than the cost of those services being produced by a number of specialized organizations. The standard explanation for this lower cost of production derives from the fact that a single organization can attribute the cost of fixed inputs or “overheads”, like central administrative staff,
computing facilities, and so forth, across many of the services it produces. Thus, if related services are provided by a single council, lower total production costs may follow (Dollery and Fleming, 2006).

In the context of the Australian local government amalgamation debate, scope economies represent an a priori theoretical argument against many small local authorities each providing their own services. It is also an argument against the fragmentation of existing large municipalities into several fully autonomous or privatised business units. However, as we shall see in Chapter 3, economies of scope can support the concept of several small and adjacent municipalities forming some umbrella organization, like ROCs, in an attempt to capture scope economies.

2.3.3.3 Local government capacity

A proposition sometimes advanced in the Australian debate over amalgamation is that larger councils tend to possess greater levels of administrative and other expertise, in part due to the fact that their size permits the employment of specialist skills that cannot be acquired readily by smaller municipalities. Given the increasing burden placed on Australian local government by its state and federal counterparts, through cost shifting and other activities, it is held that this confers a significant advantage on larger municipal units because it enables them to accomplish a wider and more complex range of tasks in a more efficient manner.

There seems to be considerable merit in this argument. Small regional and rural councils do struggle in terms of expertise and cannot always use consultants in an effective and prudent way. However, since it is in many respects a variant of the economies of scope argument for amalgamation, many of the same reservations apply. For instance, ROCs may also be able to pool their resources to acquire the skills in question, at no greater cost than to single and larger councils.

2.3.3.4 Administration and compliance costs

A fourth economic argument often put forward in support of local government amalgamation is that larger consolidated councils economize on their direct costs of administration and the compliance costs imposed on individuals who participate in the municipal political process. Administrative costs include the compensation paid to elected and appointed officials and staff and the overheads (buildings, supplies, utilities, etc.) required to support those officials. Compliance costs include the costs incurred by municipal voters to keep informed on issues and candidate positions and the potential cash and time costs of registering an opinion by participating in hearings, meetings, voting, etc. Few local governments can reduce these costs in aggregate.

If it is argued that council amalgamations will reduce administrative costs, then this is analogous to arguing that there are economies of scale in the administration of local government, just as there may be scale economies in the production of public services. However, there is obviously no guarantee that such opportunities will always, or even usually, exist. It could just as easily be argued that administrators become less effective the further removed they are from their constituents and operations they are supposed to coordinate. If this is the case, then diseconomies of scale could result, with larger governments requiring proportionately more administrators (perhaps with more layers in the administrative hierarchy). Administrative scale economies could thus be a factor in favour of both larger and smaller local government units. In this instance, administrative economies become an empirical issue.
However, it can be argued on grounds of public choice theory that greater difficulties are involved in monitoring large municipalities. Ratepayers, as voters, cannot easily acquire the necessary information to assess whether or not councils are providing “value for money”. By contrast, smaller councils are often less complex operations with a greater degree of transparency and consequently more amenable to scrutiny by ratepayers. If smaller municipalities are indeed subject to closer and more informed scrutiny, then it can be anticipated that they could experience greater public pressures to deliver local public goods more efficiently (see, for example, Boyne, 1998 and Bailey, 1999).

Empirical support exists for this contention. An implication that derives from the public choice paradigm, amenable to empirical analysis, is that a “fragmented” local government system, containing numerous municipal entities, should be more efficient than a “concentrated” system, with a few, large councils. After a study examining American empirical evidence on this question, Boyne (1998, p. 252) concluded that “the broad pattern of evidence suggests that lower spending is a feature of fragmented and deconcentrated local government systems”. By contrast, “consolidated and concentrated tend to be associated with higher spending”. This may mean that “the technical benefits of large units with big market shares, such as economies of scale and scope, are outweighed by competitive and political costs, such as disincentives toward fiscal migration and problems of public scrutiny”. After his analysis of the empirical literature, Andrew Sancton reached the same conclusion: “The public choice perspective shows us that it is no longer obvious that the existence of many municipalities within the same city-region causes wasteful overlap and duplication” (Sancton, 2000, p. 75).

It need hardly be added that numerous other problems also arise from amalgamation, especially in rural and regional areas. Chief amongst these are a reduction in the vibrancy of local democracy, less political representation and lower public participation, various deleterious effects on local economic development, including decreased economic activity, rising unemployment and the formation of ‘ghost’ towns, and a loss of ‘sense of place’ on the part of local residents.

2.3.3.5 Coincidence of municipal and natural boundaries

A comparatively new administrative argument advanced in the NSW debate on municipal amalgamation rests on the proposition that economic, environmental and other largely unspecified advantages accrue from an alignment of local government boundaries with natural boundaries (Dolley and Crase, 2004). Given that this argument is likely to gain currency in future Australian amalgamation debates with the apparent persuasiveness of “deep green” arguments with state government policy elites, it is thus worth considering this proposition in further detail.

In his submission to the NSW Legislative Council’s (2003, p. 94) Inquiry into Local Government Amalgamation, Brunckhorst outlined three “principles” for “drawing boundaries that best reflect the social functions of regional communities as well as the ecological functions of the landscape”. In the first place, “the region should capture the place that is the social capital…the landscape area that is of greatest interest to the region or local residents”. Secondly, “that the region maximizes or captures the greatest similarities of environmental landscape, which reflects land uses, management of ecological resources, water supply, and so on”. Finally, jurisdictional boundaries drawn on these grounds must be capable of “being scaled up and scaled down for integration for other kinds of service delivery or management”. In essence, this argument proposes a move away from current tests of economic and sociological “communities of interest” in municipal boundary determinations by state local government boundary commissions to
physical ecological “communities of interest” and contends that ecological, economic, and other benefits will result.

It is difficult to understand why natural or ecological boundaries should coincide exactly with local government boundaries. After all, the fact that the same argument could be raised with respect to national, state and metropolitan council boundaries, but never is raised in these broader contexts, surely demonstrates its spurious nature. Moreover, this notion has many additional shortcomings: it ignores the cultural and historical legacy embodied in existing council boundaries; it neglects the critical concept of the economic “community of interest” of the people involved; it disregards that massive costs that would derive from drastic restructuring of council boundaries and headquarters, and it overlooks the impact of council boundaries on the efficient delivery of council services, especially since environmental considerations form only a small part of overall municipal responsibilities.

The primary argument for the exact coincidence of natural boundaries and council boundaries, at least in the NSW debate over local government restructuring, seems to derive exclusively from the recently created Catchment Management Authorities (CMAs). Thus, to link local government boundaries to CMA boundaries to the exclusion of all else, including ratepayers, roads, townships and communities, seems to demonstrate a peculiar narrowness of focus and a neglect of the totality of contemporary local governance. Indeed, this approach is surely akin to “the tail wagging the dog”!

Adequate environmental protection can be secured through the cooperation of state agencies and vibrant local governments working in concert, rather than through the destruction of small councils attendant upon forced amalgamation. Moreover, spatially large natural catchment areas, typical of the Australian landscape, can also be managed by means of ROCs of affected municipalities.

**2.4 CONCLUDING REMARKS**

Given the crisis facing all Australian local government systems, solutions must be found to the current impasse. For this reason, the *Size, Shape and Sustainability* (SSS) policy initiative by the Queensland Government should be welcomed by local authorities in that state, provided full cognizance is taken of experience with local government reform elsewhere in Australia.

We have argued that structural change programs that simply rely on the blunt instrument of council amalgamations have not been effective in other local government jurisdictions. Moreover, we have shown that most of the arguments presented in favour of amalgamation are generally misconceived. Even when weight can be placed on these arguments, we have argued that alternative methods of reform involving partnerships between councils are in any event likely to be much more effective in achieving the same aims.

This conclusion draws further strength when considered in the light of the five sources of the current financial crisis in local government identified by the Commonwealth Grants Commission (CGC, 2001) are taken into account. For example, it is not at all clear how amalgamation can prevent or even reduce the extent of cost shifting from higher tiers of government. Much the same can be said for “raising of the bar” through state and Commonwealth regulation. “Increased community expectations”, “policy choice” and “devolution” all cannot be tackled adequately simply through structural reform. Obviously, other policy instruments must be brought into play.
Chapter 3 will take up the theme of local government partnerships as an alternative to the drastic measure of forced amalgamation. It will be argued that both state government policy makers and regional and rural councils alike should focus on models of local governance involving cooperative relationships with neighbouring municipalities and improved institutional processes rather than forced consolidations. Not only can these models achieve better economic results that forced consolidation, but they can also preserve that vital fabric of vibrant local democracy that is threatened by amalgamation.
CHAPTER 3: ALTERNATIVE MODELS OF LOCAL GOVERNMENT

3.1 INTRODUCTION
Chapter 2 considered the thorny question of municipal amalgamation in Australian local government. On the basis of both theory and empirics, it was argued that amalgamation had seldom achieved its intended aims of enhancing the operational effectiveness of local councils and lowering the costs of service provision. Moreover, even in those instances where some economic gains have been made, this has come at a high price in terms of local representation and the community's indefinable but nonetheless real sense of "loss of place".

A central theme running through the discussion in Chapter 2 stressed the fact that many of the advantages that could flow from larger municipal entities, emphasised by proponents of council consolidation programs, can be realised by less expensive and destructive partnership arrangements between councils, without the harsh social costs that almost inevitably follow from amalgamation programs, especially in non-metropolitan settings. Put differently, a “one-size-fits-all” model of local government reform premised on “bigger is always better” ignores alternative models of local government that can reap economies of scale and scope and administrative capacity, where these are available, whilst retaining vibrant local democracy, maintaining small community neighbourly solidarity, and preserving the psychologically important “sense of place”. Chapter 3 takes up this line of argument and outlines three promising alternative models of local government, together with contemporary Australian examples of these three models.

The chapter itself is divided into five main parts. Section 3.2 provides a brief outline of five promising alternative governance models, some of which have already been implemented in Australia. Section 3.3 provides a conceptual stem for considering alternative models of local governance involving structural change and process change more suited to councils in non-metropolitan areas. Section 3.4 seeks to determine which of the models developed by Dollery and Johnson (2005) are the most suitable vehicles for the structural reform in non-metropolitan Australia, with the focus falling on three recent examples drawn from the Riverina Regional Organization of Councils (REROC), the NSW Shires Association (2004) Joint Board model, and the New England Strategic Alliance. The chapter ends with some short concluding remarks on the policy implications of the analysis in section 3.5.

3.2 ALTERNATIVE MODELS FOR AUSTRALIAN LOCAL GOVERNMENT
In their taxonomy of generic models of municipal governance specifically adapted to the narrow range of “services to property” characteristic of Australian local government, Dollery and Johnson (2005) identified seven discrete alternative organizational types based on the notion that existing and potential models feasible in the Australian local government milieu can be located along a bipolar continuum given by the degrees to which political and operational control can be centralized or decentralized between local councils and the new organizational entity they join. In this topology, the degree of centralization indicates the extent of concentration of control vested in the new governance structure as opposed to the original small councils that comprise the new arrangement. By contrast, operational control refers to the ability to administer and undertake local service provision and delivery, whereas political control focuses on the capacity to make decisions over the domain and mix of local services.
We now briefly describe the seven alternative models in the Dollery and Johnson (2005) typology that are located along this continuum:

3.2.1 Existing small councils

Australian local government is characterized by tremendous diversity (Worthington and Dollery, 2001) with the considerable constraints imposed by state government legislature. Australian councils nevertheless enjoy a high degree of political autonomy and operational autonomy over their own affairs. Political autonomy is ensured by regular democratic elections and the ratio of elected representatives to voters is comparatively low. Operational autonomy is also ensured since elected councils hire managerial, administrative and other staff, determine the delivery of goods and services within the admittedly constraining parameters of enabling legislation, and decide on how to adjust service delivery to meet changed circumstances. Of course, existing small councils are subject to sharp financial constraints in terms of revenue-raising capacity and limitations on grants from the Commonwealth and state governments. However, these constraints would apply to all other models of Australian local government as well.

3.2.2 Ad hoc resource sharing models

The most limited and flexible alternative to municipal amalgamation resides in voluntary arrangements between geographically adjacent councils to share resources on an ad hoc basis whenever and wherever the perceived need arises. Resource sharing of this kind can encompass a wide range of possibilities, including specialised employees, such as environmental experts, town planners and skilled consultants, capital equipment, like earth-moving machinery and mainframe computing facilities, administrative services, such as information technology systems, and entire operational services, like domestic garbage removal and disposal. The economic imperative to reduce the costs of service delivery in local councils has provided a powerful incentive for municipalities, and especially smaller regional and rural councils, to investigate any potential advantages that may flow from entering into voluntary resource sharing agreements with their neighbours. However, it must be added that cost saving alone has not been the only motive for ad hoc resource sharing. It has also been used to improve the quality of existing services as well as augment the range of current service provision.

The ad hoc resource sharing model enjoys several advantages compared with other models. Firstly, it arises spontaneously between volunteering councils, without the need for any centralised legislative change or state government administrative directives. It can thus be expected to embody detailed localized knowledge with the real prospect of genuine cost savings for the councils involved. If this were not the case, adjacent councils would presumably not enter into any ad hoc agreements. Moreover, the inherent flexibility of this kind of agreement means they can be applied to specific projects or to a more general range of activities. Secondly, ad hoc resource sharing arrangements do not compromise the independence of participating councils in any way and thus do not impinge on either democratic representation or citizen participation. Thirdly, where ad hoc resource sharing arrangements do not yield economic benefits, they can be terminated quickly and cheaply through agreement between participating councils.

However, ad hoc resource sharing arrangements also have disadvantages. For example, the fact that voluntary agreements can easily be modified or terminated makes them vulnerable to the idiosyncratic characteristics of local governance. Thus the election of new councillors or the employment of a new Chief Executive Officer (CEO) can disrupt and even destroy the basis for
ad hoc agreements because they do not have any solid institutional foundations. Moreover, for the same reason, temporary disputes over the operation of ad hoc arrangements can readily disrupt or even end their operation.

3.2.3 Regional organizations of councils

Regional Organizations of Councils (ROCs) are voluntary groupings of spatially adjacent councils. They usually consist of between five and fifteen councils, with considerable diversity in both geographic size and population, and are typically financed by a set fee from each member council as well as a pro rata contribution based on rate income, population, or some other proxy for size. ROCs are usually governed by a board consisting of two members from constituent municipalities, normally the mayor and one other representative, characteristically an elected councilor or a CEO, supported by either an administrative structure or specialist committees (Dollery and Marshall, 2003).

Membership of a ROC confers several potential benefits to participating councils. Firstly, meetings encourage the exchange of common concerns and potential solutions and tend to engender a sense of common destiny. Secondly, joint forums foster the development of common policy positions that may be better informed as a consequence of the combined expertise of member councils. Thirdly, ROCs facilitate the coordination and rationalization of the activities of member councils. Fourthly, ROCs promote cost saving joint purchasing, resource sharing, and other mutually beneficial schemes that may reap economies of scale, economies of scope and enhance capacity. Finally, ROCs can play a critical political role as a regional lobbying group interacting with state and Commonwealth governments (Marshall et al., 2003).

However, ROCs also have potential disadvantages. For example, “it remains uncertain just what combination of characteristics is necessary to create a high-performing ROC”. For instance, “there is no clear mix of such variables as rates income, geographical size, population density, cultural homogeneity, length of time since establishment, or industry type, which might help explain why some ROCs are more successful than others”. It thus seems that “the critical attributes which contribute to a successful ROC are the intangible factors of commitment, teamwork, regional vision, trust, openness, communication, leadership, and a willingness to cooperate” (Dollery and Marshall, 2003, p.244).

3.2.4 Area integration or joint board models

The Shires Association of NSW (2004) developed a “joint board model” of local government that has attracted much interest. The joint board model is based on the retention of autonomous existing councils and their current spatial boundaries, but with a shared administration and operations overseen by a joint board of elected councilors from each of the member municipalities. Member councils retain their political independence, thus preserving existing local democracy, whilst simultaneously merging their administrative staff and resources into a single enlarged bureau, in order to reap any scale economies, scope economies, or other benefits that may derive from a bigger administration.

Local government models in the area integration tradition, like the joint board model, rest on two assumptions. Firstly, small councils usually facilitate effective representation, but may not use resources in an efficient manner. Secondly, large municipal authorities are deemed to diminish effective democratic representation and at the same time typically employ resources relatively effectively. In contrast to amalgamation that deals with this trade-off by placing a greater priority
on resource efficiency concerns than on questions of representational effectiveness, thus generating bigger local governments, the joint board model seeks to “break” the ostensible trade-off between democracy and efficiency by retaining the desirable democratic characteristics of small councils and agglomerating their separate administrative structures in order to capture purportedly efficiency-enhancing attributes of larger municipal bureaucracies. Thornton (1995, p.1) argued that this is best achieved by area integration models that sever the “traditional connection between physical function and geographical boundary, thus capturing the best of all worlds: functional areas big enough to provide economies of (large) scale for the delivery of services and regional coherence, together with political areas small enough to provide intimacy of (small) scale for effective representation and sense of community”.

An essential feature of area integration models resides the assumption that each council would largely preserve ownership of its existing assets. Thus, in the joint board variation of this kind of model, “each member council would retain ownership of all assets, but over time, assessment of usage would determine economic viabilities with potential to dispose of underutilised assets” (Shires Association of NSW, 2004, p.7). Nevertheless, according to this conception of an area integration model, “transfer of ownership to the Joint Board of assets such as office furniture, equipment, I/T, depots and motor vehicles would be required”. It has been argued that this attribute imbues the model with the decided advantage of reversibility (Thornton, 1995): If things go wrong, it is feasible to reinstate the earlier status quo.

Additional advantages ascribed to area integration models include “increased accountability, public scrutiny and citizen involvement”; ready access to elected representatives; the separation of policy decision making from policy execution; realization of scale and scope economies; social cohesion deriving from small constituent communities; a “balance between the social and economic dimensions of municipal governance”; a higher degree of “policy coherence” over a larger spatial area; greater regional participation; a “respect for history of communities and preservation of sense of place”; and avoidance of the pooling of reserves and accumulated debts between “provident” and “improvident” member councils (Thornton, 1995). Moreover, under the Joint Board model every constituent council would continue to enjoy full autonomy; “it would have the power to determine its range of works and services, and to determine its financial plans to provide the necessary funding” (Shires Association of NSW, 2004, p.7).

Area integration models also have potential shortcomings. For instance, organizational complexity would increase substantially and ambiguity might arise over the appropriate institutional site for some decisions with system-wide externalities. Similarly, competing and irreconcilable demands by different member councils can induce conflict. Finally, there exists “potential for problems of demarcation and definition between the wide area committee [or joint board] and the integrated local area councils” (Thornton, 1995).

### 3.2.5 Virtual local governments

The basic model of virtual local government tailored to Australian conditions was developed by Percy Allan (2001) and further refined by Allan (2003), Dollery (2003) and May (2003). The model rests in two fundamental presumptions about Australian local government. Firstly, small councils, with limited populations and a low ratio of elected representatives to constituents, provide superior decision-making units in terms of the appropriateness and effectiveness of service provision since they are “closer to the people”. Secondly, drawing on the work of Oakerson (1999) on the relationship between the degree of municipal fragmentation (i.e., the ratio of local government entities to population in given metropolitan areas) and the per capita cost of services, Allan (2001) contends that large councils may enjoy economies of scale in the
provision of some, but not all, local public goods and services. Allan (2001, p.27) concludes that “the main lesson to draw from Oakerson’s research is that a distinction should be made between the provision of council services and their production” since “the long held assumption that a council must perform both tasks is wrong”.

On the basis of these two assumptions, Allan (2001) argues that it is possible to remove potential trade-offs between council size and council efficiency. This forms the basis for his model of virtual local government that combines the most attractive features of small and large municipalities. Accordingly, “if cost efficiency improves for some tasks, but policy appropriateness and service effectiveness deteriorates the bigger a municipality becomes, then an obvious solution is to separate council decision making from council administration” (Allan 2003, p.27).

A virtual council tailored to Australian conditions would thus consist of two main elements. Firstly, relatively small councils would encompass elected councilors and a small permanent secretariat. They would decide on questions of policy formulation and monitor service delivery to determine its effectiveness. In a specific metropolitan area several small adjacent virtual councils would share a common administrative structure or “shared service centre” that would provide the necessary administrative capacity to undertake the policies decided upon by individual councils. Service delivery itself would be contracted out either to private companies or to the service centre depending on the relative costs of service provision and the feasibility of using private firms.

3.2.6 Agency models

Australian local authorities enjoy no constitutional recognition and are thus creatures of their respective state government acts. This means that state governments have final responsibility for efficacious delivery of municipal services. For example, when particular councils “fail” for various reasons, including inept and corrupt conduct or financial incapacity, then the state government in question can intervene by dissolving an elected council and appointing an administrator to run the council for a designated period. In this sense, municipalities are, in effect, service delivery agencies for state governments that possess a high degree of autonomy over a defined range of functions so long as they carry out their allotted responsibilities adequately.

Given these features of Australian local government, it is possible to conceive of councils as bearing a principal/agent relationship to state governments, charged with delivering services on behalf of state governments in an efficient manner. Along analogous lines, area health boards are elected bodies that oversee the administration of state-financed health services, without producing the services directly themselves.

This conception of the role of councils could be termed the “agency model”. Under an agency model, municipalities would surrender completely operational control of the services they direct, but at the same time still enjoy political autonomy as elected bodies for a spatially defined jurisdiction. Thus, all service functions would be run by state government agencies with state government funds and state government employees in the same way as state police forces or state emergency services presently operate. Elected councils would act as advisory bodies to these state agencies charged with determining the specific mix of services over their particular geographical jurisdictions. For instance, domestic waste removal and disposal would be conducted and managed by a state garbage agency, but the actual frequency of garbage removals would be determined by democratically elected councils. With a predetermined “global
budget” for a given council area, individual local governments could express the preferences of their voters in determining the mix of services. Thus, less frequent garbage removal could be traded off against more opulent public parks and recreation zones, depending on the decisions of the council. The composition of municipal services would therefore be chosen by the council whereas the production and provision of these services would be carried out by the respective state government agencies.

In comparison with virtual local government, agency model municipalities would have even less operational control, but roughly the same degree of political autonomy. At least two advantages of an organizational arrangement of this kind can be identified. In the first place, elected and largely amateur councilors could focus exclusively on ascertaining the tastes and preferences of their constituents, without having to struggle with the complexities of actual service delivery, which would be left in the hands of professional specialist bureaucrats. This would capture the respective comparative advantages of both groups; elected representatives could exploit their skills in local “grass roots” democracy and identify community wants whereas career public servants employ their professional abilities to operate efficient service delivery systems. Secondly, uniformity in the provision of services might be able to reap scale and scope economies, develop technical capacities, synchronize delivery systems, and enjoy considerable purchasing power.

However, relative to virtual local governments, none of the immense advantages attendant upon competition between prospective service providers, drawn from the private sector, public agencies, and voluntary organizations, would accrue to agency model councils. They would be entirely captive to large state bureaucracies, equivalent to current state education departments or health departments, with a questionable record of cost-effective service delivery.

3.2.7 Amalgamated large councils

The most extreme form of centralization occurs when several small councils are amalgamated into a single large municipality. Under this model, constituent councils surrender completely all political autonomy and operational control to the new entity.

We saw in Chapter 2 that the case for amalgamation rests on the proposition that “bigger is better” in local governance since large councils provide services more efficiently and this involves only a negligible tradeoff in terms of less efficacious political representation (Soul, 2000). A synopsis of the case for amalgamation has been developed by Katsuyama (2003, p.2): “Proponents of consolidation argue that fewer and larger local governments will be more efficient and effective than many small governments [because] costs can be held down and perhaps reduced through the elimination of duplicative services, personnel, and equipment”. Moreover, “larger governments may also be able to take advantage of “economies of scale” or lower per-unit costs for government services”. In addition, “a single unified government will be able to coordinate policies and decisions for activities, such as regional planning and economic development, than several independent governments”. With numerous small councils, “some services may benefit citizens in adjoining areas who neither pay for the service nor share in the effort involved in its delivery”. Accordingly, “spillover effects like this will be eliminated when the boundaries of the service area are the same as the boundaries of the taxing jurisdiction”, and thus “the tax burdens within communities can be equalized through the creation of governments that more clearly match area needs”. An additional argument overlooked by Katsuyama (2003), but much in vogue in the recent NSW amalgamation debate, is the notion that representational costs fall in larger councils since there are fewer elected councillors for a given population (see, for instance, Varden (2003)).
The case against amalgamation for Australian local government was also examined in Chapter 2 of this Report. The main arguments were as follows: Firstly, opponents of municipal amalgamation dispute the existence of significant economies of scale, on both theoretical and empirical grounds (Byrnes and Dollery, 2002). In his Merger Mania, Sancton (2000, p.74) has put this argument in a nutshell: “There is no functionally optimal size for municipal government because different municipal activities have quite different optimal areas”. Secondly, it is argued that while economies of scope may be realized, there are cheaper alternative methods of capturing scope economies, like ROCs. Thirdly, although amalgamation may well boost administrative capacity, it can also be acquired by other means at a lower cost. Public choice considerations are advanced to argue that the more effective representation characteristic of small councils enhances information flows between constituents and voters and thus exposes municipal expenditure to more intense scrutiny by ratepayers. As a consequence, small councils typically produce services at lower per capita costs.

With numerous exceptions, this position is strongly supported by the weight of empirical evidence. For instance, after a study of the American evidence on this question, Boyne (1998, p.252) concluded that “the broad pattern of evidence suggests that lower spending is a feature of fragmented and deconcentrated local government systems”, whereas “consolidated and concentrated tend to be associated with higher spending”. This implies that “the technical benefits of large units with big market shares, such as economies of scale and scope, are outweighed by competitive and political costs, such as disincentives toward fiscal migration and problems of scrutiny”. Along similar lines, Sancton (2000, p.75) argued that “the public choice perspective shows us that it is no longer obvious that the existence of many municipalities within the same city-region causes wasteful overlap and duplication”. A final critique of amalgamation emphasizes the deleterious impact that it has on the vibrancy of local democracy, with a higher ratio of elected representatives to voters “distancing” councils from their citizens.

Given the arguments both for and against amalgamation it seems fair to that the burden of evidence strongly favours opponents of municipal consolidation. Moreover, the recent pattern of local government failures in Australia appears to support the contention that there is no systematic relationship between council size and council efficiency.

### 3.3. STRUCTURAL CHANGE VERSUS PROCESS CHANGE

If council amalgamation is flawed as a method of enhancing the efficiency of local government in outside of large Australian capital cities, as we argued in Chapter 2, then how should local government policy makers tackle the problem? One way of examining the problem is to distinguish between structural change and process change as methods of improving the operational efficiency of municipal service delivery. **Structural change** involves a reorganization of the machinery of local government whereas **process change** refers to modifications in the methods employed by municipalities.

Although it is often very difficult to measure the long-term consequences of either structural change or process change in complex organizations, like local councils, that provide a wide range of services in a milieu that inevitably trades-off economic efficiency against various aspects of representative democracy, there can be little doubt that little doubt that the costs involved in structural change are typically far greater than those associated with process change.
The costs involved in structural change include “the direct financial costs of reorganization (including the costs of consultants’ reports, departmental submissions, redundancy pay, redeployment and retraining, etc.), the costs of disruption to the ongoing business of government, and the social and psychological costs (including the stresses and strains caused by extra work pressures, job insecurity, the loss of morale, redundancy, etc.) (Boston et al., 1996, p.88).

In the context of regional Australian local government, often afflicted by the tyranny of distance, the planning and management of structural change also impose significant travel costs. Moreover, division and bitterness between residents of different country communities that frequently accompany the amalgamation of regional and rural councils, typically involving the migration of municipal employees from small outlying towns to regional centres cannot be stressed too much. Accordingly, Boston et al. (1996) contend that “given that any major reorganization is likely to prove disruptive and costly, that certain teething problems are inevitable, and that a new organization might take a year or more to become fully effective, it is always worth asking whether a proposed structural adjustment is really necessary or whether a change in policy or personnel might not be a better, cheaper, or simpler solution to the identified problem”.

This suggests that confronted by a choice between structural solutions or process solutions to a particular problem, such as enhancing the operational efficiency of municipal service delivery, where the eventual outcome is not only difficult to determine ex ante but also problematical to measure ex post, policy makers should avoid structural change unless there are compelling reasons to the contrary. This conclusion is considerably strengthened by the earlier discussion of council amalgamation outcomes in Australia in Chapter 2. After all, as we saw, despite extravagant claims by the advocates of municipal consolidation in South Australia and Victoria on the benefits of structural change, the results have been largely illusory.

However, as we shall see, the various alternative models of local governance to council amalgamations in regional and rural Australia almost all involve a combination of structural change and process change. Figure 3.1 serves to illustrate the general nature of the problem:
Figure 3.1: Structural Change and Process Change

If we assume two polar opposite cases, with a large amalgamated regional council (G) in the top right hand quadrant and a small existing town council (A) in the bottom left hand quadrant, then we can locate the other alternative models of local governance in Figure 3.1 in terms of the approximate degrees of structural change and process change involved. Thus, *ad hoc* resource-sharing models (B) involve some process change, but little or no structural change. ROCs (C), area integration models (D), virtual local government (E), and agency models (F) all require successively greater degrees of both structural change and process change. Given the arguments set out above concerning the relative high costs of structural change, as we move up the structural change scale, adjustment costs will inevitably rise.

### 3.4. MODELS SUITABLE FOR REGIONAL QUEENSLAND COUNCILS

If state government policy makers are intent on some degree of structural reform in their quest for enhanced efficiency in local government, which has typically been the case in recent Australian municipal history, then this automatically rules out the retention of existing small regional and rural councils and the invocation of only process reform measures without any structural reform. The question thus arises: What are the most rational models that should be selected in Queensland outside of the capital city so as to maximize economic efficiency at the lowest cost?

It has already been argued that in Chapter 2 that the wholesale amalgamation of regional and rural councils will prove counterproductive. After all, previous programs of municipal
consolidation in Australia have failed to achieve the desired results. Moreover, both international experience and the relevant empirical and theoretical literature on the topic offer a bleak prognosis for the success of further structural reform programs in Australia based on municipal amalgamation. Accordingly, given the high transitional costs attendant upon structural reform processes, which of the remaining five models identified by Dollery and Johnson (2005) contain the best prospects for local government reform in regional and rural councils?

In the first place, it seems reasonable to remove the agency model from the list of promising candidates. The primary reason for this argument resides in the fact that if state governments assume all the current service provision activities of existing small regional and rural councils, then this will not involve the creation of several entirely new state government departments, but also imply a drastic restructuring of all the municipalities concerned. It need hardly be stressed that this will mean huge transitional costs, with all the associated economic and social costs flowing from such a radical program.

Secondly, while the virtual local governance model certainly appears inviting in an urban context, many of the assumptions on which it rests are not met in non-metropolitan areas. For instance, Dollery (2003, p.86) has shown that the Allan (2001; 2003) model of virtual local municipalities envisaged "the creation of a large number of neighbouring local governments within densely populated cities that enjoyed ready access to competing private and public suppliers of local goods and services and were unencumbered by the ‘tyranny of distance’“. However, “the vast Australian continent and significant number of rural and regional councils clearly do not meet these requirements”. Accordingly, a “one-size-fits-all” structural solution to the problems of non-metropolitan councils “is simply not feasible, even in terms of prescribed service delivery”, especially in very large state jurisdictions, such as Western Australia, the Northern Territory and Queensland.

Three potentially promising models in the Dollery and Johnson (2005) taxonomy remain; ad hoc voluntary arrangements between small councils, ROCs and area integration models. We will now briefly examine each of these possibilities in the light of three actual analyses of alternative models.

3.4.1 Riverina Regional Organization of Councils (REROC)

REROC is located in the Riverina district of southern NSW, comprising 13 local government authorities with a combined population of over 120,000 residents spread across 41,000 square kilometers, with Wagga Wagga as its urban centre. REROC was established in 1994 for the specific purpose of bulk purchasing, but soon expanded to embrace resource sharing, joint policymaking and problem solving. The REROC Board consists of an elected member (usually the mayor) from each member council as well as the CEO. It meets every second month with decisions being taken on a consensual basis and is supported by an Executive Committee that convenes on alternate months to the Board. The Executive Committee, consisting of the Chair of REROC, four mayors and three CEOs, establishes general strategic directions. Both REROC’s chief executive officer and secretariat functions are outsourced on a contractual basis. At the beginning of 2004 the secretariat consisted of four full-time personnel. REROC itself does not employ any staff. REROC membership fees are calculated on a combined pro-rata population basis: Fifty per cent of the budget is recovered by dividing the sum across all members evenly with the other 50% being recovered on a per capita basis. The Executive Committee determines the budget for the year.
The operations of REROC were comprehensively examined by the University of New England’s Centre for Local Government in Regional Capacity Building: How Effective is REROC? (Dollery et al., 2004) after a study was undertaken over the period October 2003 to March 2004 involving an examination of published sources and substantive interviews with 13 CEOs and 13 elected representatives from member councils.

Regional Capacity Building: How Effective is REROC? argued that the success of REROC could largely be ascribed to the effectiveness of the network structure it had created. REROC had three main “formal networks”: Member councils of REROC itself and the various sub-groups and working parties set up to consider particular issues; the broader networks that individual member councils have joined and which extend beyond the confines of the REROC structure; and the regional, state and commonwealth agencies that REROC engages with and associated networks, including the Riverina Regional Development Board, the NSW Department of Youth and Recreation, and the Commonwealth Department of Local Government and Regional Services. Moreover, three important “informal networks” augmented these formal networks: CEOs of the member councils; professional officers employed within the member councils networking with colleagues from surrounding municipalities; and mayors.

But how effective has REROC been from the perspective of economic efficiency? REROC’s official evaluation of its own performance estimates that it has achieved savings in the order of $4.5 million over the five and a half year period covering 1998 to 2003. These savings have occurred over a variety of activities, including reduced duplication through the common approach to implementing new legislative requirements; joint tendering; regional lobbying; and the co-operative sharing of resources, such as a regional waste officer and shared Road Safety Officers.

These estimated savings of $4.5 million represent a total of $360,000 per REROC council member over the five and a half years under review (or some $65,000 per council per year). Dollery et al. (2004) examined the validity of the savings identified by REROC and compared these reported savings against the costs of providing the same services by other comparable local authorities. They contended that these savings are “real and measurable and an accurate reflection of the organization’s performance” (Dollery et al., 2005, p.12). In general, they concluded that “ROCs seem to offer a superior alternative to conventional forms of municipal restructuring, like council amalgamation, since they provide most of the economic and financial benefits with few of the drawbacks” (p.14).

### 3.4.2 Joint Board or Area Integration Model

As we have seen, the Shires Association of NSW (2004) advanced the Joint Board model as a response to the NSW state government’s structural reform program aimed at amalgamating numerous regional and rural councils regardless of their individual performance and financial viability. The Joint Board concept thus represents a compromise that seeks to defend the interests of small councils by presenting an economic case for their continued existence as independent democratic organizations, simultaneously acknowledging the NSW state government’s intention to embark on comprehensive structural reform.

In order to “retain economic local government activity to the fullest extent possible in country areas”, the Shires Association of NSW (2004, p.2) proposed the Joint Board model based on the continuation of existing councils, but with a shared administration and operations overseen by a joint board of elected councilors from each of the member municipalities. Member councils would thus retain political independence, preserving local democracy, while simultaneously
combining administrative staff and resources into a single enlarged organization, and thereby securing scale economies, scope economies, and any other benefits that may flow from a larger administration.

The Joint Board Model represents an outstanding simulation exercise in municipal modeling that will set the standard for similar analyses of Australian local government. The model itself is built on eleven “structural considerations” that define the hypothetical Joint Board council: Three pre-existing councils (X, Y and Z) combine their current administration and operations, with each retaining its original boundaries as well as its autonomy, independence and separate legal status. The number of elected councillors is reduced (and better remunerated), but still elected separately for councils X, Y and Z. An “overarching” Joint Board (or County Council) is created with its own CEO and attendant staff to run the new entity. Each council still receives its own grant income, rates revenue, and other charges and fees, but contributes to the Joint Board on a pro rata basis. In the early stages, “each constituent council would continue to determine its own service standards, policies and planning instruments, but over time, they would be rationalised”. Moreover, “each council maintain[s] its Management Plan, Long Term Financial and Rating Plan, but over time the Management Plan [is] consolidated into one document” (p.6).

In order determine the extent of the savings that could flow from the Joint Board model, analysts from the Centre for Local Government at the University of New England conducted a simulation analysis of data from three hypothetical NSW country councils. With the caveat that “savings estimates are likely to vary between groups of councils considering implementing the board model as a result of the diversity among councils and the different methods available for implementing the model”, they nevertheless argued “that it would not be unrealistic for a group of local authorities adopting the Joint Board model to achieve savings in excess of 10% pa” (Dollery and Johnson, 2004, p.10).

Following their financial simulations, Dollery and Johnson (2004) drew some general conclusions regarding the Joint Board model. In particular, “the Joint Board model itself facilitates a split between the provider of services (i.e., the Joint Board) and the purchasers of services (i.e., the constituent individual councils) and can therefore assist in assessing additional alternative competitive providers that may arise in due course”. Various other advantages are evident: “The model is reversible if everything falls apart and there is not sufficient cooperation; predetermined service level agreements can be formed between individual councils and the Board to ensure higher levels of services and to increase accountability; the model has the potential to remove the duplication between the respective councils with the board undertaking common task and functions; it provides the ability to quarantine finances and projects to ensure differential levels of fees, charges, rates, loan borrowings and services that can be maintained without the understandable fear of the largest centre dominating the projects undertaken and being able to relate fees paid to level of service which is not achievable under amalgamation with one budget and management plan; and it yields a regional focus on service where appropriate that is not readily available in smaller council operating individually” (pp.23-24).

Notwithstanding these advantages, Dollery and Johnson (2004) contend that the key to the success of the Joint Board model seems to reside in the ability of the Board and individual councils to cooperate “amicably”. If this is lacking, then they foresee severe problems. Other problems identified by Dollery and Johnson (2004, pp.24-25) were summarised as follows:

Individual council’s set priorities, policy issues, fees and charges, but are at the mercy of the Board to determine the implementation program and to determine respective priorities among the councils; it provides a steeper organisational
structure than smaller individual councils; the ability of individual council voters and councillors to influence the activities of the Board may be questionable and thus accountability is further removed; and there is the potential for indirect economic and social costs, like local unemployment and local reductions in economic activity, to intensify if employees are redeployed to the largest council area.

3.4.3 New England Strategic Alliance Model

The New England Strategic Alliance model, in the New England region of northern NSW, which came into being as the result of a political compromise by the NSW state government in its 2003/4 forced amalgamation program, represents an amalgam of various models. It consists of the Armidale Dumaresq Council, the Guyra Shire Council, the Uralla Shire Council and the Walcha Shire Council. The Strategic Alliance model has been examined by Dollery, Burns and Johnson (2005).

The key characteristic of the Strategic Alliance model is that each member council maintains its political autonomy as if it was an autonomous municipality, while the employees and resources of all participating councils are pooled, and divided into nineteen functional units that provide services to all of the councils. Each council funds its existing resources, recovering the cost of resources used in the provision of shared services from the other local authorities on an agreed basis, such as hourly rates, transactions processed, equal shares, etc. The model thus seeks to maximize the advantages that a large amalgamated municipality could provide, like enhanced technical capacity and scope economies, simultaneously avoiding the disadvantages associated with big councils, such as the loss of local autonomy and democracy and the inefficient “one size fits all” approach to service delivery, thereby improving decision making by decentralising it to the local level. In this sense, the Strategic Alliance exhibits numerous parallels with current business practice adopted by Qantas, various credit unions and other financial institutions, and more recently by several state governments.

The Strategic Alliance model lies between ROCs and area integration models in the Dollery and Johnson (2005) taxonomy, involving substantially more than the ad hoc sharing of resources associated with ROCs, but falling short of creating an additional entity to provide centralized shared administration along the lines of the Joint Board model. The Strategic Alliance model thus alleviates the need for an additional separate political and bureaucratic structure associated with managing this additional entity and its attendant costs. The Strategic Alliance model also exhibits some of the characteristics of Allan’s (2001; 2003) virtual local government with political independence maintained by each council, but many services generated by a “shared service centre”. The essential difference between the two concepts is that member councils in the Alliance model keep all existing staff and other resources, and the “shared service centre” represents a virtual centre since it is not a separate entity, but rather existing staff are grouped into functional areas to provide services to all participating members. The retention of existing staff by the individual councils assists in scaling services to ensure their most efficient and effective provision. Put differently, a given service might be provided by each individual council locally, or a service could be provided between two councils, or the services may be provided on behalf of all participating councils. In essence, the model seeks to achieve “aggressive reform with local voices”.

The Strategic Alliance is not yet settled and it is thus far too early to gauge its effectiveness. Yet the initial indications appear promising. After their initial analysis of the prognosis for the model, Dollery, Burns and Johnson (2005) have argued as follows:
The Strategic Alliance model has planned to go much further than other comparable cooperative models in pursuit of cost efficiencies. The original goal was to achieve $1.7m in recurrent savings in the short term, and $3.2m in the longer term out of a current combined budget of the four councils of approximately $50m. The areas that were identified as potentially contributing towards the required savings may be termed “quick wins” [i.e. plant utilization, investments, risk management and Geographical Information Systems (GIS)], reduced duplication, works productivity, and streamlined council administration.

3.5 CONCLUDING REMARKS

This chapter has sought to demonstrate that if state government policymakers are intent on at least some degree of structural reform as part of an overall strategy to improve the efficiency of local government, then two of the generic models contained in the Dollery and Johnson (2005) taxonomy are the best suited for regional and rural Australia; regional organizations of councils and area integration models. The three New South Wales local government examples cited in this paper necessarily stressed the cost savings that they had achieved. However, it must be underlined that structural reform is concerned with efficiency objectives far greater than simply cost savings, usually in terms of improvements in the quality and range of service delivery. It must thus be emphasized that the focus on cost savings in these three examples should not be taken to imply that cost savings should have priority as a criterion to evaluate structural reform.

Although Australian municipal reform programs have typically used council amalgamation as their primary policy instrument, it is now clear that this approach has been flawed, especially in non-metropolitan areas dominated by the “tyranny of distance” and other impediments. Other approaches involving fundamental structural change, such as agency models or virtual local government, are also likely to impose prohibitive transitional costs. By contrast, joint board models and regional organizations of council not only provide a better combination of process change and structural change, with lower transformation costs, but also appear better able to accommodate the varied needs of regional and rural municipalities.
CHAPTER 4: FINANCIAL SUSTAINABILITY

4.1 INTRODUCTION

Over the past few years, Australian local government policy makers have become increasingly concerned with the question of the “financial sustainability” of individual local councils. This concern has manifested itself in several recent public inquiries into local government systems. For instance, the South Australian Financial Sustainability Review Board’s (2005b) *Rising to the Challenge* attempted to define the concept of financial sustainability and then assess South Australian councils against this measure. Similarly, the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (2006) *Are Councils Sustainable* produced a comprehensive Final Report that also sought to determine financial sustainability in NSW local government. In addition, the *Local Government National Report, 2004-05*, prepared by the Local Government Section of the Department of Transport and Regional Services (DOTARS) (2006, p.61), highlighted the significance now placed on long-run financial sustainability by state government policy makers by considering the notion of a “structural gap” induced by “the unbalanced growth of revenues and expenditures” that results in fiscal distress. Finally, the problem of financial sustainability of Australian local government has also been addressed in the academic literature, most notably by Murray and Dollery (2005; 2006), Walker and Jones (2006) and Dollery (2006). The *Size, Shape and Sustainability* (SSS) project by the Queensland state government should thus be seen against this background since it too focuses heavily on the question of financial sustainability.

A fundamental problem faced by all these attempts at tackling financial sustainability in local government resides in providing a precise definition for the concept and determining how to measure financial sustainability from available data. Although all these documents are unanimous that large numbers of local authorities in Australia suffer from acute and worsening financial distress, no consensus has yet been reached on how best to define and measure the concept. This lack of agreement has far-reaching policy ramifications. If no widely accepted meaning can be attached to the term financial sustainability, then firm policy conclusions on the optimal method of alleviating the problem remain allusive.

Despite the undoubted problems posed by the current financial crisis experienced in Australian local government, most obviously evidenced in inadequate local infrastructure investment and maintenance, and the attendant urgent need to develop accurate and robust benchmarks for local government sustainability, no attempt has yet been made to consider and evaluate the various efforts at defining and measuring financial sustainability in a comparative manner. Accordingly, in this chapter we will outline and compare the approaches developed by the South Australian Financial Sustainability Review Board’s (2005b) *Rising to the Challenge*, the Financial Sustainability of NSW Local Government’s (2006) *Are Councils Sustainable*, the Queensland government’s (2006) *Size, Shape and Sustainability* manual, and the Murray and Dollery (2005; 2006) and Walker and Jones (2006) methodology.

The chapter itself is divided into seven main parts. Section 4.2 provides a synoptic discussion of the generic problems associated with local government performance measurement and Key Performance Indicators. Section 4.3 considers the work of the South Australian Financial Sustainability Review Board (2005). Section 4.4 focuses on the relevant parts of the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (2006) Final Report. Section 4.5 deals with the approach developed by Murray and Dollery (2005;2006 whereas the Walker and Jones (2006) method is assessed in section 4.6. Section 4.7 examines
the criteria advanced in the Queensland (2006) *Size, Shape and Sustainability* manual. The chapter ends with some brief evaluative comments in section 4.8.

### 4.2 LOCAL GOVERNMENT PERFORMANCE MEASUREMENT AND KEY PERFORMANCE INDICATORS

In the Australian local government milieu, all state and territory governments have enacted Local Government Acts that grant local councils enabling powers and prescribe the nature of their activities. These Acts also provide state Departments of Local Government with oversight powers over the conduct of local authorities. Under this legislative matrix, state governments must also periodically assess the financial soundness of councils within their local government systems and take action when fiscal and other circumstances demand intervention.

Financial oversight by state government agencies of local councils is a thorny question since it inevitably involves developing methods of appraising the financial performance of municipalities. The conceptual and measurement difficulties revolving around the creation and implementation of satisfactory performance measurement cannot be overstated. In the first place, despite a voluminous literature on the question, summarized by Honadle et al. (2004) in their *Fiscal Health for Local Governments*, there is no agreed definition of what constitutes “financial sustainability” over the long term in local government. Indeed, Honadle et al. (2004, p.18) observe that there is not even “consensus about the terminology surrounding fiscal health”! Definitions abound. In the United States, writers use a bewildering array of terms, including “fiscal health” (Berry, 1994), “financial condition” (Lin and Raman, 1998), “fiscal strain” (Clark and Appleton, 1989), “fiscal stress” (Pagano and Moore, 1985), “fiscal capacity” (Johnson and Roswick, 1991), and “fiscal crisis” (Campbell, 1991). By contrast, in Australia the term “financial sustainability” has recently become fashionable and acquired widespread usage, even though it completely lacks any concrete meaning.

It easy to appreciate how conceptual difficulties of this kind originate and persist in the financial assessment of local government. For instance, should financial soundness refer to short term or long run time periods and how long should time horizons be? Similarly, should the financial circumstances of a given council be judged exclusively in the light of financial magnitudes, such as operating expenditure, operating revenue, indebtedness, and the like, or should the yardstick reside in standards of service provision and community expectations? On analogous grounds, should financial performance be gauged in its own terms or relative to operational effectiveness? What weight should be accorded to governance efficacy relative to external factors beyond the control of councils?

Secondly, aside from these fundamental disputes surrounding the definition of financially troubled municipal entities, further intractable problems arise in measuring financial performance. The first attempt at systematically evaluating the fiscal standing of local government was undertaken by the American Advisory Commission on Intergovernmental Relations (ACIR) in 1973 which devised six early “warning signs” of “local financial emergencies” in the form of financial indicators. This set in train a rapidly growing literature on the development of indicators for local government in the United States (see Kloha et al., 2005) that culminated in the construction of comparative indicators, typically in the guise of financial ratios, as perhaps best exemplified by Brown (1993; 1996).

Parallel developments have occurred in Australian local government. Woodbury et al. (2003, p.78) have provided a systematic analysis of Australian local government performance measurement systems. They observed that in Australia “a key strategy in improving local
government performance over the past decade has been the development of performance measures for use in the benchmarking of services” in order “to measure performance and assess the efficiencies of councils”. Woodbury et al. (2003, p.79) have summarized these developments as follows:

A number of Australian states and territories have required councils to provide information on key service areas. Although this has varied somewhat between the states, more detailed and better-defined data continues to be collected each year. It was not until 1995 that national performance indicators were first proposed at the Local Government Ministers’ Conference and since then the National Office of Local Government has facilitated a voluntary process of developing and adopting standard performance measures and indicators with the states, peak industry bodies and technical committees. No efficiency measures for councils services are currently compared Australia wide since indicators and definitions vary from state to state.

As a result, “each state now either releases comparative performance data for local government on an annual basis or is in the process of doing so”. In effect, the methodologies developed in the South Australian Financial Sustainability Review Board’s (2005b) Rising to the Challenge, the Financial Sustainability of NSW Local Government’s (2006) Are Councils Sustainable, the Murray and Dollery (2005; 2006) and Walker and Jones (2006), and in the Queensland government’s (2006) Size, Shape and Sustainability manual all seek to achieve the allusive satisfactory comparative measures of local government financial performance.

The aim of these exercises in constructing comparative indicators that can be applied to a whole local government system is certainly laudable. Policy makers seek some kind of “objective” measurement tool that will enable them to compare the performance of individual councils and make recommendations that are unbiased. In the Australian context, this approach has been described by Woodbury et al. (2003, p.78) as follows:

> [P]erformance has been exclusively assessed by either comparing performance indicators against data for similar councils, primarily the “average council” figure for that state, or by comparing current performance with earlier indicators for a given council. Little effort has been directed at explaining why there are differences between councils, determining what constitutes “best practice” levels of efficiency, or how state governments can best apply direct pressure to force inefficient councils to improve performance (through linking grant funding to economic performance).

However, as Woodbury et al. (2003) suggest, efforts at compiling and applying indexes of comparative indicators are fraught with difficulties.

Kloha et al. (2005, pp.316-317) have identified some of the problems inherent in all system-wide sets of local government comparative financial indicators. Firstly, almost all indexes of comparative indicator indexes contain “too many variables” that limit the “ability to assess which are the most important or to combine them into a more useable and easily understood composite”. Secondly, the “exclusion of key variables” consequent upon “focusing almost exclusively on balance sheet data seems to hinder an indicator’s ability to give early warning of distress.” An additional problem resides in “ambiguous expectations” since “some indicators include variables that may have differing interpretations”. A “failure to allow for diverse preferences” typically derives from the application of average financial ratio values to every local
council in strident deviance of preference differences on the part of residents of different local authorities. In the fifth place, an emphasis on the “relative rather than absolute” values of indicators serves to punish councils whose absolute values are satisfactory but that fall at the end of a scale. An inability “to focus on one locality” is a further problem that plagues systems of comparative indicators since “ratios for all local governments must be computed before the relative fiscal health of a single government can be determined” with onerous cost implications. Finally, acquiring accurate data is always a problem.

These specific problems inherent in almost all sets of local government financial performance indicators are amplified when we consider wider conceptual anomalies. For instance, in The Financial Analysis of Governments, Berne and Schramm (1986, p.93) stress that “the judgment factor will never be replaced entirely by cookbook formulae” offered by the apparent “objectivity” of quantitative financial ratios in comparative local government performance indicators. Similarly, in direct reference to Australian performance indicators, Worthington and Dollery (2000) emphasised the significance of “nondiscretionary variables” in performance indicators that cannot be altered by the behaviour of a given council. Nondiscretionary variables include items such as pensioner rate rebates, non-rateable properties in a local government area, the proportion of non-English speaking and Aboriginal people, and a host of economic and social factors that cannot be influenced by a council.

4.3 SOUTH AUSTRALIAN FINANCIAL SUSTAINABILITY REVIEW BOARD

The South Australian Financial Sustainability Review Board (FSRB) was set up as an independent body by the South Australian Local Government Association on the 14th February 2005. Its chief task was to assess “the financial position and prospects of councils in South Australia” by considering three central questions. Firstly, does local council expenditure on service provision and local infrastructure meet with current and future revenues flows? Secondly, what is the optimal manner of remedying a potential “mismatch” between expenditure and revenue? Finally, should grants from higher tiers of government be directed reducing any such financial mismatch?


A central question tackled by the FSRB considered the problem of defining “financial sustainability” as a method of assessing the long-term solvency of South Australian councils. The FSRB (2005b, p.7) argued that although “the term ‘financial sustainability’ has a well-understood meaning among Commonwealth and state governments, involving a local council being able to manage likely developments and unexpected financial shocks in future periods with having at some stage to introduce significant and economically or socially destabilizing revenue or expenditure adjustments”, no comparable agreement existed on the meaning and content of “financial sustainability” Australian local government.

After due consideration, the FSRB (2005b, p.10) proposed that the following definition of financial sustainability in local government:

A council’s long-term financial performance and position is sustainable where: (i) continuation of the council’s present spending and funding policies; (ii) likely
developments in the council’s revenue-raising capacity and the demand for and costs of its services and infrastructure; and (iii) normal financial risks and financial shocks, altogether are unlikely to necessitate substantial increases in council rates (or, alternatively, disruptive service cuts).

In order to determine whether or not a given local authority met with this definition, the FRSB (2005b, p.15) advanced a quadrilateral set of key financial indicators “for assessing a council’s financial sustainability”. These indicators were: Net financial liabilities as the “key indicator of the council’s indebtedness to other sectors of the economy”; operating surplus or deficit as the “key indicator of the intergenerational equity of the funding of the council’s operations”; net outlays on the renewal or replacement of existing assets as the “key indicator of the intergenerational equity of the funding of the council’s infrastructure renewal or replacement activities”; and net borrowing or lending as the “key indicator of the impact of the council’s annual transactions – both operating and capital – upon the council’s indebtedness to other sectors of the economy”.

On the basis of these considerations, the FSRB (2005b, pp.19-20) drew its to its major conclusion (in the form of Recommendation 2.3(1)) in which it determined a “statement of principles” governing “key financial sustainability indicators” founded on the following six ingredients:

♦ A local council is financially sustainable financial if “its net financial liabilities are at levels at which the associated interest payments (less interest income) can be met comfortably from a council’s annual income (i.e. by current ratepayers) without the prospects of rates increases which ratepayers would find unacceptable (or disruptive service cuts)”;

♦ The net financial liabilities of a specified local authority “can be too low where they are (a) associated with current ratepayers being asked to bear an inequitable proportion of the cost of future service potential or (b) below levels that include more than enough room to absorb unexpected financial risks or financial shocks”;

♦ Annual operating financial performance of a local council is sustainable “if operating deficits will be avoided over the medium- to long-term, because such deficits inevitably involve services consumed by current ratepayers being paid for either (a) by borrowing and so by future ratepayers or (b) by deferring funding responsibility for the renewal or replacement of existing assets onto future ratepayers”;

♦ A local authority’s operating surplus can be too high “where it (a) is associated with current ratepayers being asked to bear an inequitable proportion of the cost of the council’s future service potential or (b) is above a level that includes more than enough room to absorb unexpected financial risks or financial shocks”;

♦ The annual capital financial performance of a municipality is sustainable “if capital expenditure on the renewal or replacement of existing assets on average approximates the level of the council’s annual depreciation expense, because any shortfall of such capital expenditure against annual depreciation expense would involve future ratepayers being left with an excessive burden when it comes to replacing or renewing the council’s non-financial assets”; and

♦ Finally, net borrowing of a local council can be too low “where, over the planning period, it results in the council’s net financial liabilities as a ratio of non-financial assets falling well below the targeted ratio”.

These principles formed the benchmarks that the FSRB employed to assess South Australian councils.
4.4 INDEPENDENT INQUIRY INTO THE FINANCIAL SUSTAINABILITY OF NSW LOCAL GOVERNMENT

The Local Government and Shires Associations of NSW (LGSA) commissioned an Independent Inquiry into the Financial Sustainability of Local Government in NSW (LGI) composed of an independent panel consisting of three persons highly experienced public policy making under the leadership of Professor Percy Allan. The aims of the Inquiry were fourfold: To determine the current financial position and performance of NSW local government sector; to gauge the adequacy of existing NSW local government physical infrastructure and service delivery; to assess the financial capacity of local government to meet its statutory obligations, expected functions and likely future challenges; and to identify possible financial, administrative, governance and intergovernmental reforms that could address any problems. To this end, the Inquiry published three public documents: A Background and Issues Paper presented in October 2005; A Findings and Options Report released in February 2006; and a Final Report published in early May 2006.

It is thus evident that the LGI represented a much broader investigation than the South Australian FSRB Inquiry since it roamed far beyond the narrow question of financial sustainability of the latter investigation. However, the Independent Inquiry itself explicitly acknowledged that the thorny issue of financial sustainability lay “at the heart of this Inquiry” (LGI, 2006, p.267). In the present context, we will focus exclusively on the deliberations of the Inquiry with respect to financial sustainability.

In Chapter 11, the Inquiry set out the “key financial aggregates necessary for the analysis of a council’s financial position and performance” (LGI, 2006, p.267). These are reproduced in Table 4.1 below:

Table 4.1: Key Financial Aggregates

<table>
<thead>
<tr>
<th>Income items</th>
<th>Expense items</th>
<th>Capital flows</th>
<th>Asset items</th>
<th>Liabilities items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates revenue</td>
<td>Operating costs (employee expenses, superannuation, other non-employee expenses, current grant expenses, subsidy expenses and capital grant expenses)</td>
<td>Capital expenditure, distinguishing between capital expenditure on: (i) The renewal or rehabilitation of existing assets; and (ii) New or enhanced assets</td>
<td>Cash and investment securities – externally restricted</td>
<td>Interest bearing liabilities</td>
</tr>
<tr>
<td>Fees and charges Grant from other governments for non-capital purposes</td>
<td>Loss from the disposal of assets</td>
<td>Other liabilities (provisions, other)</td>
<td>Cash and investment securities – other</td>
<td>Other liabilities</td>
</tr>
<tr>
<td>Other operating revenues Interest Gain from the disposal of assets Gain from interests in joint ventures/associates Gain on revaluation of non-financial assets</td>
<td>Borrowing costs Loss from the disposal of assets Loss from interests in joint ventures/associates Depreciation Grants from other governments for capital purposes Other grants and contributions provided for capital purposes Assets donations Revenue from disposals of non-financial assets</td>
<td>Grants from other governments for non-capital purposes</td>
<td>Other financial assets (receivables, investments accounted for using equity method, other)</td>
<td>Memo item: infrastructure renewal backlog</td>
</tr>
</tbody>
</table>

After discussing the “realities” of financial reporting by NSW councils, and bemoaning inadequacies in financial information, the Inquiry contends that “each council's financial reports should be accompanied by disclosure of relevant key financial performance indicators (financial KPIs)” (LGI, 2006, p.271). The financial KPIs employed must provide information on the following financial dimensions of a council’s operations (p.272):

- “A council’s financial position, which involves the state of its balance sheet, and so the relative level and composition of its assets and liabilities”; and
- “A council’s annual financial performance, which involves the state of its annual operating statement, and especially the size of relevant annual surpluses or deficits”.

These financial KPIs should bear “a strong predictive relationship with the degree to which a council’s finances are likely to be sustainable in the long term, being based upon generally accepted key analytical balances”. The “principal choices” of KPIs identified by the Inquiry are reproduced in Table 4.2 below (p.272):

**Table 4.2: Key Analytical Balances**

<table>
<thead>
<tr>
<th>Analytical balances</th>
<th>Definition</th>
<th>Denominator for comparative ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt</td>
<td>Interest-bearing financial liabilities less holdings of cash and securities other than externally restricted cash and securities</td>
<td>Total operating revenue</td>
</tr>
<tr>
<td>Net financial liabilities</td>
<td>Total liabilities less financial assets net of holdings of externally restricted cash and securities</td>
<td>Non-financial assets plus holdings of externally restricted cash and securities</td>
</tr>
<tr>
<td>Net interest expense</td>
<td>Annual interest expense less interest earnings on holdings of cash and securities other than externally restricted cash and securities</td>
<td>Total operating revenue</td>
</tr>
<tr>
<td>Operating surplus/(deficit)</td>
<td>Operating revenue before capital amounts less operating expenses less depreciation expense less net interest expense</td>
<td>Own-source revenue</td>
</tr>
<tr>
<td>Net borrowing/(lending)</td>
<td>Capital expenditure less capital revenues less depreciation expense less operating surplus/(deficit)</td>
<td>Annual capital expenditure on new or enhanced assets</td>
</tr>
<tr>
<td>Annual renewals deficiency</td>
<td>Annual depreciation expense less annual capital expenditure on existing assets</td>
<td>Annual capital expenditure on renewal or rehabilitation of existing assets</td>
</tr>
<tr>
<td>Renewals backlog</td>
<td>Cumulative past annual renewals deficiencies</td>
<td>Non-financial assets</td>
</tr>
</tbody>
</table>

*Source: LGI (2006, Table 11.2, p.272).*
Drawing on these financial KPIs, the Inquiry prescribed “benchmark values” based on the “average” NSW council, with upper and lower “safe” limits. The Report notes that “these values should be adjusted on account of each council’s individual circumstances” (p.273), such as whether the local council in question is “developed” or “developing” or whether it is “growing” or “declining”.

These “indicative benchmark values” are reproduced in Table 4.3 below:

### Table 4.3: Indicative Benchmark Values for Council Financial KPIs

<table>
<thead>
<tr>
<th>Financial Key Performance Indicators</th>
<th>Average Council Data</th>
<th>Proposed Council Target</th>
<th>Proposed Upper Limit</th>
<th>Proposed Lower Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt as % of total revenue</td>
<td>10.5%</td>
<td>100%</td>
<td>150%</td>
<td>50%</td>
</tr>
<tr>
<td>Net financial liabilities as % of total capital employed</td>
<td>2.2%</td>
<td>10%</td>
<td>15%</td>
<td>5%</td>
</tr>
<tr>
<td>Net interest expense as % of total revenue</td>
<td>0.6%</td>
<td>15%</td>
<td>20%</td>
<td>7%</td>
</tr>
<tr>
<td>For general government activities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating surplus as % of own-source revenue</td>
<td>-4.5%</td>
<td>5%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>For commercial activities only:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBIT as % of non-financial assets</td>
<td>0.9%</td>
<td>5%</td>
<td>7%</td>
<td>3%</td>
</tr>
<tr>
<td>Net borrowing as % of capital expenditure on new or enhanced assets</td>
<td>1.3%</td>
<td>50%</td>
<td>60%</td>
<td>30%</td>
</tr>
<tr>
<td>Annual renewals deficiency as % of renewals capital expenditure</td>
<td>40.2%</td>
<td>0%</td>
<td>10%</td>
<td>-10%</td>
</tr>
<tr>
<td>Infrastructure backlog ($M) as % of total infrastructure assets (estimated at fair value)</td>
<td>8.1%</td>
<td>0</td>
<td>1%</td>
<td>0%</td>
</tr>
</tbody>
</table>


With respect to Table 4.3, the LGI (2006, p.274) stressed that “if used, each of these ratios should be adhered to, not just some of them”.

In section 11.4 of the Final Report, the LGI (2006, p.276) addresses the conditions that must be met should a council wish to be classified as “currently healthy” in financial terms: A given council should be “a modest net debtor” with borrowings or debt making up only “a minority of the total capital invested in the council’s infrastructure and other assets” and at the same time “the associated expense burden should not be a substantial proportion of the council’s annual operating revenues”.

This represents a minimum requirement. In addition, “for a council’s financial performance to be assessed as ‘currently healthy’ and to ‘involve a margin of comfort to cope with the usual assortment of financial risks and financial shocks’ the council must meet three further criteria: In the first place, the council in question should “generally be running an operating surplus rather than an operating deficit”. Secondly, the local authority should not exhibit a “significant infrastructure renewal backlog” and its capital expenditure over the financial year on
infrastructure renewal and replacement should “on average over time be about the same level as the council’s depreciation expenses”. Finally, “annual net borrowing should not be putting any pressure on the council’s targeted net financial liabilities ratio”.

Chapter 11 of the Final Report (p.283) concedes that the concept of financial sustainability is a “controversial issue”. It concludes that “a council’s finances should be considered sustainable in the long term only if its financial capacity is sufficient – for the foreseeable future – to allow the council to meet its expected financial adjustments over time without having to introduce substantial or disruptive revenue (and expenditure) adjustments”.

Bearing in mind the discussion in section 4.2 above on the conclusions of the South Australian Financial Sustainability Review Board Final Report regarding financial sustainability, the similarities between it and the LGI in this respect are startling. The high degree of commonality between the two conclusions can perhaps best be explained by the fact that both have their origins in the work of Access Economics (2006). It should thus not be interpreted as indicative of any emerging consensus on the meaning and content of financial sustainability in the Australian municipal context.

4.5 THE MURRAY AND DOLLERY APPROACH

In two separate papers published in academic journals, David Murray and Brian Dollery (2005; 2006) approached the controversial question of financial sustainability in Australian local government from a rather different perspective. In their paper in Public Administration Today, Murray and Dollery (2006) explored the basis of performance appraisal in NSW and the approach adopted by the NSW Department of Local Government in classifying individual councils as “at risk”.

Given the harsh consequences that can result from being classified as an “at risk” council in NSW that may include detailed scrutiny by the NSW Department of Local Government and even possible dissolution of the council, Murray and Dollery (2006, p.47) sought to determine whether the performance measurement system employed in NSW operated in an effective way. To this end, they considered three main questions: How are financially struggling councils identified? Is the methodology that is employed to this end sufficiently robust to withstand scrutiny? Finally, do the monitoring lists provide a true indication of financial performance to the extent that the financial accountability of councils is discharged?

This involved an assessment of how “monitoring lists” of financial troubled councils are constructed and the subsequent identification of “at risk” councils. Murray and Dollery (2006, p.59) drew the following conclusions from their analysis:

Monitoring lists within NSW are created through an analysis of financial and corporate results, which at best can be described as a measure of financial soundness. However, the present construction methods provide little to indicate that an adequate analysis has occurred. It seems that the monitoring lists are being constructed on a primarily subjective basis. Moreover, as a means of attributing financial soundness or otherwise to councils, the present monitoring lists must be treated with a considerable degree of caution. This is due in part to councils lacking control over their own revenue levels owing to rate capping and the application of restrictive regulations and statutes over user charges and fees. Consequently, the ability of NSW local governments manage their accountability requirements to the
Parliament and the citizenry can perhaps best be described as a compromise, which present monitoring lists fail to address.

In a complementary paper published in Economic Papers, Murray and Dollery (2005) explored the manner in which NSW local councils are assessed by the NSW Department of Local Government and identified as either “at risk” or not “at risk”. They argued that the NSW Department of Local Government conducted this assessment on the basis of an analysis of KPIs drawn from comparative performance tables published by the NSW Department of Local Government from information supplied by individual municipalities. In its construction of “monitoring lists”, the NSW Department of Local Government subjectively considers these indicators as well as other information in order to determine whether a council should be classified as “at risk” or not “at risk”.

Murray and Dollery (2005, p.332) undertake an econometric evaluation of these lists to determine whether “the indicators employed and the results published by the DLG are sufficiently robust to withstand analytical scrutiny”. They ask the question: “Are municipal councils deemed to be ‘at risk’ on the basis of the DLG analysis of selected key performance indicators (KPIs) really ‘at risk’ or have they merely been erroneously classified as ‘at risk’”? In other words, Murray and Dollery (2005) approach the problem of the efficacy of KPIs in predicting council performance from an empirical angle by examining whether councils with poor KPIs end up as being considered “at risk”.

The results obtained by Murray and Dollery (2005) are most instructive and bring into question the adequacy of KPI analysis for local government. Murray and Dollery (2005, pp.342-343) draw the following conclusion from their econometric analysis:

[T]he findings of our paper suggest that those councils that have been publicly identified as “at risk” may in fact not be in a parlous financial state at all. This has the potential for opening up a political “can of worms” for both the NSW Government and the NSW DLG since those councils that have been labeled as “at risk” could seek legal redress. Moreover, local authorities which have been branded “at risk” may have been subject to subsequent close scrutiny, and even dismissal, when their actual financial soundness is in fact no worse than other councils within the same assigned classification category.

This finding led Murray and Dollery (2005, p.343) to ask the question: “If the current NSW DLG methodology does not reliably identify ‘at risk’ councils, what might be the important indicators of financial risk?” In an effort to answer this question, they “speculated” along the following lines: “It has been argued that one important indicator is whether the council faces cost disabilities in the provision of its services due to population dispersion, age/sex distribution of its population, difficult terrain/climate, urban congestion, economies of scale, etc.” Moreover, “these are the types of cost disability developed and measured by the Commonwealth Grants Commission in its equalization model” and “they are commonly also used by state government grants commissions in distributing funds to local governments”. In addition, “another important indicator would be whether the local government faces revenue disabilities, such as a weak property tax base”. In sum, “one would expect that councils facing cost and revenue disabilities to be at most financial risk”. In other words, all KPIs do is imperfectly measure the effects of diversity amongst local councils that have long been recognized by policy makers. Furthermore, their predictive capacity for ascertaining potential “local government failure” is very low in any event. This obviously undermines the whole basis for using KPI analysis to evaluate the financial sustainability of local councils.
If KPI analysis is a poor predictor of actual council financial performance, then the question arises as to what factors really do explain local government financial failure? While Murray and Dollery (2005, p.343) note that “although the resolution of this question goes well beyond the scope of the present paper”, they nonetheless “speculate” on what factors really determine local government failure. They observe that “governance issues (broadly defined)” appear to have been the most “critical factors” in most recent NSW local government “failure episodes” since “failed entrepreneurial projects by councils or councils in partnership with private organizations; factional ‘infighting’ amongst elected councillors and the attendant resignation of frustrated experienced professional staff; a preponderance of ill-informed and unwise elected councillors; poor quality professional staff, especially in rural and remote areas; and a lack of adequate internal controls all seem to have played a critical role in municipal failure”. Finally, Murray and Dollery (2005, p.343) stress that “certainly council size per se appears to have been unimportant”.

4.6 WALKER AND JONES APPROACH

In a subsequent attempt to empirically investigate the question of fiscal stress in Australian local government, Walker and Jones (2006) developed two main criticisms of the approach adopted by Murray and Dollery (2005; 2006). Firstly, they argued that by assuming published KPIs represented the basis of the NSW “watch list” of “at risk” councils, Murray and Dollery (2006) had attacked “a straw man”, since the NSW Department of Local Government did draw exclusively on published KPIs to determine which councils “at risk”, but also employed other sources of information, such as the annual “state of the environment” report and the report on the condition of infrastructure by each council. This criticism was accepted by Dollery (2006) in a rejoinder to Walker and Jones (2006).

Secondly, Walker and Jones (2006) advanced various criticisms at the econometric analysis by Murray and Dollery (2005). For instance, they argued that the dependent variable employed in the regressions cannot be taken as exogenous since Murray and Dollery (2005) had chosen only ten of the full list of thirty published KPIs, and there was multicollinearity present among the independent variables. Similarly, they claimed that results were “misinterpreted”. Criticisms of this kind represent the “stock in trade” of disputes in econometrics and can be leveled at almost all estimation exercises.

However, the major contribution of the Walker and Jones (2006) paper lay in the development of an alternative approach to the question of fiscal distress and financial sustainability in Australian local government. Walker and Jones (2006) define council fiscal distress in the context of “maintaining service delivery at pre-existing levels”. In essence, Walker and Jones (2006) argue that “if the basic operating objectives of local councils are to provide services to the community”, then “it follows that a relevant concept of council distress” would be “an inability to deliver services at pre-existing levels” In other words, in terms of this approach financial sustainability should be defined as the capacity of councils to deliver some current level of service provision to their residents. It is immediately apparent that this definition differs from the methodology developed in both South Australian Financial Sustainability Review Board’s (2005b) Rising to the Challenge and the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (LGI) (2006) Are Councils Sustainable?

In his rejoinder to Walker and Murray (2006), Dollery (2006) argued that their definition is flawed since it requires the user to heroically assume that “‘yesteryear’s’ levels of service will be acceptable to ‘tomorrow’s’ local government community”. Moreover, Dollery (2006) observed
that “it is easy to think of instances where this procedure will fail”. In particular, he cited the example of the environmental regulation of local councils and the continual “raising the bar” that has occurred. Obviously, there had to be financial resources to meet these rising regulatory standards. Conversely, the absence of additional resources would inevitably lead to financial unsustainability.

Secondly, Dollery (2006) argued that there were problems with the way Walker and Jones (2006) excluded water and wastewater services from their calculations on the basis that “water and sewerage operations are largely insulated from general operations”. Dollery (2006) considered this a most “dubious claim” since “closer scrutiny of the operation of many NSW local governments” indicated that “many local authorities establish ‘internal contracts’ for the provision of services across units, often embedding significant cross-subsidies in these contracts”.

### 4.7 THE QUEENSLAND SIZE, SHAPE AND SUSTAINABILITY APPROACH

In 2004, the Local Government Association of Queensland (LGAQ) resolved to consider the pressures confronting councils in Queensland and to explore the need for local government reform to ensure the long-run viability of local councils. As a consequence of this decision, a Discussion Paper entitled Size, Shape and Sustainability of Queensland Local Government was released on 3rd March 2005 and a Special Conference of the LGAQ held in Brisbane in early June 2005, which formulated a Communique approving a “comprehensive reform blueprint”. A “ten point Action Plan” followed from the Communique that was subsequently endorsed by both the LGAQ Executive and the Queensland Minister for Local Government and Planning. The Action Plan provided for a local government reform program embodying the Size, Shape and Sustainability (SSS) Review Framework, sustainability indicators, “options for change”, “Independent Review Facilitators” (IRF), and funding arrangements for state government support. The reform program itself is outlined in the Size, Shape and Sustainability: Guidelines Kit (LGAQ, 2006).

The Guidelines Kit (LGAQ, 2006, Chapter 1, p.6) notes that, as part of the overall reform program, local councils must “assess their current and future sustainability against a number of key indicators”. It argued that “the use of indicators for SSS will assist councils determine how their councils are performing”. In particular, the SSS indicators may “help identify where there might be present or future vulnerabilities, opportunities, and strengths”. These latter three terms are defined in some detail: “Vulnerabilities” consist of “risks or weaknesses within specific areas of council operations”; “opportunities” focus on “areas within council operations that could be improved”; and “strengths” consider excellence in council operations and areas where a given council could “provide assistance/benefit to other councils”.

The Guidelines Kit (LGAQ, 2006, Chapter 3, p.4) sets out five criteria that indicators should fulfill: “Relevant” and “limited” in number; “capable of relating to other indicators”; “easy to understand” “reliable” in the sense of providing trustworthy information; and based on “accessible information”. It should immediately be noted that while the Guidelines Kit (p.8) concedes that “some indicators are qualitative in nature and will [thus] be scored based on judgment and local knowledge”, and thereby does at least recognize some of the generic problems associated with performance indicators outlined in section 4.1 above, it nonetheless neglects to mention the problem of discretionary and non-discretionary variables.

Each of the indicators must be scored on a 1 to 5 cardinal scale, with high scores indicating satisfactory outcomes. Prescribed IRF persons will “oversee” the application of individual council data to the indicators. However, the Guidelines Kit does not explain the process whereby IRF
personnel are selected and appointed. This raises obvious and unfortunate difficulties with the independence of the IRF process.

Four categories of indicators are prescribed in the Guidelines Kit and set out in detail in Chapter 3. We will briefly list and comment on these categories of indicators below:

**Category #1: Financial and Resource Base**

1. Financial forecasts
2. Revenue base
3. Rating capacity
4. Asset sustainability
5. Levels of service
6. Human resourcing
7. Cross border use of council services

These seven indicator groups derive from the Queensland Treasury Corporation’s (QTC) “Financial Sustainability Review” and must form part of the overall Size, Shape and Sustainability exercise. Two indicator groups contain more than a single indicator. For example, “revenue base” includes three specific indicators dealing population growth, age dependency, and population size respectively. An aggregate score for revenue base is obtained by averaging the score for each of these specific indicators. This is unfortunate since population growth, population age structure and population base all have quite different effects on council service, expenditure and revenue patterns.

A second unusual feature of these financial and resource base indicators resides in the fact that whereas some of them require subjective judgment, other indicators simply report ratios taken from “objective” data. This means that the scores obtained for different indicator groups are not directly comparable since they are based on completely different assessment criteria.

Thirdly, in contrast to both the South Australian Financial Sustainability Review Board’s (2005b) *Rising to the Challenge* and the Financial Sustainability of NSW Local Government’s (2006) *Are Councils Sustainable*, the resultant scores represent absolute and not relative perceptions of financial sustainability since the data are not expressed in comparative terms.

Fourthly, insufficient justification is provided for the selection and range of the indicator groups. For example, unlike the Financial Sustainability of NSW Local Government’s (2006) *Are Councils Sustainable*, no distinction is drawn between a council’s financial position (i.e. the state of its balance sheet and the level and composition of its assets and its liabilities) and the annual financial performance of a council (i.e. the state of its annual operating statement and the magnitude of relevant annual surpluses or deficits). This has serious implications for the usefulness of the data that is gathered through the exercise.

In the fifth place, the indicator groupings under “financial and resource base” confuse inputs into council operations with the outputs from council activities. For example, “asset sustainability” clearly deals with council assets employed to produce serve outcomes whereas “service levels” obviously represents a final output. Since the analysis of production functions is premised on the distinction between inputs and outputs, economists always separate these two categories for fear of comparing apples with oranges!

Finally, some indicators are approached in a puzzling manner. For instance, the adequacy of “levels of service” should be gauged on the basis of council “monitoring and reporting”, “future”
needs, and “community expectations” and adjudged by reference to “customer complaints”, “community surveys”, “various legislative requirements”, like Total Management Plans (TMPs), and Strategic Management Plans. The suggested data sets immediately bias scoring towards large councils that do not have intimate interaction with small communities characteristic of small councils and thus must use these indirect measurement and planning systems. Similarly, the existence of these instruments rather than their efficacy can boost council scores. These and other problems mean that the scores that eventuate will not properly reflect community satisfaction with service provision.

**Category #2: Community of Interest**

1. Service centre and community linkages
2. Community engagement

These two indicator groups follow the same pattern as the “financial and resource base” exercise since the indicator group “service centre and community linkages” contain more than one indicator by combining the scores for “service centre linkages” and “community linkages”. For the same reasons, this is unfortunate because the two indicators seek to measure different phenomena and an aggregate score is obtained by averaging the score for each of these specific indicators.

A second problem once again resides in the fact that no rationale is provided for the apparently arbitrary choice of indicators. “Community of interest” is a complex and multi-faceted phenomenon that is very difficult to measure in any meaningful way. For instance, numerous councils combine urban, semi-urban and rural populations with divergent and often competing needs for local services. This aspect has been ignored. Similarly, no mention is made of the important psychological construct of “sense of place” that is critical in the wellbeing. This is typically critical in cases where small settled communities have coexisted alongside much larger councils for long periods of time. A much better way of tackling the question of community of interest is to formally survey public opinion with a statistically reliable sample. A survey of this kind can also gather valuable information on many other aspects of council performance, not least satisfaction with service provision.

**Category #3: Planning**

1. Service coordination and efficiency
2. Growth management

Unlike the indicator groups under “financial and resource base” and “community of interest”, the two planning category indicators do not combine different aspects of local government under a single averaged score and thus is not open to the same objections. However, both deal with the phenomenon of inter-jurisdictional externalities between adjacent local government areas. For example, “service coordination and efficiency” is centrally concerned with the question of the duplication and coordination of local government infrastructure across council boundaries. The Guidelines Kit (2006, Chapter 3, p.18) explicitly acknowledges that “where difficulties exist in coordinating infrastructure services across council areas and/or regions, then structural reforms options may be needed”, without indicating what kind of options may be appropriate. In this sense, the “service coordination and efficiency” indicator duplicates to a significant degree the earlier “cross border use of council services” under the “financial and resource base” indicator groupings. The difference between the two apparently rests on an artificial distinction between local infrastructure and the services flowing from local government infrastructure. It is thus by no means obvious why these two indicators are not grouped together.
Category #4: Standards of Governance

1. Decision making and management
2. Accountability

Unfortunately, in common with the indicator categories “financial and resource base” and “community of interest”, the two “standards of governance” indicators both combine different aspects of local government under a single averaged score and can thus be attacked on the same grounds. For instance, while there is no denying that “corporate planning”, “risk management”, and “delegations” are all important dimensions of organisational functioning, experience suggests that harmonious relationships between councillors is one the most critical predictive factors for explaining the smooth running of local authorities. This aspect is entirely ignored by the Guidelines Kit.

“Accountability” also comprises two separate aspects of “performance management” and “internal audit process” is thereby lays itself open to criticism since it averages scores again. It can also be attacked on grounds that both these dimensions of accountability deal with “internal” processes rather than “external” public perceptions of accountability required by democratic entities.

This brief assessment of the indicator groupings contained in the Size, Shape and Sustainability exercise thus suggest that there is considerable room for improvement. At the very least, there is an urgent need for the Local Government Association of Queensland to explain the rationale for its selection of indicators and for indicators combining more than one conceptually different aspect of local government to be separated.

On a more positive note, a saving grace of the Size, Shape and Sustainability indicator exercise resides in its flexibility. The Guidelines Kit (2006, Chapter 3, p.6) specifically notes that “if the Review Group of Councils believe there are other indicators that are applicable to their circumstances (for example, environmental management and economic development), then it is entirely appropriate at the discretion of the Review Group to add to the sustainability indicator list”. This allows councils to take action to mitigate against the weaknesses inherent in the indicator groupings.

4.8 CONCLUSION

Chapter 4 has sought to place the Size, Shape and Sustainability evaluation program in a broader national context in order to assess its merits against a larger canvass. The first general conclusion that can be drawn from this exercise is that, in common with other attempts to provide operational meaning to the term “financial sustainability”, the Local Government Association of Queensland has taken too little cognizance not only of the inherent problems involved in defining financial sustain ability, but also of the difficulties experienced by similar exercises conducted elsewhere in Australia. If the Size, Shape and Sustainability evaluation program had taken note of other efforts at tackling the same problem, then it may have been able to draw valuable lessons from this experience.

Three major inferences emerge from previous attempts to measure the sustainability of local councils in Australia. In the first place, experience elsewhere strongly suggests that it is not possible to define sustainability with any degree of precision. Since the concept cannot be given precise meaning, it cannot be captured adequately through performance indicators. This means that other techniques are needed to augment the prescribed indicators in the Size, Shape and
**Sustainability** evaluation program, especially public opinion surveys aimed at soliciting the views of the relevant communities. In other words, a council may be sustainable if the community is reasonably content with its performance!

Secondly, immense diversity between local councils in any given local government jurisdiction precludes the use of a “one-size-fits-all” method of assessing municipalities. Not only are the expectations and needs of residents of metropolitan, regional, rural and remote councils quite different, but the problems faced by these different categories of councils are varied. A given and fixed set of indicators cannot hope to cope with these subtleties. However, latitude for adding additional indicators under the *Guidelines Kit* does at least mean that individual local councils can address this problem.

Thirdly, where indicators are to be employed, effort and resources should be invested ex ante to determine the predictive capacity of the proposed set of indicators. Put differently, to what extent do a particular set of indicators actually predict good, bad, or indifferent council performance? This is an empirical issue that can only be settled by resorting to available data along the lines of the statistical exercise undertaken by Murray and Dollery (2005). Needless to add, this evaluative type of pretest or trial program should be used before embarking on expensive system-wide performance measurement programs, like the *Size, Shape and Sustainability* evaluation program.
CHAPTER 5: OTHER DIMENSIONS OF SUSTAINABILITY

5.1 INTRODUCTION


Various important conclusions were drawn from this analysis. In the first place, it is clear that no agreed definition of financial sustainability exists in Australia. Secondly, as we saw, recent attempts at determining the financial sustainability of local councils have considered quite different aspects of the monetary situation of municipalities - which serves to further underline the lack of national consensus on the meaning of financial sustainability. Thirdly, whereas the South Australian, NSW and Queensland investigations into financial sustainability all employed Key Performance Indicators (KPI) (most commonly in the form of financial ratios), Chapter 4 highlighted numerous problems with the KPI method of performance appraisal, including the fact that the observed incidence of local government failure bears no statistical relationship to KPI scores, at least in the NSW local government milieu (Murray and Dollery, 2005). It thus follows that policy makers should be very wary of making far-reaching decisions based disputed definitions of financial sustainability and flawed KPIs with almost no predictive capacity.

But quite apart from the doubt surrounding the meaning and measurement of financial sustainability, a second important question that must be taken into account deals with the non-financial aspects of sustainability in local government. Put differently, aside from direct financial considerations, what factors determine the broader long-run sustainability of Australian local councils? In other words, can we identify overall local government sustainability and define its characteristics? This forms the subject matter of the present chapter.

The chapter itself is divided into three main parts. Section 5.2 considers the problem of defining adequately council sustainability and identifying the chief determinants of this broader conception of local government sustainability. Section 5.3 examines each of the putative attributes of community or social sustainability in local government and tries to develop operational measures for these characteristics. The chapter ends with some brief concluding remarks in section 5.4.

5.2 DEFINING OVERALL COUNCIL SUSTAINABILITY

In common with the conceptual and factual difficulties of defining financial sustainability, the problem of defining overall council sustainability presents similar analytical challenges. In all Westminster-style advanced democracies, local government plays a dual role. Aulich (2005, p.198) has described this twin function in some detail. In the first place, local government “provides a voice to local aspirations for decentralized governance”. What can be termed the “local democracy approach” thus places fundamental value on “local differences and system diversity” and encourages directed activities and policy reforms aimed at improving “local choice and local voice”. This is premised on the notion that a local council “can and will make choices that will differ from those made by others”. According to this view, “a premium is placed upon traditional democratic values” that fully embrace “access”, “accountability”, “representativeness”
and “responsiveness” (Stewart, 1997). The “vibrancy” of local democracy thus becomes a desired outcome in its own right.

In addition to these attributes of the local democracy approach, it is possible to identify other dimensions that may be important. In this respect, the concept of “social capital” is crucial. First conceived by Coleman (1988) and later popularized by Putnam (1993), social capital refers to those features of social life that enable participants to act together more effectively to pursue shared objectives. In the local government context, social capital engenders local civic awareness that manifests itself in a variety of community projects, ranging from the formation of local social associations and sports clubs to local business initiatives. The determinants of local social capital are complex and not well understood (Quibria, 2003), but include a “sense of community” and a “sense of place” that derive from living in a small and distinctive community, such as a local government area. Community size and community social capital are therefore intrinsically linked together.

The local democracy approach necessarily implies support for “collaborative or pluralist processes of reform” rather than top-down “technocratic” policy intervention that overrides local opinion. Instead of being viewed as a burdensome financial impost on the local exchequer, representative local government is seen as a worthy policy goal on its own merit. The costs associated with local governance, including local elections, consultation processes, “democratic audits”, community participation, elected councillors, their supporting secretariat and the whole gamut local democratic autonomy, can thus be justified the same way as financial outlays on any other bona fide council service. Accordingly, public policy should not simply seek efficient service local provision, but also effective local democracy. Political process becomes as important as economic outcome. The result is an emphasis on “bottom-up” local consultation and local policy formulation.

The second primary role of local government in a Westminster-type democratic constitutional milieu focuses on local councils as “a mechanism for [the] efficient delivery of local services to local communities”. In terms of this perspective, in its role as a provider of local public and quasi-public goods and services, local government must focus on efficient service delivery above all else (Tucker, 1997). In other words, local government is not regarded as a representative entity in its own right, but rather as an instrument for meeting local needs through local services in the most cost effective manner possible. This instrumentalist conception of the role of local government in a federal system thus stresses the importance of policy reform aimed exclusively at enhancing the efficiency of local government, regardless of the impact this might have on the vibrancy of local democracy. Put differently, in the instrumentalist service provision approach “fiscal and economic issues override other social and political concerns” and “tradition-bound or value-orientated forms of political and social organization are replaced by purely instrumentally rational institutions” (Aulich, 2005, p.199). Economic outcomes thus take precedence over political processes.

The main policy implications of this “local service delivery approach” have been described by Aulich (2005, p.199) as follows:

Such an approach encourages state intervention to assert control over the local sphere of government to ensure that the mechanisms are in place to advance efficiency and economy. There are inevitably greater pressures for uniformity and conformity and less tolerance for diverse outcomes. In this environment, lower value is placed on collaborative processes, with top-down technocratic processes being more typical.
Obvious tensions exist between the two primary roles of local government in a Westminster-style democratic polity and these are perhaps best exemplified in the diametrically opposed policy implications that derive from the local democracy approach and the local service approach. Steyvers et al. (2006, p.429) draw a distinction between “input legitimacy” and “output legitimacy” to highlight this tension. Input legitimacy rests on “responsive government” that can be achieved by “integrating citizens and providing space for participatory input” into municipal decision-making. By contrast, output legitimacy occurs through providing “effective and efficient public services”. This dichotomy can be illustrated by means of Figure 5.1:

![Figure 5.1: Competing Roles of Australian Local Government](Image)

Figure 5.1: Competing Roles of Australian Local Government  
*Source:* Adapted from Aulich (1999, p.20).

Figure 5.1 depicts the opposing value systems and associated process orientation of the local democracy approach and the local service approach. The instrumentalist policy preference of the local service approach is manifest in its end-state objective of achieving greater cost effectiveness regardless of the price paid in terms of democratic process. For example, if local democratic processes express community preferences for small “close-to-the-people” local government, even if this may involve relatively more expensive service provision, then “top-down” state government intervention in the form of forced amalgamation, or other kinds of structural change is justified if it can deliver cheaper services. By contrast, if due democratic process embodies full public participation, even where this may entail the provision of redundant additional services or more costly local services, then this is warranted under the local democracy approach since it expresses community preferences.

Whereas Aulich (2005) sets the local democracy approach and the local service approach in juxtaposition as competing and almost mutually exclusive roles for Australian local government, it is possible to identify aspects of both positions that contain overlapping and mutually reinforcing (or mutually destructive) dimensions of contemporary local authorities. If we consider
a hypothetical case where an enforced local government merger of several small councils with a single large municipality in a regional spatial setting would generate an aggregate reduction in the per capita costs of service provision across the entire new amalgamated entity, and this merger will necessarily mean that council activities and employment are geographically reallocated away from the previous small councils towards the dominant large municipality, then feedback loops between local democracy approach and the local service approach become apparent. For instance, small country councils are often a major employer in small rural towns. If council employees are forced to work in the former large council in the new amalgamated structure, then this will set in motion powerful negative multiplier effects that can lower population, reduce economic activity, and threaten the viability of other public and private services, like public schools and banking facilities.

Secondly, if we invoke attributes of the local democracy approach neglected by Aulich (2005), such as the historically, psychologically and sociologically crucial concepts of “sense of community” and “sense of place”, that form an important part of the social capital of small country towns, then this will also have substantial economic effects. After all, a municipal council often represents the “heart” of a community and serves to symbolize its character and independence. The abolition of these councils could thus severely damage a “sense of community” built up over the generations. The economic consequences of this loss may be felt in different retail shopping patterns, altered school enrolment, changed sporting club allegiances, and so forth, that will have ramifications for the structure of economic activity and the strength of the rate base of the former small council areas.

Finally, and perhaps most importantly, process and outcome are inextricably linked through democratic representation in local government. Thus, the merger of small councils with a larger municipality can have obvious and severe resource implications for residents of the small merged towns. For example, if a previously autonomous local council is compulsorily amalgamated with a larger, adjacent regional centre, then its elected representation automatically falls as a proportion of all councillors. This may mean relatively fewer resources will be directed towards the needs of residents of the small councils relative to their counterparts living in the dominant larger regional city. Moreover, where service provision preferences differ between the citizenry of small and large councils, the pattern of service provision can also shift to the detriment of residents of small towns. These effects will be even more acute if electoral wards are abolished since this may mean no representation at all for minority ratepayers living in sparsely populated areas on the outskirts of the new local government structure.

In essence, the local democracy approach and the local service approach can thus overlap in some respects and this affects the nature of trade-offs between the two perspectives. In other words, single-minded pursuit of economic gain regardless of political process can have the unintended effects of reducing the aggregate economic benefits through the spatial redistribution of economic activity and council service operations within the new amalgamated entity. Political process thus cannot be entirely divorced from economic outcome.

The tensions between input legitimacy and output legitimacy stressed by Steyvers et al. (2006) has focused attention on the need to reconcile these two imperatives. Some scholars have pursued this line of inquiry, including Kersting and Vetter (2003), and have sough to close the “gap” between service efficiency and participatory democracy. However, the fruits of this debate have yet to appear.

The identification of two contending primary roles for Australian local government by Aulich (2005), and the augmentation of this dichotomized approach with the recognition that in some
respects outcome and process are inextricably linked (since service efficiency cannot be entirely from service distribution), can shed considerable light on the problem of local government sustainability. We have already considered the thorny question of “financial sustainability” – a critical component of the local service approach - in Chapter 4. But what are the chief elements of “community sustainability” (as distinct from financial sustainability) that comprise the essence of the local democracy approach?

Several clusters of factors suggest themselves. The first constellation of attributes will centre on the vibrancy of local democracy in the sense that it engages maximum public participation. Local democratic processes obviously play a central role in overall council sustainability and these include democratic “access”, “accountability”, “representativeness” and “responsiveness” outlined by Aulich (2005).

The second cluster of attributes revolves around local social capital and its relationship with local councils. Although little is known about the genesis of social capital, it seems to spring from a well-developed “sense of community” and a “sense of place” that flow from living in a small community whose members interact frequently. While these abstract and somewhat “ethereal” factors are very difficult to measure, this does not diminish their importance.

The third constellation of factors that influence local government sustainability focus on the capacity of local government. Local government cannot command the respect of its constituents if it is unable to effectively formulate agreed policy positions and implement these decisions into concrete action. The capacity of local government thus has two dimensions: Well-functioning elected leadership and sufficient administrative and technical expertise. These two attributes of local government capacity are crucial to council sustainability. In the first place, there must be effective functioning of an elected council free of personal ranquor and disruptive factionalism. Although the Australian literature has not addressed this aspect of local councils empirically, current research in progress at the Centre for Local Government at the University of New England suggests that dysfunctional elected councils are the single most important cause of local government failure in NSW local government. This is hardly surprising since efficacious and cooperative elected councils represent the bedrock of “local choice and local voice” that underpin local government leadership.

Each of these elements will now be considered in greater detail. Amongst other things, we will consider the problem of how to measure these attributes. It must be stressed that since almost nothing has been written on this question in the literature on Australian local government, the discussion is exploratory and the conclusions tentative.

5.3 FACTORS INFLUENCING OVERALL LOCAL GOVERNMENT SUSTAINABILITY

The three constellations of factors identified above should not be regarded as definitive. With that caveat in mind, we now consider each cluster in turn.

5.3.1 Vibrancy of Local Government Democracy

Scholars of local government have charted a steady transformation in the nature of government within the local sector over the past decade. The term “governance”, which became fashionable in the late 1990s, has been used to describe the new relationship between government and the governed that emphasizes “steering” and not “rowing”. Unfortunately, a confusing array of
meanings has been attached to the term. In the present context, we adopt the definition advanced by Goodin (1996, p.7) in which governance represents “nothing less than the steering of society by officials in control of what are organizationally ‘the commanding heights’ of society”.

Another way of approaching governance was formulated by Keohane and Nye (2000, p. 37): “By governance we mean the processes and institutions, both formal and informal, that guide and restrain the collective activities of a group”. Thus “government is the subset that acts with authority and creates formal obligations”. However, governance is not the exclusive domain of governments themselves, but also involves private organizations, nonprofit institutions, and a host of other social structures.

Denters and Rose (2005, p. 6) have described the new relationship between local government and its various client groups as follows:

These changes imply a dual challenge for local governments. On the one hand, the rise of more output-orientated, more demanding, more critical and more action-prone citizens forces local governments to improve their capacity for effective and efficient governance. In many respects this has made them more receptive for the adoption of many innovative management techniques and may have also have led to attempts to increase the system’s problem-solving capacity by engaging various actors from within the local community in partnerships. On the other hand, new participatory demands and the partial decline of traditional party linkages between local government and the local community require municipalities to reconsider channels of communication with the local community, and to consider new forms of local democracy.

The recent Interim Report Systemic Sustainability Study: In Your Hands - Shaping the Future of Local Government in Western Australia produced under the auspices of the Western Australian Local Government Association (WALGA, 2006, pp.1-2) stressed the importance of “good governance”. It defined this quality as “the ability of local government to operate with integrity and to assure the community that efficient and effective management is applied in the community interest”. In the Western Australian context, the Report argued that “good governance” had not always been manifest in that state, especially insofar as “large intergenerational equity transfers” in asset management had taken place and the general competence powers in the Western Australian Local Government Act had not been fully understood. However, apart from these issues, the Systemic Sustainability Study did not provide any indicators to measure this attribute of local government.

The SSS Guidelines Kit (LGAQ, 2006, Chapter 3) does provide some implicit measures of good governance. For instance, Indicator Category #4 deals with “standards of governance” and proposes two indicators. “Decision Making and Management” seeks to measures three formal aspects of the “level of competence” of a given council: “Corporate planning”; “risk management”; and “delegations” (p.20). In a similar vein, “accountability” concerns itself with “how a council accounts for its key activities and what systems and processes are in place to support this accountability” (p.21). Two separate indicators are put forward to gauge this kind of “accountability”: “Performance management” as measured by the performance management process in place; and ‘internal audit process’ as captured by the nature of the internal audit process.

It could also be argued that the SSS Guidelines Kit (LGAQ, 2006, Chapter 3) contains some other measures that indirectly touch on good governance. For example, Indicator Category #3
focuses on “planning”. Two specific indicators are outlined: “Service coordination and efficiency” which considers the question of whether “key infrastructure” is “coordinated” and yields “efficient services” (p.18); and “growth management” that attempts to gauge “how well a council is able to respond to and manage population growth impacting on its area” (p.19).

Finally, SSS Guidelines Kit (LGAQ, 2006, Chapter 3) may gather information with a bearing on public participation under Indicator Category #2 that deals with “community of interest”. The performance indicator “community engagement” tries to evaluate “how well a council engages with it’s community” (p.17) and suggests the use of “existing community surveys”, “current community engagement plans”, and the “community complaints register”. It should be noted that all three sources of information represent formal processes and thus act as proxy variables for “real” or informal engagement.

5.3.2 Local Social Capital and Local Government

The concept of social capital is based on the notion that “social interactions matter” since they “create social networks, foster trust and values, sustain norms and culture and create community” (Quibria, 2003, p.19). Coleman (1990, p.302) conceived of social capital as analogous to “other forms of capital” because it makes “possible the achievement of certain ends that would not be attainable in its absence”. In much the same vein, Putnam (1993, p.7) defined social capital as “features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions”.

The key components of social capital identified by all these scholars are “networks of civic engagement”, “norms of generalized reciprocity”, and “relations of social trust”. Quite apart from the significance of social capital for economic development and social integration, it also has important public policy implications for local government. Various mechanisms have been proposed that link the performance of local councils to social capital. In the first place, Putnam (1993) argued that municipal performance may be enhanced by high levels of social capital since it encourages greater monitoring of the behaviour of council officials. This process occurs directly because council employees care about their reputations with people among whom they interact frequently. It also occurs indirectly because monitoring council performance is a public good and thus prone to the well-known free rider problem in collective action; social capital assists in overcoming free riding.

If Putnam (1993) is correct in identifying informal performance monitoring as the link between local government performance and social capital, then what are the policy implications of this view for local government? We have seen that social capital is likely to be high when people interact frequently with each other. Moreover, the reputational impact of monitoring by people who have regular dealings with the council employees in question will be stronger than in the case of comparative strangers. It follows that small councils in small local government areas characterized by small populations will be the most effective in fostering social capital, frequent interaction between council workers and elected representatives and the public, and thereby more efficacious monitoring of council performance.

A second mechanism that may link social capital to the performance of municipalities was suggested by Putnam (1993; 2000), Aarts (1995) and other scholars. It is argued that various factors, especially increased urbanization, have contributed to a decline in organizational participation by citizens. This in turn has led a reduction in the linkages between the public and local authorities and altered the relationship between the two for the worse.
Unfortunately, little is known about the empirical attributes of social capital and therefore on appropriate policy responses to increase social capital. However, some work has been done on this aspect of social capital. For instance, in *Bowling Alone*, Putnam (2000) established evidence that points to a decline in social capital in the United States over the past three decades. Similarly, Knack and Keefer (1997) found that social capital is a measurable determinant of economic performance in international terms.

The empirical basis for policy formulation on local government and social capital is very limited. This necessarily means that any policy proposals must be speculative. But it does seem clear that small communities in small local government areas are best placed to engender high levels of social capital since interaction between citizens and local government representatives and employees will be higher under these circumstances. Furthermore, it is highly likely that a well-developed “sense of community” and a “sense of place” will be most pronounced in small local government areas where people are acquainted with a relatively high proportion of their fellow citizens.

What implications does this have for local government reform in general, and the SSS framework in particular? The SSS Guidelines Kit (LGAQ, 2006, Chapter 1, pp.6-7) prescribes four “options for change” that could be followed by local councils: “Resource sharing through service agreements”; “resource sharing through joint enterprise”; “significant boundary change”; and the “merger/amalgamation of adjoining councils”. The last two of these options involve modification to the size, shape and population of an affected local government area and thereby influence adversely both the “sense of community” and a “sense of place” among residents. In this respect, these two options might serve to damage social capital, damage the associated monitoring aspect of social interaction, and thus impair the efficacy of local government. Since both forms of resource sharing leave the boundaries and population of a participating local council intact, it can be argued that they will leave both the “sense of community” and a “sense of place” untouched.

5.3.3 Local Government Capacity

In section 5.2, it was argued that local government capacity had two separate dimensions. Firstly, the political capacity derived from the democratic legitimacy and effective decision making abilities of elected representatives comprising local councils. Although no comprehensive empirical research has yet been undertaken in Australian local government, both casual empiricism and research in progress at the Centre for Local Government at the University of New England suggest that the primary cause of the failure and ultimate dissolution of local councils by state governments lies in dysfunctional elected councils rather than financial distress and other problems. Where councils are plagued by bitter personal animosities, “infighting” between councillors, intransient factionalism, and disruptive meetings, “policy gridlock” typically occurs that can effectively stall the smooth running a local authority. A secondary effect of dysfunctional elected councils resides in the loss of public confidence in their elected representatives and a diminution of collaborative partnerships between community organizations and local government. In other words, the most important element in local government sustainability can be found in cooperative functional elected bodies.

It follows that an attempt to assess the long-run viability should first establish whether sound relations exist between mayors and elected councilors and amongst elected representatives themselves. In practice, this can only be established by observing the workings of council meetings and the relationships between elected representatives. No abstract performance indicator can replace observation and judgment.
The Systemic Sustainability Study (WALGA) (2006) stressed the importance of effective and cohesive elected councils. It emphasized the key role of “leadership capacity” by observing that “the experience, competence, and passion of elected members” is essential “to represent the desires and aspirations of local communities” (WALGA, 2006, p.2). However, no definite statistical measures were proposed to assess empirically these attributes.

The administrative and technical ability of council staff forms the second dimension of local government capacity. The importance of this type of council capacity can hardly be overstated. In this regard, Dollery et al. (2006, p.148) made the following observation: “A proposition sometimes advanced in the Australian debate over amalgamation is that larger councils tend to have greater levels of administrative and other expertise, in part due to the fact that their size permits the employment of specialist skills that cannot be readily acquired by smaller municipalities”. But they hasten to add that while this argument has “considerable merit”, partnership agreements between small councils can achieve the same outcome in terms of acquiring specialist skills.

The Systemic Sustainability Study (WALGA, 2006, p.2) also underlined the importance the capacity of local government employees to the efficient functioning of local councils. Insufficient administrative capacity in Western Australia had resulted in two identifiable problems. Firstly, “innovation” had occurred in the local government sector in that state, but had not been implemented “from a systematic perspective”. Secondly, “asset management practice” was unsatisfactory and had masked “exposures for communities and councils”.

The question of whether or not an individual council is sustainable by virtue of its administrative and technical expertise can only be settled with certainty by empirical examination of staffing levels relative to need. In this sense, local government administrative capacity is amenable to measurement through selected performance indicators. For instance, an informative ratio could compute the proportion of vacancies for professional and technical staff. This would provide a simple and robust statistic that would allow for comparisons between different councils.

The SSS Guidelines Kit (LGAQ, 2006, Chapter 3) does at least attempt to provide measurable estimates of council sustainability in human resources. For example, the “human resourcing” indicator considers factors, such as “staff turnover rates”.

5.4 CONCLUDING REMARKS

It has been argued in this chapter that not only does “financial sustainability” have no agreed meaning in Australian local government, but also it represents only a single dimension of overall council sustainability. Indeed, both anecdotal evidence and ongoing research at the Centre for Local Government suggest that the primary cause of local government failure lies in “infighting” in elected councils and related “policy gridlock”. This means that an accurate assessment of aggregate “overall sustainability” in local government must also include other attributes of contemporary local authorities.

Apart from the intractable difficulties in determining financial sustainability, two main problems have been identified with evaluating overall local government sustainability. In the first place, the abstract and ephemeral of the concept of overall sustainability make it hard to define with any degree of precision. Many factors clearly play an important role: Local government democracy; local government capacity; “sense of place”; community sustainability; local social capital; local preference diversity; local leadership; and economic development all seem relevant.
In this chapter, we have argued that three main “clusters” of attributes of overall local council sustainability seem apposite: The “vibrancy of local democracy” that has become even more essential in the new local governance paradigm; “local social capital” that can enhance the good working of effective local authorities; and “local government capacity” in both the political and technical aspects of local governance. However, given the exploratory nature of the analysis in this chapter, this tripartite classification may not be exhaustive. Other factors could also easily be included, perhaps most notably “environmental sustainability”.

However, an obvious constraint on the inclusive of a large “wish list” of additional attributes of overall sustainability is the extent of council control over these factors. For example, in the Australian federal system of government, several functions formally handled by local government are in fact strictly governed by state and Commonwealth regulation and their effective discharge often determined by finance controlled by these higher tiers of government. Local government thus has little discretionary power of these functions, regardless of how well it operates. It is therefore misplaced to seek to embrace attributes of overall sustainability that councils cannot influence and then evaluate councils on this basis.

A second constraint on the determination of overall local government sustainability resides in the thorny problem of measurement. The three clusters of overall sustainability proposed in this chapter - the “vibrancy of local democracy”, “local social capital” and “local government capacity” – cannot be measured directly. This means that proxy variables must be used to try to capture key elements of these clusters and none of these variables is exact. It follows that subjective judgment and inference are unavoidable.

Despite the obvious need to evaluate local government sustainability from a broader perspective than simply financial sustainability, these two problems seem to have deterred some earlier state local government sustainability investigations from adopting this wider perspective. As we have seen in Chapter 4, both the South Australian Financial Sustainability Review Board’s (2005b) Rising to the Challenge and the Financial Sustainability of NSW Local Government’ s (2006) Are Councils Sustainable pay lip service to the importance of overall sustainability, but do not attempt to assess it in their work. By contrast, to their credit, the LGAQ’s (2006) Size, Shape and Sustainability program and the recent Interim Report of the Western Australian Local Government Association (WALGA, 2006) Systemic Sustainability Study: In Your Hands - Shaping the Future of Local Government in Western Australia do recognize that financial sustainability alone is insufficient. However, as we have attempted to demonstrate, the Size, Shape and Sustainability exercise is inadequate in this regard.
PART B - MIRANI SHIRE COUNCIL

CHAPTER 6: CHARACTERISTICS OF MIRANI SHIRE

6.1 INTRODUCTION

This chapter provides a snap shot of Mirani Shire Council and places it in a regional perspective. It highlights the key features of the district, describes the demographics of the Shire as well as some basic statistics on the Council itself. The chapter is designed to set the scene for the ensuing analysis of Mirani Shire that will use the information contained in Chapter 6 as a basis for assessing the sustainability of the Mirani Shire Council in the longer term.

The chapter itself is divided into five main parts. Section 6.2 profiles Marini Shire and the surrounding region. Section 6.3 analyses the demographic composition of Mirani Shire from data predominately contained in the 2001 Census and provides a discussion of the types of industries operating in Mirani Shire and the major sources of employment for its residents. Section 6.4 represents a preliminary discussion on the Council itself and sets the scene for the detailed analysis in Chapter 7. Section 6.5 examines the future growth and economic prospects for the Shire. The chapter ends with some brief evaluative comments in section 6.6.

6.2 SHIRE PROFILE

Mirani Shire is located some 30km east of the regional city of Mackay in the picturesque Pioneer Valley Region of Queensland. The Shire’s area features flat valley country to the east with high mountain country to the west around the Eungella Range, with its world famous Platypus population and national parks. In addition, a significant portion of the Shire - particularly north of Eungella - is state government forest and national parks. The shire is essentially a rural area that includes the major towns of Mirani (population 700) and Marian (population 850), together with the small villages of Gargett, Pinnacle, Finch Hatton, Eungella and North Eton. The Shire boasts many significant assets, including unsurpassed natural beauty, ideal geographic location and climate as well as unlimited potential evidenced by its current growth.

The Shire of Mirani takes great pride in its natural and man-made assets which encompass the Eungella and Finch Hatton Gorge National Parks, Mount Dalrymple - the third highest peak in Queensland - the Pioneer River and its tributaries, three recreational dams, heritage buildings as well as a wide range of social, recreational, sporting and service infrastructure (Mirani Shire, 2005). Mirani Shire boasts the largest continual stretch of rain forest in Queensland, from the heights of Eungella to the gorge at Finch Hatton (MWREDC, 2005).

The district also features a tropic climate and an abundance of sunshine. Summer temperatures range on average from 18° to 27°C while winter temperatures range from 9° to 18°C. The Shire enjoys an adequate supply of water with average annual rainfall ranging from 1,300 to 2,000mm (MWREDC, 2005).
The Shire is landlocked between the Bowen Shire in the north, the City of Mackay to the east, and Nebo Shire to the south and west. The Mackay statistical region, which also includes the shires of Sarina, Whitsunday, Beyando and Broadsound, had a total population of 137,540 people in 2001. Figure 6.2 indicates the population of each of these councils. Based on these population statistics, Mirani Shire with a population of 5,283 people is the second smallest shire in the region, behind neighboring Nebo with a population of 2,094. Mirani Shire also makes up around 4% of the regions population compared to the City of Mackay which represents a little over half (55%) of the regions population at 75,993 people.

The Shire is classified as “Rural Agriculture Large” (i.e. population between 5,000 and 10,000) under the Australian Classification of Local Government. Key industries include sugarcane that has been the Shire’s major industry for nearly 120 years and will doubtless “continue to be of
significant importance to the Shire’s economy” (Mirani Shire, 2005). Other industries include dairy farming, mango processing, horticulture, cattle and an emerging tourism industry.

6.3 DEMOGRAPHICS

Table 6.1 provides an overview of Mirani Shire Council. The majority of the Council’s population (78.1%) is located in what is classified as “Outer Regional”, with the remaining 21.3% of the population residing in the far reaches of the Shire that is regarded as “Remote”. The Council has a relatively young population, with a majority of its residents (90%) aged under 65 years. More specifically, 24.8% of the population are aged 14 and under, 40.5% between 15 and 44 years, with the balance (24.7%) being aged between 45 and 64 years. Unsurprisingly, the Shire’s population density is sparse at 1.6 persons/km$^2$, given the predominance of agricultural production, in particular sugarcane, throughout the Council area.

| LAND AREA | 3,280.1 km$^2$ |
| PROPORTION OF POPULATION IN REMOTENESS AREA ¹ | |
| Major cities | 0.0 % |
| Inner regional | 0.0 % |
| Outer regional | 78.7 % |
| Remote | 21.3 % |
| Very remote | 0.0 % |
| POPULATION - at 30 June 2003 | |
| Total - all persons | 5,292 people |
| Aged 14 years and younger | 1,311 people |
| Aged 15 years to 44 years | 2,142 people |
| Aged 45 years to 64 years | 1,307 people |
| Aged 65 years and over | 532 people |
| Proportion of total population (2002) | |
| Aged 14 years and younger | 24.8 % |
| Aged 15 years to 44 years | 40.5 % |
| Aged 45 years to 64 years | 24.7 % |
| Aged 65 years and over | 10.1 % |
| Population density (2002) | 1.6 persons/km$^2$ |
| Births - year ended 30 June | 67 no. |
| Crude birth rate | 12.6 rate |
| Deaths - year ended 30 June | 22 no. |
| Crude death rate | 4.1 rate |
| INDEX OF RELATIVE SOCIO-ECONOMIC ADVANTAGE/DISADVANTAGE ¹ | 2 decile |
| ESTIMATES OF UNEMPLOYMENT - September quarter 2003 | |
| Unemployment | 170 No. |
| Unemployment rate | 6.5 % |
### SELECTED INCOME SUPPORT CUSTOMERS - at June 2003

<table>
<thead>
<tr>
<th>Income Support Type</th>
<th>Number</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age pension</td>
<td>341</td>
<td>No.</td>
</tr>
<tr>
<td>Disability support pension</td>
<td>167</td>
<td>No.</td>
</tr>
<tr>
<td>Newstart allowance</td>
<td>191</td>
<td>No.</td>
</tr>
<tr>
<td>Parenting payment - single</td>
<td>113</td>
<td>No.</td>
</tr>
<tr>
<td>Youth allowance</td>
<td>88</td>
<td>No.</td>
</tr>
<tr>
<td>Other pensions and allowances</td>
<td>212</td>
<td>No.</td>
</tr>
<tr>
<td>Total selected income support customers</td>
<td>1,112</td>
<td>No.</td>
</tr>
<tr>
<td>Percentage of long-term Newstart allowance customers</td>
<td>51.8 %</td>
<td></td>
</tr>
</tbody>
</table>

### AVERAGE INDIVIDUAL ANNUAL TAXABLE INCOME - year ended 30 June 2002

- $33,852

### WAGE AND SALARY EARNERS - year ended 30 June 2002

<table>
<thead>
<tr>
<th>Wage and Salary Earnings</th>
<th>Number</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage and salary earners</td>
<td>1,675</td>
<td>No.</td>
</tr>
<tr>
<td>Wage and salary income</td>
<td>$55.3m</td>
<td></td>
</tr>
<tr>
<td>Total income</td>
<td>$56.9m</td>
<td></td>
</tr>
<tr>
<td>Average wage and salary income</td>
<td>$33,025</td>
<td></td>
</tr>
<tr>
<td>Average total income</td>
<td>$33,992</td>
<td></td>
</tr>
</tbody>
</table>

### SOURCE OF PERSONAL INCOME - year ended 30 June 2001

- Proportion of total personal income
  - Wage and salary: 73.4 %
  - Own unincorporated business: 0.3 %
  - Investment: 6.3 %
  - Superannuation and annuity: 1.2 %
  - Government cash benefit: 18.4 %
  - Other income: 0.4 %
- Total personal income from all sources: $59.0m

### BUILDING APPROVALS - year ended 30 June 2003

- Private sector houses: 7 No.
- Total dwelling units: 7 No.
- Value of total residential building: $1.2m
- Value of total non-residential building: $0.6m
- Value of total building: $1.8m
- Passenger vehicles: 56 No.
- Other vehicles: 61 No.
- Total vehicles: 117 No.

### VALUE OF AGRICULTURAL PRODUCTION - year ended 30 June 2001

- Value of crops: $33.3m
- Value of livestock slaughterings and other disposals: $4.2m
- Value of livestock products: $2.7m
- Total value of agriculture: $40.2m


*Note*: 1 as at 2001 Census
The Australian Bureau of Statistics has given the Shire a rating of 2 in its index of “relative socio-economic advantage/disadvantage”. This index represents a continuum of socioeconomic status, ranging from 1 to 10, with lower values indicating areas of disadvantage; and high values indicating areas of advantage. A decile is calculated by ranking all areas according to their index value (low numbers to high numbers), and then dividing the ranking into ten equal groups, each group comprising 10% of the areas (ABS, 2006).

The index value of a given area is constructed from attributes of the population in that area, such as educational attainment, income, employment and occupation. A higher index value indicates that an area has attributes such as a relatively high proportion of people with high incomes or a skilled workforce. By the same token, it also means an area has a low proportion of people with low incomes and relatively few unskilled people in the workforce. Conversely, a low index value indicates that an area has a higher proportion of individuals with low incomes, more employees in unskilled occupations, etc., and a low proportion of people with high incomes or in skilled occupations areas (ABS, 2006). Mirani scores 2 on this index. This places it in the bottom 10-20% of all councils in Australia in terms of its relative socio-economic advantage/disadvantage.

If we delve deeper into the factors that contribute to the index of relative socio-economic advantage/disadvantage for Mirani Shire, we find that unemployment was above the national average at 6.5% (as at September 2003), with 170 people actively seeking work. In addition, some 1,112 person (or 21% of the population) were receiving some form of public income support. Table 6.2 provides a detailed breakdown of labour market statistics for Mirani Shire.

Table 6.2: Age by Labour Force Status (Full-Time/Part-Time) Persons aged 15 years and over (excluding overseas visitors)

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Employed, working:</th>
<th>Unemployed, looking for:</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full time(a) Part-time</td>
<td>Not stated(b)</td>
<td>Total employed</td>
</tr>
<tr>
<td>15-19 years</td>
<td>77 55</td>
<td>3</td>
<td>135</td>
</tr>
<tr>
<td>20-24 years</td>
<td>125 32</td>
<td>3</td>
<td>160</td>
</tr>
<tr>
<td>25-29 years</td>
<td>127 35</td>
<td>6</td>
<td>168</td>
</tr>
<tr>
<td>30-34 years</td>
<td>147 62</td>
<td>18</td>
<td>227</td>
</tr>
<tr>
<td>35-39 years</td>
<td>194 81</td>
<td>11</td>
<td>286</td>
</tr>
<tr>
<td>40-44 years</td>
<td>210 74</td>
<td>14</td>
<td>298</td>
</tr>
<tr>
<td>45-49 years</td>
<td>197 61</td>
<td>9</td>
<td>267</td>
</tr>
<tr>
<td>50-54 years</td>
<td>166 61</td>
<td>8</td>
<td>235</td>
</tr>
<tr>
<td>55-59 years</td>
<td>123 43</td>
<td>8</td>
<td>174</td>
</tr>
<tr>
<td>60-64 years</td>
<td>63 21</td>
<td>3</td>
<td>87</td>
</tr>
<tr>
<td>65 years and over</td>
<td>47 30</td>
<td>18</td>
<td>95</td>
</tr>
<tr>
<td>Total</td>
<td>1,476 555</td>
<td>101</td>
<td>2,132</td>
</tr>
</tbody>
</table>

Source: ABS, 2003a, Table X13.
Notes: (a) Full-time is defined as having worked 35 hours or more in all jobs during the week prior to Census night.
(b) Includes persons where employment status was stated and full-time/part-time status was not stated.
(c) Includes persons who did not state their labour force status.

The average individual taxable income of Shire residents (as at June 30, 2003) was $33,852 compared to the Queensland average of $33,488 (in August 2002) (ABS, 2003b). Table 6.3 provides a decomposition of income received by Mirani Shire residents. While average income
was estimated at $33,852 (or $651 per week), a majority of residents (64%) earned less than $600 per week.

Table 6.3: Weekly Individual Income of all Persons (excluding overseas visitors)

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Total</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than $200(a)</td>
<td>373</td>
<td>17%</td>
</tr>
<tr>
<td>$200-$299</td>
<td>247</td>
<td>12%</td>
</tr>
<tr>
<td>$300-$399</td>
<td>244</td>
<td>11%</td>
</tr>
<tr>
<td>$400-$499</td>
<td>257</td>
<td>12%</td>
</tr>
<tr>
<td>$500-$599</td>
<td>266</td>
<td>12%</td>
</tr>
<tr>
<td>$600-$699</td>
<td>182</td>
<td>9%</td>
</tr>
<tr>
<td>$700-$799</td>
<td>148</td>
<td>7%</td>
</tr>
<tr>
<td>$800-$899</td>
<td>141</td>
<td>7%</td>
</tr>
<tr>
<td>$1,000-$1,499</td>
<td>132</td>
<td>6%</td>
</tr>
<tr>
<td>$1,500 and over</td>
<td>56</td>
<td>3%</td>
</tr>
<tr>
<td>Not stated</td>
<td>88</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,134</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: ABS, 2003a, Table X28.

Note: (a) Includes “Negative/nil income”.

The overwhelming majority of individual personal income was derived from wages and salary (73.4%), with government cash benefits being the next largest category of income, contributing some 18.4% to the total income of residents, with the remaining income derived from investments (6.3%), superannuation and annuities (1.2%), own unincorporated businesses (0.3%) and other income representing 0.4% of total income. The sum of this personal income from all sources totalled around $59m per annum.

As we have seen, agriculture is one of the major industries in the Shire contributing some $40.2m to the Mirani Shire economy in 2001. The majority of this income is from sugarcane crops that account for 82.8% of all agricultural output (or $33.3m in 2001). The significance of the agricultural section is further evident from the number of people it employs. Table 6.4 indicates that 32% (i.e. 673 persons) of the workforce is employed in the agricultural sector, far in excess of its nearest rival manufacturing, employing a mere 12% of the labour force. The remainder of residents is employed in a large number of smaller industries, each only employing a small percentage of the population.

Table 6.4: Industry by Age Employed (excluding overseas visitors)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td>673</td>
<td>32%</td>
</tr>
<tr>
<td>Mining</td>
<td>45</td>
<td>2%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>258</td>
<td>12%</td>
</tr>
<tr>
<td>Electricity, Gas and Water Supply</td>
<td>12</td>
<td>1%</td>
</tr>
<tr>
<td>Construction</td>
<td>100</td>
<td>5%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>90</td>
<td>4%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>197</td>
<td>9%</td>
</tr>
<tr>
<td>Accommodation, Cafes and Restaurants</td>
<td>77</td>
<td>4%</td>
</tr>
<tr>
<td>Transport and Storage</td>
<td>102</td>
<td>5%</td>
</tr>
<tr>
<td>Communication Services</td>
<td>19</td>
<td>1%</td>
</tr>
<tr>
<td>Category</td>
<td>No</td>
<td>%</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>-----</td>
<td>----</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>11</td>
<td>1%</td>
</tr>
<tr>
<td>Property and Business Services</td>
<td>71</td>
<td>3%</td>
</tr>
<tr>
<td>Government Administration and Defence</td>
<td>44</td>
<td>2%</td>
</tr>
<tr>
<td>Education</td>
<td>148</td>
<td>7%</td>
</tr>
<tr>
<td>Health and Community Services</td>
<td>131</td>
<td>6%</td>
</tr>
<tr>
<td>Cultural and Recreational Services</td>
<td>23</td>
<td>1%</td>
</tr>
<tr>
<td>Personal and Other Services</td>
<td>52</td>
<td>2%</td>
</tr>
<tr>
<td>Non-classifiable economic units</td>
<td>16</td>
<td>1%</td>
</tr>
<tr>
<td>Not stated</td>
<td>52</td>
<td>2%</td>
</tr>
<tr>
<td>Total</td>
<td>2,121</td>
<td>391</td>
</tr>
</tbody>
</table>

Source: ABS, 2003a, Table X20.

6.4 OVERVIEW OF MIRANI SHIRE COUNCIL

The Council itself had an annual budget of $11m for financial year 2004/05 (Mirani Shire, 2005) and services an area of 3,280 km². The Council is divided into three divisions: Division One covering the area bounded by the townships of Marian, Mirani and part of North Eton; Division Two covering the township of Gargett and the adjoining rural areas of Devereux Creek, Owens Creek, Mount Martin, Septimus and Mia Mia; Division Three covers the townships of Pinnacle, Finch Hatton and Eungella and the adjoining rural areas of Finch Hatton and Eungella, together with the rural areas of Finch Hatton Gorge, Netherdale and Crediton.

Division One comprises 1,593 electors represented by three Councillors, while Divisions Two and Three comprise of 991 and 751 electors respectfully, and each is represented by two Councillors. The Mayor is directly elected from all eligible votes across the Council taking the total number of Councillors to eight. Table 6.5 compares Mirani’s level of representation with those of its neighbouring councils. Table 6.5 indicates that Mirani Shire has one councillor per 660 persons, compared to Mackay, which has one councillor representing a massive 6,908 people, whereas Nebo Councillor’s only represent some 233 persons. The average level of representation across the region, excluding Mackay, is 1,047 people per Councillor. Mirani Shire would thus need to reduce its elected officials by three, from eight to five, to achieve this level of representation. Alternatively, an increase in population to 8,376 would also achieve this regional average level of representation. Given the discussion in section 6.5, this increase in population may be achieved by 2016.

Table 6.5: Relative Representation in the Pioneer Valley

<table>
<thead>
<tr>
<th>Council</th>
<th>Population</th>
<th>No of Councillors</th>
<th>Level of Representation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belyando</td>
<td>9,948</td>
<td>11</td>
<td>904</td>
</tr>
<tr>
<td>Bowen</td>
<td>12,409</td>
<td>9</td>
<td>1,379</td>
</tr>
<tr>
<td>Broadsound</td>
<td>6,482</td>
<td>11</td>
<td>589</td>
</tr>
<tr>
<td>Mackay</td>
<td>75,993</td>
<td>11</td>
<td>6,908</td>
</tr>
<tr>
<td>Mirani</td>
<td>5,283</td>
<td>8</td>
<td>660</td>
</tr>
<tr>
<td>Nebo</td>
<td>2,094</td>
<td>9</td>
<td>233</td>
</tr>
<tr>
<td>Sarina</td>
<td>9,808</td>
<td>7</td>
<td>1,401</td>
</tr>
<tr>
<td>Whitsunday</td>
<td>15,522</td>
<td>8</td>
<td>1,940</td>
</tr>
</tbody>
</table>

The Council employs approximately 49 full-time equivalent staff, with around 41% being classified as “indoor” or management, technical and administrative staff, and the remaining 60% being regarded as “outdoor” or operational/works staff. Figure 6.3 outlines the Council’s
organization structure. The structure is typical of a smaller council and features a relatively flat structure with four senior managers reporting directly to the Chief Executive Officer (CEO). The Council has a relatively new management team with the CEO being employed for eight years, and both the manager of Finance and Information Services and the manager of Community and Environmental Services being employed by Council for less than twelve months. The other two senior officers have been employed by council for a longer period of time. Council has employed additional staff in recognition of growth in its area.

![Figure 6.3: Mirani Shire Council's Organisation structure](image)

Table 6.6 provides an age profile of the Council's staff. The table signifies that approximately 19% of the workforce is approaching retirement age (55 to 64 years of age), 13% are aged 18 to 24, with the overwhelming majority being aged 25 to 54. This profile indicates that the council has a relatively even mix of employees and has sufficient balance to overcome any impending retirements from an aging population.

Table 6.6: Age Profile of Work Force

<table>
<thead>
<tr>
<th>Age Group</th>
<th>No</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>13 – 17 years</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>18 – 24 years</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>25 – 54 years</td>
<td>36</td>
<td>68</td>
</tr>
<tr>
<td>55 – 64 years</td>
<td>10</td>
<td>19</td>
</tr>
<tr>
<td>65+ years</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100</td>
</tr>
</tbody>
</table>
According to the Council’s most recent corporate plan (Mirani Shire, 2006), its mission is to achieve “sustainable economic and social development and social improvement in service provision consistent with community aspirations”. Table 6.7 provides an overview of the outcomes that the Council has set in its corporate plan. The Council also reports its achievements against these outcomes every year in its annual report.

### Table 6.7: Mirani Shire’s Corporate Plan Objectives

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>Outcome Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Services</td>
<td>Promote and facilitate development to create and maintain a vibrant and sustainable community.</td>
</tr>
<tr>
<td>Water &amp; Sewerage</td>
<td>Provide water supply and sewerage services in a safe and environmentally sound manner to meet current and future needs and to foster water conservation practices.</td>
</tr>
<tr>
<td>Health &amp; Environmental Management</td>
<td>Create public awareness of environmental issues and health standards and maintain appropriate service levels.</td>
</tr>
<tr>
<td>Corporate Management</td>
<td>Provide sustainable, accountable, equitable and efficient management of financial, human and other resources</td>
</tr>
<tr>
<td>Culture, Recreation and Community</td>
<td>Provide, maintain and encourage the development of recreational, cultural and community amenities, which improve the lifestyle of our community</td>
</tr>
<tr>
<td>Transport Infrastructure</td>
<td>To develop and maintain a quality road network to a safe and acceptable standard</td>
</tr>
<tr>
<td>Tourism and Economic Development</td>
<td>Encourage sustainable economic and tourism development opportunities consistent with lifestyle aspirations within Mirani Shire and the region.</td>
</tr>
</tbody>
</table>


The Council provides an extensive range of services to its community. These include sporting and recreational services (public halls, parks and gardens, and swimming pool); cultural development (library and museum); social and community development (community/youth worker, tourism and development, area promotion, emergency services, natural disaster risk management, economic development and support to local community organisations); community facilities (caravan park, cemetery, public conveniences, street cleaning, street lighting and bus shelters); community housing (Mirani Village and Belden units); community health (immunisation and licencing), environmental protection (flood mitigation, pest management and animal control); land-use planning (planning and development, and building approvals); waste management (garbage collection and tip management); roads and drainage (shire road maintenance, bridge works and asset management); as well as water and sewer services.

According to the Council’s financial statements, as contained in its annual report for 2004/05 (Mirani Shire, 2005), the Council raised revenue totalling $10.7m during the financial year ending June 30, 2005, including $7.8m from the operation of the Council’s day-to-day activities (operating income) and $2.9m attributed to the construction or replacement of Council assets (capital income). Figure 6.4 provides a further breakdown of the sources of the Council’s income. Figure 6.4 shows that around 41% ($4.3m) of the Council’s income is derived from net rates and utility charges, while it is only reliant on operating government grants and subsidies for 9% ($1.0m) of its total revenue.
On the other side of the equation, the Shire incurred expenditures in relation to its day-to-day operations of Council (i.e. excluding the construction or replacement of Council assets) during the financial year ending June 30, 2005 to the tune of $8,503,779. Figure 6.5 provides an annalist of the council’s budgeted expenditures for 2006/07 showing that a majority of the council’s funds (43% or $4.4m) were spend on the works activities which includes roads and bridges ($2.7m), plant and fleet management ($0.8m), works for the Department of main Roads ($0.6m), technical support ($0.4m) and private works ($0.2m). The next largest area of expenditure was in the area of corporate support accounting for $2.4m or 23% of the council’s budget. Items of expenditure making up this category include policy and executive management ($0.6m), general administration ($0.3m), financial management ($0.3m), human resource management ($0.2m), employee entitlements ($0.9m), and information technology ($0.1m). The council also commits some 14% or $1.4m to the area of health, environment, and land use planning. More specifically, the council anticipates spending $0.7m on waste management, $0.5m on land use planning and $0.3m on environment protection. The Shire’s budget for community services, representing 11% of total expenditure, includes $0.4m on sporting and recreation facilities, $0.3m on social and community development, $0.3m on other community facilities, $0.1m on cultural development, and a further $0.1 on community housing.

The difference between these revenues and expenditures is the net operating surplus of $2.2m. The Council has recorded positive net operating results for each of the last four financial years. It held assets worth $77.4m at June 30, 2005. These comprised $64.7m worth of property, plant and equipment; $6.4m in cash assets; $5.0m in capital works in progress; $0.8m worth of inventories; $0.3 in receivable and $0.1 in prepaid expenses. Total liabilities or financial obligations amounting to $4.7m with the overwhelming majority consisting of interest-bearing liabilities (loans) representing $3.5m, and the remainder being made up employee benefits ($0.6m), payables ($0.5m) and tax liability ($0.07m). The Council’s net assets - the difference between the Council’s total assets and total liabilities - was $72.7m.

A full analysis and evaluation of the Council’s finances is undertaken in Chapter 7.
6.5 FUTURE PROSPECTS

The previous sections of this chapter have provided a statistical overview of Mirani Shire Council. However, a majority of the information used for this statistical analysis is inevitably significantly dated. A large proportion of the analysis is based on the 2001 Census collection, being some five years out of date. Significant developments have occurred in the Mirani Shire population over the ensuing period, not least being the exponential growth in the mineral extraction industry and resulting increases in employment opportunities and population inflows. In addition, the Shire has benefited from the “tree change” phenomenon experienced elsewhere in Australia as well as the attendant rapid increase in housing prices in Mackay. The latter has seen residents move to the Shire, particularly to the town of Marian, as a means of being able to afford housing while maintaining employment and social links in Mackay City. Mirani Shire also offers larger lot sizes and a desirable rural environment that generally is not available in Mackay City.

SCS Economics and Planning Pty (2006, p.2) observed that the official population forecasts of the Shire, undertaken by the Planning, Information and Forecasting Unit (PIFU) (a Queensland state government body) are based on historical patterns of growth and have not taken into account recent developments such as the mining boom. The reliability of the official population growth forecasts has been called into question due to the current development in and around the towns of Mirani and Marian. Both towns have only seen relatively minor increasing in housing developments between 2001 and early 2005 - presumably the basis of the official forecast. However, since this date, Marian has seen the construction of 100 new lots, a further 250 lots are under construction, Council has also received applications that could result in an additional 523 lots, and Council has held discussions with developers that could see a further 67 lots created. A startling feature of this rapid creation of residential housing allotments is that the latter developments have occurred as a direct result of strong positive sales of the initial 159 allotments. On a smaller scale, Council approved the creation of 82 allotments in the riverside...
estate in the town of Mirani in late 2005 and construction is now well advanced. Approval was recently given to another 20 allotments.

The potential significance of this rapid development of these new allotments can be seen by applying the average occupancy rate of housing in Marian (2.8) and Mirani (3.0) to these new allotments. When this is done, it soon becomes evident that there is a possibility of a potential increase of 2,097 people in Marian (current population 850) and 246 people in Mirani (current population 700) if all allotments were developed and houses constructed upon them. While all blocks will not immediately be converted into dwellings, there is also no indication that this rate of development will continue indefinitely. It is nonetheless significant, and justifies dismissing the official population growth rates, which now appear to be both misleading and erroneous.

It is for this reason that Mirani shire Council has sought to provide a more up-to-date analysis of its current population as well as reasonable population projections for the years ahead. With this objective in mind, SCS Economics and Planning Pty. Ltd were employed in 2006 by the Council to undertake a population study of the Shire.

SCS Economics and Planning Pty. Ltd developed three scenarios in an attempt to more accurately predict the level of population growth within the Shire (SCS 2006, p.13):

♦ The “scenario 1: trend/baseline” was used as the “base case” scenario. This scenario was modelled on an extrapolation of historic trends and assumed the same rate of birth and deaths to 2016 that had been experienced between 2001 and 2004. This scenario also assumed that future migration mimicked historical trends, and hence the profile and level of migration was the same as experienced between 2006 and 2001.

♦ The second scenario was termed “scenario 2: mining and affordability influence (conservative)”. This scenario also kept birth and death rates at levels experienced between 2001 and 2004. However, the level of migration to Mirani was marginally increased to reflect the rippling effect of housing affordability issues in Mackay and the retention of younger people as they obtain jobs in mining and related fields

♦ “Scenario 3: mining and affordability influence (optimistic)” also kept birth and death rates at levels experienced between 2001 and 2004. In common with scenario 2, it assumed that the effect of decreasing housing affordability in Mackay increased migration to Mirani. However, migration is increased to a greater level than expected in scenario 2.

Figure 6.6 below displays the result of these different scenarios on the population of Mirani Shire compared to the “official” estimates. Each of the scenarios show a significant increase in population over the “official” growth rates during the next ten years, with scenario 1 estimating a total population of 6,570, scenario 2 7,400 and scenario 3 8,140 compared to the “official” estimate of 6,500.
SGS Economics & Planning (2006, p.27) concluded their Report by expressing the opinion that “should the current activity seen in the region continue, Mirani Shire would experience population and dwelling outcomes as outlined in Scenario 2 or 3”; that is a population growth for the period from 2001 to 2016 of around 23.6% and 31.4% or an average annual growth rate between 2.1% and 2.8%.

A population of 8,000 people would place Mirani Shire in the top 43% of all local councils in Queensland by population (excluding indigenous councils).

6.6 CONCLUSION

The main conclusions that can be drawn from the analysis conducted in this chapter is that the “official” statistics and data on Mirani Shire Council are hopelessly outdated and that if used for any significant form of decision making, will assuredly result in erroneous decision making. The historical data on the Shire cannot be relied on to hypothesis the council’s future. While the most recent Census data collected in August 2006 can be expected to provide a completely different statistical profile of Mirani Shire and its future prospects, this too will only reveal ‘the tip of the iceberg’, with significant population inflows expected over the next three to five years.

The key to the district’s future prospects, and indeed those of the Council itself, hinges on an assessment as to whether the exponential growth and development of Mirani Shire Council can be sustained into the future. Current growth levels derive from the ongoing mining boom created by high commodity prices abroad, largely as a result of the explosive development of the Chinese economy. Growth is further enhanced by an upturn in the sugar industry that should continue into the future with the push within Australia for more ethanol-based fuel. Mirani Shire also has the advantages of providing an alternative, rural lifestyle for people escaping the overcrowded and relatively over-priced Mackay. Added to these factors is the increasing “sea and
tree change" that has been well documented around Australia. It is thus the view of this Report that Mirani Shire will continue to experience positive growth for the foreseeable future.

Through good financial management, careful strategic planning and good decision making, the Council can position itself as a strong and viable organization, able to meet community expectations and be a key player within the region. The extent of the Council’s influence will be largely determined by the ultimate growth experienced in the Shire and the Council’s ability to manage this growth satisfactorily.
CHAPTER 7: FINANCIAL SUSTAINABILITY

7.1. INTRODUCTION
Chapter 7 seeks to apply the theory of sustainability in local government, together with the various measurements of sustainability discussed in chapter 4, to Mirani Shire Council in order to attempt to determine whether the Shire is sustainable in the long term. A comprehensive evaluation of the council is undertaken using no fewer than five different methods to establish whether the operations of the council are indeed sustainable.

The chapter itself is divided into six main parts. Section 7.2 evaluates Mirani Shire Council against the Queensland Size, Shape and Sustainability manual (LGAQ, 2006) indices of sustainability. Section 7.3 assesses Mirani under the South Australian Financial Sustainability Review Board (2005b) criteria for a sustainable local government authority. Section 7.4 focuses on applying the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (LGI, 2006) recommendations to determining sustainability in the case of Mirani Shire. Section 7.5 reviews the results and conclusions from the Queensland Treasury Corporation (QTC, 2006c) analysis of Mirani Shire. Section 7.6 considers the results from the annual audits of municipalities in Queensland undertaken by the Auditor General and his determination of financial viability. The chapter ends with some brief evaluative comments in section 7.7.

7.2 USING THE QUEENSLAND SIZE, SHAPE AND SUSTAINABILITY TO ASSESS SUSTAINABILITY OF MIRANI SHIRE COUNCIL
Chapter 4 provided an evaluation of the Queensland Size, Shape and Sustainability manual (LGAQ, 2006) aimed at assessing the sustainability of local government authorities. It contends that by answering thirteen key questions (a number of these questions have multiple parts to them) for any given council, one can determine whether or not a given council is sustainable. In assessing a council, the assessor must choose between the five pre-determined statements as to which one best describes the municipal authority in question. Each of the indicators is then scored on a 1 to 5 cardinal scale, with high scores indicating satisfactory outcomes. Following this assessment, it is argued that particular areas of a council’s operations can be classified as vulnerable, which areas present an opportunity for the council to improve, and finally, which areas of the council’s operations represent its strengths. This section of Chapter 7 applies these thirteen indicators and provides an assessment of how Mirani Shire Council performs in terms of these criteria. These questions, together with the relevant assessment criteria, are contained in Appendix 1.

7.2.1 Category #1: Financial and Resource Base
The first category of indicators used by the Size, Shape and Sustainability guidelines relates to the financial and resource base of the council.

Financial forecasts
The first of the indicators in this category revolves around financial forecasting. According to the guidelines, “this indicator examines whether Council is effectively developing and adopting financial policies. These include borrowings, revenue and asset management. Ideally these policies will be linked to a robust 10 year financial plan which should incorporate financial
forecasting demonstrating whether or not Council has the ability to sustain its future activities?" The indicator possesses the question “Does Council have a robust ten year financial plan and forecast?”

A review of the Council's most recent annual report, for the year ending June 30, 2006 (Mirani Shire Council, 2006, pp.28-40), provides evidence of the following financial policies adopted by Mirani Shire Council:

- **Revenue Policy** – whose purpose is “to set out the principles used by council in 2004/05 for the making of rates and charges; the levying of rates; the recovery of rates and charges; and concessions for rates and charges” (Mirani Shire Council, 2006, p.28).

- **Revenue Statement** – which is “an explanatory statement, which accompanies the budget outlining and explaining the revenue measures adopted in the budget” (Mirani Shire Council, 2006, p.30).

- **Borrowing Policy** – with the aim of providing “a framework by which council may structure its borrowing decisions to meet the financial resource needs and demands of its functional programs in accordance with corporate objectives”. Furthermore, “this policy will apply whenever council is considering its borrowing strategies” (Mirani Shire Council, 2006, p.38).

- **Policy on Rebates and Concessions for Rates Levied and Particulars of all Rebates and Concessions Allowed** - which outlines the concessions provided by the Council and the conditions that have to be met before the entitlement is provided.

Using the selection of predetermined answers available to this question, we have determined that Mirani Shire has “high capacity to meet financial commitments in the short to medium term and an acceptable capacity in the long term. Council is expected to be able to manage unforeseen financial shocks (with minor to moderate revenue/expense adjustments) and any adverse changes in Council business and general economic conditions. The capacity to manage core business risks is acceptable”. Accordingly, Mirani Shire is entitled to a score of four out of five.

Our assessment is based on the analysis of Mirani Shire finances undertaken by the Queensland Treasury Corporation (2006a, p.5) that concluded that “Mirani is currently in a moderate financial position with a neutral outlook”. The Queensland Treasury Corporation (2006a, p.42) defines a moderate rating as “the local government on current forecasts has a high capacity to meet its financial commitments in the short to medium term and an acceptable capacity in the long term. The local government is expected to be able to manage unforeseen financial shocks (with minor to moderate revenue/expense adjustments) and any adverse changes in local government business and general economic conditions. Mirani Shire’s capacity to manage core business risk is acceptable”.

**Revenue base**

The next indicator involved assessing the council’s revenue base. In particular, this “indicator measures the strength of a council’s revenue base which underpins its ability to provide essential services and facilities” (LGAQ, 2006, p.3.10). The indicator uses population as an assessment of the local authorities’ revenue base and describes “some factors affecting the long term sustainability of Council’s revenue base including population growth, population size and age dependency. These are external factors generally beyond the direct control of a Council” (LGAQ, 2006, p.3.10). This particular indicator has three parts: Firstly, is Council experiencing
population growth or decline? In Mirani’s case, as we have seen in Chapter 6 and the SGS Report, the Shire is currently experiencing strong population growth. The SGS Report (2006, p.27) estimates the growth in the council area for the next ten years (ending in 2016) will average between 2.1% and 2.8%. This would give Mirani a score of five out of five (i.e. population growth greater than 2.5%) based on the average of these two rates.

The second part of this indicator asks the question: Does the Council have a high age structure dependency ratio? The age dependency ratio is a measure of the burden of non-works and works and is calculated by comparing the number of people aged under 14 and over 65 compared to those aged 15 to 64 years old. As we have seen, Table 6.1 indicated that Council has a relatively young population. Moreover the SGS Report (2006, p.21) estimates that the Shire’s median age at 2006 is “slightly younger than current trends (due to the retention of more young people) at 37 years”. The Report then observes that this is a younger medium age than that for the state of Queensland as a whole. With an even population distribution this provides an age dependence rating of 53% and thus generating a score of three out of five for Mirani Shire.

The final part of this indicator considers whether population size impacts on the capacity to efficiently use resources. In strictly technical terms, the answer to this question yields a score of two out of five since Mirani’s population is officially 5,292, as at June 30, 2003 (ABS, 2005). However, the SGS Report indicates that these statistics are inaccurate and outdated. In fact, Mirani Shire is estimated to have a population of between 5,990 and 6,200 in 2006 (SGS, 2006, p.17) and it is expected to reach a population between 7,400 and 8,140 by 2016, providing a revised score of three out of five (i.e. population between 6,000 and 10,000 people).

The SSS Guidelines specifies that each of these dimensions of this indicator has an equal weighting in determining the overall rating for the indicator as a whole. The scores are thus averaged giving a score to Mirani Shire of 3.3 in assessing its revenue base.

Rating capacity

The next indicator in this category revolves around rating capacity and has two parts, each of equal weighting. According to the Guidelines, “this indicator examines whether a Council is utilising its rating capacity to generate sufficient own source revenue to ensure financial flexibility. An increasing reliance on external grants and subsidies (in lieu of rate increases) to meet the cost of providing essential services and facilities diminishes a Council's ability to respond to changing circumstances and demands. Currently, there are no positive signs in relation to increased Financial Assistance Grants (FAGs) to reduce pressure on rating effort” (LGAQ, 2006, p.3.11).

The first part of this indicator considers whether the Council increased rates by at least the Consumer Price Index each year. A review of the Queensland Treasury Corporation’s study of Mirani was based on a rate increase of 5.9% in 2006, increasing to 9.2% in 2007 which provided for a 5% general increase and a 4.2% growth factor, and a 5% annual increase from 2008 to 2016 (it assumed no growth during this period (QTC, 2006c, p.6). In this regard, assuming the council follows its financial plan, it would achieve a score of five out of five since its “general + separate rates per capita increase > 5%”. One weakness with this indicator is that it assumes that Council will stick to its financial plan each year, whereas in reality the Council is free to adjust its rates each year as it sees fit. This indicator interestingly does not actually consider the communities ability to pay the increased rates each year, nor does it explain the significance of the magical five per cent!
A more appropriate measure of rating capacity would be to consider the average residential rates paid to the Council compared to other similar councils, together with comparisons of relative average income of its citizens.

The second part of the indicator considers “how flexible is Council's revenue base”: It is determined by the Council’s reliance on own source rate income. The rationale behind this is the lower reliance of a given council on government grants, and the more rates contribute towards total income, the more independent and the more autonomy the council has over its financial future. Based on the Council’s 2004/05 financial statements, Mirani receives 55% (2004/05) of its income from rates, and based on the forecasts provided to Queensland Treasury Corporation, the Council’s rate ratio will increase to 71% by 2014 (QTC, 2006a, p.5). Under the SSS Guidelines, Mirani would receive a score of four out of five having a ratio between 55-70%, potentially earning a score of five out of five by 2014.

The total score for rating capacity for Mirani Shire Council (i.e. the average of the two assessments) would thus be 4.5 out of 5.

**Asset sustainability**

According to the SSS Manual (LGAQ, 2006, p.3.12), “this indicator examines a council's capacity to manage and sustain its infrastructure assets. Infrastructure assets represent a major investment by Councils and provide key services to local communities. In the past, many Councils have obtained grants in order to provide much needed infrastructure. Over time these assets age and require refurbishment and upgrading. Unless effectively budgeted for, it is often difficult to find the resources needed to maintain the infrastructure at a desirable standard. In some Councils there is a limited appreciation or knowledge of what assets Council owns, their condition, level of service and whole of life cost. All this information is vital for effective asset management and good decision-making by Council in relation to the sustainability of its infrastructure assets”.

In addition the indicator states that “most significantly, the decisions regarding infrastructure acquisition and maintenance made today, will also impact on future Councils and the communities they serve”. The International Infrastructure Management Manual (2002) defines an Management Strategy as: “A strategy for asset management covering the development and implementation of plans and programs for asset creation, operation, maintenance, rehabilitation, replacement, disposal and performance monitoring to ensure that the desired level of service and other operational objectives are achieved at optimum cost”.

The indicator has two dimensions to determine its single rating: Firstly, does Council have the capacity to manage and sustain its infrastructure? Secondly, does Council evaluate “whole-of-life” cost before accepting grants and subsidies for asset projects?

Unfortunately, in this regard, Mirani Shire has no credible Asset Management Strategy nor has it been implemented, providing a score of one out of five for this item. During discussions with the Council, management indicated that, due to the unprecedented demand and growth within the Shire, all previous plans had become redundant. We would thus urge the Council to put resources into this area in order to assist the Council in planning for the expected growth and provide for the future demands of the Shire. Council has provided a more strategic focus on its community assets, in more recent times undertaking formal discussions with a number of community groups with a view to provide joint facilities for the benefit of the entire population.
Levels of service

The SSS Manual (LGAQ, 2006, p.3.13) contends that “this indicator examines a Council's capacity to supply and match the level of service provided by an asset with the expectations of the community”. The International Infrastructure Management Manual (2002) defines “Level of Service” as “the defined service quality for a particular activity or service area against which service performance may be measured. Service levels usually relate to quality, quantity, reliability, responsiveness, environmental acceptability and cost”.

This indicator seeks to answer the question: Is Council able to provide the community with the expected level of service? Once again the Manual provides five possible scenarios, with the objective of choosing the one that best fits the council’s situation. In this case, we find that Mirani Shire “does not monitor or report on the condition and performance of any assets against identified service levels and does not understand the likely future levels of service required” and thus would receive a one out of five score for this indicator. During our consultation in Mirani Shire, the Council was not able to provide any evidence that it has set service levels for the provision of the many services it provided to residents.

Although the Council is deficient in formally assessing service levels, we must stress that it relies on highly effective informal monitoring provided by rapid feedback from its community. Indeed, throughout this Report we have sought to stress the intimate relationships the Council enjoys with its community. Informal service feedback is thus a single example of a much wider phenomenon.

It is interesting that the SSS Guidelines have selected the existence and reporting of service levels as a guide to a council’s ability to meet the expectations of its community. While there is no disputing that service standards represent “best practice” in local government, the lack of these standards does not necessarily imply unsustainability. Indeed, it is more than a little ironical that setting low standards, and meeting these low standards, would rate higher on this indicator than setting high standards, but not having any formal policy or benchmark to measure actual achievement.

A more accurate assessment of “capacity to supply and match the level of service provided by an asset with the expectations of the community” would be to undertake regular community satisfaction surveys, which we strongly advocate, and to review the type and volume of “service requests” and “complaints” received.

As part of our brief to review the sustainability of Mirani Shire, we undertook a survey of two representative community focus groups in order to determine the overall performance of the council and its performance in the delivery of a number of key services. The details of this survey are contained in Chapter 8. Suffice it to note here that the two reference groups (consisting of representatives from some 23 community organizations) assessed the Council’s overall performance as being 3.75 out of 5 or a satisfaction rating of 75%. In fact, 75% rated the council’s overall performance as good. This must be regarded as most satisfactory.

Human resourcing

Human resources are vital to the delivery of high quality services in a local government environment. In addition, the skills shortage in contemporary Australia, particularly in rural areas, is well documented. It is not surprising that the SSS Manual thus provides a specific indicator addressing the human resource aspects of the council. The SSS Manual states that “this indicator examines a Council’s ability to attract and retain suitably qualified staff to fill key
positions across a range of disciplines (CEO, Planning, Engineering, Environmental Health, Finance and Administration). The LGAQ/LGMA study of CEO recruitment and retention identified problems for rural and remote Councils in recruitment of suitably qualified personnel for CEO positions. A recent study of the Environmental Health profession shows that there is less than one environmental health officer position required, on average, to service a Local Government population of 10,000 people. The capacity to attract and retain required human resources is a key indicator of the need to look at structural reform options”.

An additional aspect of human resourcing that must be emphasised in the case of Mirani is its ingenious use of “informal” recruitment techniques that have enabled it to acquire the requisite skilled expertise. The Mirani Shire CEO has developed an excellent low-cost informal method of recruitment. This has proved very successful and the CEO should be congratulated on his proactive conduct.

The human resource indicator considers the question: How difficult is it for council to obtain and retain required human resources? Mirani Shire Council has recently attracted two high quality senior officers over the past twelve months (i.e. the Manager of Corporate Services and the Environmental Services Officer). During discussions with Shire management, they highlighted that the cooperative and pleasant work culture within the Council, the cohesiveness of elected representatives, and the enviable lifestyle that the Shire provides. This has evidently made Mirani Shire an attractive proposition for current and potential employees. We observed at first hand the manifest goodwill between the Mayor and the CEO and Council staff. We thus rate Mirani Shire Council as a five out of five since they obviously meet the criterion of having “no difficulties in recruiting/retaining senior staff but limited quality applicants”.

However, Mirani Shire Council should be conscious that they should monitor human resources carefully, especially with the increased employment in the mining industry in the region (which traditionally offers higher wages for skilled and semi-skilled labour), the aging population, and the general skill shortage in Queensland. These might affect the Council’s ability to maintain its present enviable employment situation.

**Cross border use of council services**

The final indicator proposed by the SSS Guidelines Manual to assess the financial and resources base is the “cross border use of council services”. In particular, “this indicator examines the extent to which the residents of a Council utilise services and facilities (recreation, libraries, aerodromes, refuse, etc) provided by a neighbouring Council(s). There are many situations where residents of one Council make significant use of services and facilities in other Council areas where there are no formal arrangements to equitably spread the cost burden across the various user groups. A lack of such formal arrangements where significant cross-border service use of Council services exists is a clear indicator of a need to consider structural reform options” (LGAQ, 2006).

All services and facilities provided by Mirani Shire are predominately used for the sole benefit of its residents and visitors to the area, and the Council does not generally provide these services to adjoining council residents. However, the reverse cannot be claimed. Both the close proximity of the regional City of Mackay (i.e. 30km away), and the growing attractiveness of the town of Marian as a “rural suburb” of Mackay due to its affordability, has resulted in a reliance on the City of Mackay for the provision of service and facilities, both government and privately provided. Mirani Shire residents benefit from services provided by the City of Mackay including library services.
It should be noted that Mirani Shire is well advanced in negotiations with Mackay City for a joint mobile library service. This has excellent prospects for cost savings. In addition, Mirani has had extensive negotiations in relation to a joint waste management system with Mackay City.

Based on the SSS Guidelines scoring for this indicator, Mirani Shire would receive a score of three out of five since it fits into the category of having “significant use of facilities/services (e.g. library, cultural, recreational, waste, traffic and parking facilities) of other Councils by this Council's residents and no comprehensive formal arrangements in place to achieve equitable distribution of costs and benefits”.

### 7.2.2 Category #2: Community of Interest

#### Service centre and community linkages

The SSS Guidelines describe this indicator as evaluating “the extent to which Council boundaries impact upon the identification and/or division of a Community of Interest. Where there is extensive commuting between one area and another, the community of interest may be weakened because individuals have an interest in two or more Council areas but feel unable to influence decisions in the area where they are not an elector. The availability of important health, education and related services indicates whether residents of a Council area are likely to visit other Council areas on a regular basis as well as indicating the degree of self-containment of an area. Communities with a district hospital facility (say more than 30 beds) and a full secondary school are likely to be more self-contained on a community of interest basis as well as enhancing the prospects of attracting professional staff. Strong interaction with other centres for work, education, social, recreational or shopping activities are likely to erode the cohesiveness of a community and their participation in local affairs”.

The indicator proposes the questions: “Is there a major service centre within the Council area?” and “how strong are community linkages within the Council area?” As discussed in relation to the previous indicator, Mirani Shire residents take extensive advantage of the services and facilities available in nearby Mackay City, including major shopping facilities, education, and health facilities. There is only a minimal level of these facilities provided within the confines of Mirani Shire, with the important exception of educational services. Mirani Shire has seven primary schools, one medium size high school and a new private school in planning for Marian. However, the Council only receives a one out of five for both parts of this indicator since it has a “very significant use of health, education and shopping facilities located in another Council area” and it also has a “very significant employment, leisure and social links with another Council area”.

#### Community engagement

The SS Guidelines state that “this indicator examines how well a Council engages its community. Where a community feels a strong sense of involvement in or engagement by their Council, the existing governance arrangements are likely to be more sustainable. On the other hand, where the community feels little empathy for their elected Council and its leadership role in the development of their community, this may be an indicator of a need to consider structural change. The LGAQ defines community engagement as: ‘connections between governments, citizens and communities on a wide range of policy, program and service issues’. It can be formal or informal. Community engagement contains the key elements of information, consultation and participation”.
In order to assess this indicator, the SSS Guidelines seek to answer the questions: “Does Council engage its community in local governance issues using the elements of information, consultation and participation?” and “how satisfied is the community in the leadership and advocacy roles of Council?”

Mirani Shire Council is typical of many small to medium size councils in that they are “close to the community” and consult residents on a regular basis, leading to the council being well informed of the population’s views, concerns and aspirations. In Mirani’s case, they have created a community focus group that the Council uses to formally consult a cross-section representative group of about a dozen community groups. We met this group and were impressed by two factors in particular. In the first place, very strong support was expressed for the Mayor, elected representatives, CEO and council staff. Members of the group clearly felt that the Council was “in touch” with the community and inclusive in its decision-making. Secondly, members of the group were most satisfied by the performance the Mayor, elected representatives, and the CEO in their leadership role. Indeed, support was overwhelming and must be most gratifying for the people concerned.

As a result, we think that Mirani Shire should receive five out of five for this indicator since the Council meets the requirement of undertaking “strong and regular engagement of the community through use of community engagement methods which support the elements of information, consultation and participation. Outcomes reveal very high levels of satisfaction with Council performance”.

7.2.3 Category #3: Planning

Service coordination and efficiency

The third category of indicators under the planning category contains two specific indicators. The first relates to service coordination and efficiency, with the SS Guidelines noting that “this indicator examines how Council boundaries have impacted on the provision and coordination of key Council infrastructure and services such as water, waste water, refuge disposal and road networks. Where difficulties exist in coordinating infrastructure across Council areas and/or regions (especially in high growth areas), then structural reform options may need to be considered”.

The key question in this regard is to determine whether “key infrastructure [is] coordinated and proving efficient services?” The five answers to this question resolve around the degree of reliance on neighbouring councils for provision of its infrastructure requirements. In Marian’s case, despite the close proximity of the City of Mackay, the council is self reliant in regard to its infrastructure needs. As a result the Mirani achieves a score five out of five for this indicator as it can best be described as the “council area is independent from neighbouring Councils in all key infrastructure services, with no impacts from boundaries in planning or provision of infrastructure to meet future population growth and no efficiencies available through joint arrangements”.

Growth management

Under the SSS Guidelines “this indicator examines how well a Council is able to respond to and manage population growth impacting on its area. Where urban or rural residential overspill in one Council area is impacting on a neighbouring Council area(s) then enhanced structural arrangements may be required. While regional planning arrangements are intended to assist in required coordination, these do not have a statutory basis (other than in South East Queensland) and rely on voluntary coordination arrangements”.
The second part of the planning category of indicators seeks to identify “how well [growth can] be managed having regard to the policies of neighbouring Councils”. Due to the increasing growth of the City of Mackay and the increasing housing prices this has generated, Mirani Shire -- in particular the town of Marian -- has benefited enormously from this growth. As previously stated, due to the affordability and lifestyle options offered in Mirani Shire, more and more residents of the City of Mackay are choosing to relocate to Mirani Shire and commute to Mackay for work each day. As a result, given the options available for assessing this indicator, Mirani would rate a two out of five as “population growth/development in neighbouring Council areas will have significant impacts on this Council or growth/development within this Council area will have significant impacts on neighbouring Councils”.

7.2.4 Category #4: Standards of Governance

Decision making and management

Following a number of spectacular failings in both the corporate and public sectors in recent years, increasing attention being given to organisational governance in both these sectors. It is therefore unsurprising to have a category of indicators dedicated to this topic. The first of these two indicators has three parts to it, each of equal weighting, and each seeking to examine the “Council’s level of competence relating to three key decision-making and management processes”. In particular, the three sub-indicators seek to uncover whether the council can “demonstrate good standards of governance in relation to its key internal decision making and management practices”.

The first of the three sub-indicators addresses the area of corporate planning by examining the degree of planning undertaken by the council. Mirani Council produces a corporate plan each year that details the outcome statement for each major function of the Council, together with the strategies the council intends to take in order to achieve these outcomes. In addition, the corporate plan also highlights the operational activities associated with these strategies that will be completed in the coming year. The council has also prepared a ten-year financial plan, which was recently reviewed by the Queensland Treasury Corporation. The next step for Mirani Shire would be to expand its corporate plan beyond the current year, include an asset management plan, and tie both to its ten year financial plan.

Considering the options available in the SSS Guidelines to match the situation at Mirani for this indicator, the best available is considered to be that the Council “recognises of importance of corporate and operational plans but only limited linkage and use in decision-making” providing the council with a score of three out of five.

The second subset of indicators considered the Council’s efforts in the area of risk management. Mirani Shire has an Occupation Health and Safety Committee and places a strong emphasis on ensuring workplace safety (as evident by the minutes from the OH&S Committee were observed during our visit). However the “Council has no risk management policy or internal control system” (LGAQ, 2006, p.3.20). As a result the SSS Guidelines would assess Mirani as receiving only one out of a possible five.

The final sub-indicator in this group related to decision-making and management, more specifically it reviewed the amount of delegations in place at the council. We believe that Mirani’s “delegation register [is] up to date with appropriate delegation across most of organization”, providing Mirani an excellent score of four out of five in this instance.
Once the three scores are averaged (as required by the SSS Guidelines), Mirani Shire Council would receive a total score of 2.7 out of a possible five for this indicator.

**Accountability**

Accountability is the final indicator in the SSS series and seeks to examine “how a Council accounts for its key activities and what systems and processes are in place to support this accountability”. The indicator comes in two parts with both attempting to determine if a Council can “demonstrate good standards of governance in relation to its accountability practices”. The first measure considers the Council’s performance management systems. Mirani Shire conceded that they do not have any performance management systems. However we noted that in the Council’s annual report, details of the Council’s performance against its operational plan are provided. As a result we believe the council could be described as having “a basic performance management process and reports annually on its performance”.

The final assessment related to the presence of an internal audit process. This is surprising, as while an audit committee is considered best practice corporate governance, very few municipalities have an internal audit function. Those that do are usually amongst the largest in the country. In fact, the larger the council, the greater the need for an audit committee as there is an increased chance of error occurring, due to the number of people and the quantum of money involved. As the “council has no audit committee or internal audit plan”, it is not surprising that Mirani Shire receives a one out of five for this item.

Once the two scores are averaged (as required by the SSS Guidelines), Mirani Shire Council would receive a total score of 2.0 out of a possible five for this indicator.

### 7.2.5 Category #5: Overall Assessment

The SSS Manual does not provide a means to determine an overall assessment or provide a defined explanation as to how to inter-operate the results of the indicators and how to ultimately determine whether a council is sustainable. The SSS Guidelines suggest that the indicators are summaries, with those questions receiving a score of one and two indicating that the Council is vulnerable in this area, a score of three providing an opportunity, and a score of four and five representing excellence. Table 7.1 summaries the score on each indicator for Mirani Shire Council.

Overall, the Council scored 39.9 out of a possible 65, with an average score of a little over three. This places it in what the SSS Guidelines would term “opportunities” (refer table 7.1). Those indicators in which Mirani scored well, such as rating capacity, financial forecasts and population growth, are considered essential to be able to maintain the Council’s finances into the future. The high community satisfaction that we obtained from our survey data signifies that the Council is meeting community expectations. The areas where Mirani Shire scores the lowest, such as accountability (performance management and internal audit), decision making (corporate planning and risk management), assets sustainability and the level of services (setting and monitoring service level) are believed to represent an opportunity for the council to achieve best practice in local government rather than being an indication of its future sustainability. Based on this analysis, Mirani Shire appears to be sustainable. However, this assessment is not conclusive due to the failing in the assessment process as outlined in this section, as well as those discussed in Chapter 4.
7.3 USING THE SOUTH AUSTRALIAN FINANCIAL SUSTAINABILITY REVIEW BOARD TO ASSESS SUSTAINABILITY OF MIRANI SHIRE COUNCIL

The current inquest into the sustainability of local government in Australia originated from the Independent Inquiry into Sustainability of Local Government in South Australia. As discussed in Chapter 4, the FSRB (2005b, pp.19-20) drew its major conclusion in the form of Recommendation 2.3(1), in which it determined a “statement of principles” governing “key financial sustainability indicators”. The six key ingredients these indicators are based on are discussed below, together with details as to how Mirani Shire Council fared against them.

The first indicator states that a local council is financially sustainable financial if “its net financial liabilities are at levels at which the associated interest payments (less interest income) can be met comfortably from a council’s annual income (i.e. by current ratepayers) without the prospects of rates increases which ratepayers would find unacceptable (or disruptive service cuts)”. In Mirani Shire’s case its interest repayments amounted to $119,047 in 2004/05 ($235,857 in 2003/04) that is less than half of the interest income received of $257,342. In 2003/04, interest paid was marginally above interest received of $230,153. As a result the Council is not reliant on rate income to fund interest payments.

The second indicator relates to the net financial liabilities of a specified local authority, since the Financial Sustainability Review Board argued that this “can be too low where they are (a) associated with current ratepayers being asked to bear an inequitable proportion of the cost of future service potential or (b) below levels that include more than enough room to absorb unexpected financial risks or financial shocks”. In this regard Mirani Shire’s debt service ratio (loan repayments/operating revenue), which is usually used to determine the proportionate level of a council’s debt, was a mere 3.68% (15.6% in 2003/04). The local government benchmark is typically a ratio of between 5 to 15%. This indicates a capacity for Mirani to borrow additional

---

Table 7.1: SSS Sustainability Indicator-Scores

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Score (1-5)</th>
<th>Vulnerabilities (Scores of 1-2)</th>
<th>Opportunities (Score of 3)</th>
<th>Strengths (Score of 4-5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Forecast</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Base</td>
<td>3.3</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rating Capacity</td>
<td>4.5</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Asset Sustainability</td>
<td>1</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Levels of Services</td>
<td>1</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Human Resourcing</td>
<td>5</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cross Boarder Use of Council Services</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Centre Location &amp; Community Linkage</td>
<td>1</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community Engagement</td>
<td>5</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Service Coordination</td>
<td>5</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Growth Management</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decision Making and Management</td>
<td>2.7</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accountability</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>39.5</td>
<td>6</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Average</td>
<td>3.03</td>
<td></td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

---
funds for capital works. However, it is acknowledged that the Council borrowed $1.5m in 2004/05, resulting in an anticipated unaudited debt service ratio of 5.34% in 2005/06.

The third indicator relates to the annual operating financial performance of a local council, which is considered sustainable “if operating deficits will be avoided over the medium- to long-term, because such deficits inevitably involve services consumed by current ratepayers being paid for either (a) by borrowing and so by future ratepayers or (b) by deferring funding responsibility for the renewal or replacement of existing assets onto future ratepayers”. As can be seen from Mirani Council’s ten-year forecast analysed by the Queensland Treasury Corporation (QTC, 2006a) in section 7.3, the Council expects to record an aggregated deficit of some $3.2m over the ten year period from FY2005 to FY2014. While an annual deficit of $0.3m represents around three to four per cent of operating income, we would strongly suggest that action be taken to reverse this situation to improve the Council’s level of sustainability.

The fourth indicator considers the local authority’s operating surplus, as this can be too high “where it (a) is associated with current ratepayers being asked to bear an inequitable proportion of the cost of the council’s future service potential or (b) is above a level that includes more than enough room to absorb unexpected financial risks or financial shocks”. As discussed above, while not overly concerned, we would nonetheless recommend eliminating Mirani Shire’s small operating deficit to improve long-term sustainability.

The fifth indicator resolves around the annual capital financial performance of a municipality, as it is sustainable “if capital expenditure on the renewal or replacement of existing assets on average approximates the level of the council's annual depreciation expense, because any shortfall of such capital expenditure against annual depreciation expense would involve future ratepayers being left with an excessive burden when it comes to replacing or renewing the council’s non-financial assets”. This is usually accessed via the capital expense ratio (capital expenditure/depreciation expenditure), with the benchmark being a ratio above one (i.e. assets are replaced at the rate they are deteriorating). In Mirani Shire Council’s case, this ratio was 2.05 in 2005/06 (1.18 in 2003/04) indicating that the Council is replacing its assets at a sustainable rate. Mirani should be congratulated on this effort, and if continued into the future, this will go a long way toward achieving ultimate sustainability in the long-term. However, of concern is the Council’s ten-year forecast provided to the Queensland Treasury Corporation. This indicated that capital expenditure could be less than depreciation for the period from 2010 to 2016 (see Figure 7.1).

The final indicator of the FSRB stipulates that net borrowing of a local council can be too low “where, over the planning period, it results in the council’s net financial liabilities as a ratio of non-financial assets falling well below the targeted ratio”. This particular issue was covered in the discussion above, indicating that the Council has a reasonable (not too high and not too low) level of borrowings.

After assessing Mirani Shire Council against the South Australian Financial Sustainability Review Board’s indicators of financial sustainability, the Council fares reasonably well on its level of debt and its rate of replacement of its stock of assets. It ought, however, to seek to address the small deficits it has predicted will incur over the ensuing ten years. Once this is done, the Council would reactive full marks against all of the FSRB indicators and would thus be considered sustainable.
7.4 USING THE INDEPENDENT INQUIRY INTO THE FINANCIAL SUSTAINABILITY OF NSW LOCAL GOVERNMENT TO ASSESS SUSTAINABILITY OF MIRANI SHIRE COUNCIL

The New South Wales Independent Inquiry into The Financial Sustainability of NSW Local Government (LGI) took the issues of sustainability one step further by not only developing a set of financial performance indicators to assess a council’s level of sustainability but, by specifying a range that these indicators should fall between. As discussed in detail in Chapter 4, the LGI (2006, p.274) stressed that “if used, each of these ratios should be adhered to, not just some of them”.

Table 7.2 provides an overview of the indicators used by the LGI to assess a council’s sustainability, together with the average result achieved by New South Wales Council, the LGI determined benchmark target and the upper and lower range of the indicator. Also include in Table 7.2 is the relevant assessment for Mirani Shire Council against the LGI indicators.

Based on the LGI benchmarks, Mirani Shire Council fared much better than the average achieved by New South Wales municipalities in every regard, but still fell short on the proposed target for each indicator as well as failing to make the required range on all but that relating to net financial liabilities as percentage of total capital employed. Added to this, there was insufficient information available to calculate the infrastructure renewal backlog. Therefore, based on the harsh LGI assessment of sustainability, Mirani Shire Council, like the average New South Wales councils, would be considered unsustainable in the long-term.

Table 7.2: Indicative Benchmark Values for Council Financial KPIs

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt as % of total revenue</td>
<td>10.5%</td>
<td>100%</td>
<td>150%</td>
<td>50%</td>
<td>44.6%</td>
<td>29.5%</td>
</tr>
<tr>
<td>Net financial liabilities as % of total capital employed</td>
<td>2.2%</td>
<td>10%</td>
<td>15%</td>
<td>5%</td>
<td>6.05%</td>
<td>4.19%</td>
</tr>
<tr>
<td>Net interest expense as % of total revenue</td>
<td>0.6%</td>
<td>15%</td>
<td>20%</td>
<td>7%</td>
<td>1.53%</td>
<td>3.28%</td>
</tr>
<tr>
<td>For general government activities: Operating surplus as % of own-source revenue</td>
<td>-4.5%</td>
<td>5%</td>
<td>10%</td>
<td>0%</td>
<td>-0.84%</td>
<td>-2.78%</td>
</tr>
<tr>
<td>For commercial activities only: EBIT as % of non-financial assets</td>
<td>0.9%</td>
<td>5%</td>
<td>7%</td>
<td>3%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Net borrowing as % of capital expenditure on new or enhanced assets</td>
<td>1.3%</td>
<td>50%</td>
<td>60%</td>
<td>30%</td>
<td>75.86%</td>
<td>82.08%</td>
</tr>
<tr>
<td>Annual renewals deficiency as % of renewals capital expenditure*</td>
<td>40.2%</td>
<td>0%</td>
<td>10%</td>
<td>-10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure backlog ($M) as % of total infrastructure assets (estimated at fair value)*</td>
<td>8.1%</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: LGI (2006, Table 11.3, p.273); Mirani Shire Council (2005).

Note: Mirani Shire does not record its asset renewal backlog or renewal deficiency.

This analysis indicates that Mirani Shire should borrow additional funds to support its asset renewal program and that the Council should address the situation relating to its intention to
record an operating deficit over the next ten years. On a more positive note, in line with the LGI recommendation, Mirani Shire recorded a positive capital expense ratio over the last two years, indicating the Council is responsibly ensuring that it is replacing its assets at a rate greater than they are deteriorating.

7.5 USING THE QUEENSLAND TREASURY ANALYSIS TO ASSESS SUSTAINABILITY OF MIRANI SHIRE COUNCIL

The most comprehensive assessment of the financial sustainability of Mirani Shire Council was undertaken in early 2006 by the Queensland Treasury Corporation (QTC, 2006a) at the request of the Council. Mirani Shire employed the Queensland Treasury Corporation to provide it with an independent evaluation of the Council’s future and the effectiveness of its ten-year financial plan.

The QTC’s assessment of Mirani Council’s financial sustainability involves reviewing the following (QTC, 2006c, p.4):

♦ “Council’s five-year historical financial, operating and cash flow position and benchmarking the results against other similar councils;

♦ Council’s ten-year forecasts (financial performance, financial position and cash flow) with a particular focus on Council’s operating position (and its fiscal flexibility), capex program and its overall liquidity position;

♦ The appropriateness of the assumptions used in Council’s ten year forecasts and conducting sensitivity analysis on key variables and risks;

♦ The Shire’s economic outlook; and

♦ Council’s strengths and any risks facing Council in the future”.

To determine the sensitivity of the forecast to any unforeseen cost pressures, the QTC took the Mirani Council’s prepared ten year forecast and analysed it under three scenarios. Scenario 1 involves applying a 20% increase in capital expenditure to simulate a potential blow out in these costs. Scenario 2 assumed [i] no new rates assessments in FY2007 (200 were assumed as part of the Council’s forecast); [ii] that only half the sale of land currently under development proceeds (as discussed in section 6.5); [iii] applies an extra 1.5% increase in employee costs and [iv] 1% increase in materials and services from FY2006. The final scenario was the combination of scenarios one and scenario two.
Figure 7.1: Results of QTC Assessment of Mirani Shire Council  

Figure 7.1 provides a series of charts that highlight the results of forecasts prepared by the Council. The QTC observed (2006c, p.21) that the Council can expect:

- "Moderate cash reserves (falling to $2.8M by FY2014) and a very good liquidity position;"
- Low debt levels and very good debt service coverage;
- Own source revenue increases from 55% in FY2005 to 71% in FY2014;
- Forecast operating deficits of $0.3M per year ($3.2M total operating deficit over 10 years);
- Forecast operating cash flows to average $1.7M per year;
Forecast capex of $24.7M for FY2005 to FY2009 (more than double the last five year’s capex of $10.8M);

Reasonable capacity to handle unforeseen financial shocks and manage core business risks”.

Unsurprisingly, the QTC found that the Council’s financial position would be jeopardised if capital expenditure blew out or if operating costs blew out and operative revenue was less than expected. The QTC also indicates that even if these two events occurred, the Council could manage the situation by reviewing its level of rates, reducing its cost base, reviewing its funding mix and/or amending its capital expenditure program. The QTC also identified a number of risks to the Council’s future that fall into two categories. The first resolves around the Council’s ability to manage the current rapid growth experienced across the Shire, with reference to its ability to manage the increase in community expectation for municipal services, the additional staff that may be required and to maintain control over general expenditure during this period of growth. The second category resolved around managing control over capital expenditure as a result of increasing costs, the decline in the Council’s projected capital expense ratio, the fact that no new capital projects were included in the forecasts, and ensuring management control of capital projects in order to achieve the assigned budget.

The QTC (2006a, p.5) concluded their evaluation of Mirani Shire Council’s financial forecast by assessing the Council as being in “a moderate financial position with a neutral outlook”. QTC (2006a, p.42) defines a moderate rating as “the local government on current forecasts has a high capacity to meet its financial commitments in the short to medium term and an acceptable capacity in the long term. The local government is expected to be able to manage unforeseen financial shocks (with minor to moderate revenue/expense adjustments) and any adverse changes in local government business and general economic conditions. The capacity to manage core business risk is acceptable”.

7.6 QUEENSLAND AUDIT OFFICE

The Queensland Auditor General is responsible for auditing the financial statements of all local government and related authorities in the State of Queensland. One would then expect the Auditor General to have an intimate understanding of the operations and issues facing individual councils and within the sector more generally. The Auditor General also reports annually to Parliament on the result of these audits. This placed the Auditor General in a prime position to assess the financial sustainability of local government in Queensland.

The Auditor General assesses the “well being” of councils by considering individual council’s current ratios (current assets/current liabilities), setting a benchmark of a minimum of 1.5:1, by considering whether or not the council has a material operating deficit and by assessing whether the municipality has significant borrowings (QAO, 2005, p.7). In this regard, the 2003/04 Audit Report (QAO, 2005, p.36) indicated it had concerns over the financial viability of 6 Councils. Table 7.3 highlights these Councils’ performance against the Queensland Audit Office financial viability indicators.
Table 7.3: Queensland Council’s Considered Financially Vulnerable by the QAO

<table>
<thead>
<tr>
<th></th>
<th>Current Ratio</th>
<th>Operating result as % of Revenue</th>
<th>Borrowing as a % of Operating Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johnstone Shire Council</td>
<td>1.06 1.31 1.41</td>
<td>-17.30% -11.08% -2.28%</td>
<td>64.37% 73.72% 84.71%</td>
</tr>
<tr>
<td>Jondaryan Shire Council</td>
<td>2.60 0.87 1.18</td>
<td>2.11% -23.64% -26.63%</td>
<td>42.89% 35.33% 37.35%</td>
</tr>
<tr>
<td>Mount Morgan Shire Council</td>
<td>1.33 1.29 1.27</td>
<td>-6.47 -10.20% -4.69%</td>
<td>7.71% 14.59% 22.28%</td>
</tr>
<tr>
<td>Wondai Shire Council</td>
<td>2.22 1.09 1.01</td>
<td>6.65% -9.10% -27.26%</td>
<td>26.09% 34.59% 35.63%</td>
</tr>
<tr>
<td>Cloncurry Shire Council</td>
<td>1.10 0.73 0.59</td>
<td>-28.73% -55.52% -43.48%</td>
<td>55.80% 53.56% *164.27%</td>
</tr>
<tr>
<td>Bowen Shire Council</td>
<td>1.59 1.47 1.08</td>
<td>-1.58% -9.09% 1.37%</td>
<td>66.61% 74.25% 77.17%</td>
</tr>
</tbody>
</table>

Source: QAO, 2005, p.26, Table 7.3.

Note: * 2001-02 borrowing to operating revenue ratio includes borrowing for the Ernest Henry Mine. This loan is being repaid by the mine by way of a special rate levy each year and it has therefore has been removed from the 2002-03 and 2003-04 calculations. The break-up is not available for the 2001-02 year.

Table 7.4 then compares Mirani Shire’s financial information against these same indicators. Table 7.4 clearly shows that Mirani has an excellent current ratio with $5.86 of current assets for each dollar of current liability. A ratio of above 2:1 is generally considered the benchmark target within local government. The operating result for Mirani in 2004/05 was a deficit that represents less than 1% of operating revenue, down from a deficit of 2.78% of revenue in the previous year (2003/04). While the losses are extremely small, Mirani Shire should aim to generate a small operating surplus each year. The Council’s total borrowings outstanding represent 44.56% of operating revenue, following the borrowing of $1.5m in 2004/05. However, in 2004/05 Mirani’s debt service ratio (loan repayment/operation income) was a mere 3.68% (15.6% in 2003/04). A ratio of below 15% (i.e. 15% of revenue is required to repay interest and principle on all borrowings) is general considered acceptable. Mirani Shire Council therefore rates extremely well against these assessments used by the Queensland Audit office in determining the financial viability of a council.

Table 7.4: Assessment of Mirani Shire against QAO Financial Viability Indicators

<table>
<thead>
<tr>
<th></th>
<th>2004/05</th>
<th>2003/04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Ratio</td>
<td>5.86</td>
<td>5.26</td>
</tr>
<tr>
<td>Operating result as % of Revenue</td>
<td>-0.84%</td>
<td>-2.78%</td>
</tr>
<tr>
<td>Borrowing as a % of Operating Revenue</td>
<td>44.56%</td>
<td>29.51%</td>
</tr>
</tbody>
</table>


Following a survey conducted during 2003/04, the Auditor General also expressed concerns across the industry on the accounting for road infrastructure. They identified large variances in asset-use lives and residual asset values (QAO, 2005, p.7). The Auditor General also explained that this had the potential to effect the calculation of the annual depreciation expense which will in turn effect the determination of a council’s unfunded depreciation (QAO, 2005, p.7). Perhaps even more importantly, this calculation of depreciation can potentially effect the calculation of the
municipal’s operating result and capital ratio (capital expenditure/depreciation), indicating its long-term sustainability and its ability to replace its assets as and when required.

The same Report (QAO, 2005, p.36) also considered the issue of financial viability and argued that the following issues indicate that the financial viability of a municipal authority and should be closely monitored:

- Inadequate reserve funds;
- Deferred capital works projects;
- Regular operating losses;
- Unsustainable surpluses of revenue over expenses for ordinary activity;
- High levels of unfunded depreciation;
- Cash flow difficulties between rate billing;
- An adverse current ratio;
- Negotiation of extended credit facilities or reliance on short-term borrowings”.

As discussed elsewhere in this Report, the Mirani Shire Council compares favorably against all of these indicators. In addition, as at June 30, 2005 the Council had cash assets totaling $6.4m representing a healthy 82% of annual income. The cash asset included $2.9m in reserve funds set aside for future asset replacement.

In addition, the 2003/04 Local Government Audit Report (QAO, 2005, p.8) identified a number of issues that “continue to impact on local government in terms of financial management, accounting and audit. These include the pace of change, the pressure to do more with less in terms of the available rates pool, the increasing costs of providing services and maintaining and replacing infrastructure assets and maintaining the ratepayers’ confidence in local government and elected officials in the face of greater public scrutiny”.

The Auditor General dedicates one section of its Report to unfunded depreciation and another to road infrastructure data. Both are inter-related and both have a significant impact on assessing a council’s long-term sustainability. The purpose of calculating unfunded depreciation is to ensure inter-generational equity: It ensures that future ratepayers are not paying for the facilities consumed by past generations. Using the Queensland Audit Office formula for calculating unfunded-depreciation, as illustrated in Table 7.5, Mirani had unfunded depreciation totaling $1.2m in 2004/05, up from $0.6m in 2003/04.

In order to compare Mirani’s unfunded depreciation with other Queensland Councils, the Auditor General then evaluates this unfunded depreciation with the Council’s total depreciation. In Mirani’s case, this is 54% for 2004/05, double the amount in 2003/04 of 27%. Table 7.6 indicates how other Councils in Queensland rate in regard to their unfunded depreciation. It indicates that only 36% (45) Councils fully fund depreciation, a further 19% (24) have unfunded depreciation of less than 25% of revenue, 30% unfunded between 25% and 49%, and 15% have unfunded depreciation of more that 50%.
Table 7.5: Mirani Shire Council's Calculation of Unfunded Depreciation

<table>
<thead>
<tr>
<th></th>
<th>Amount $</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004/05</td>
</tr>
<tr>
<td>Operating Revenue*</td>
<td>7,755,743</td>
</tr>
<tr>
<td>Operating Expenses (including depreciation)*</td>
<td>7,820,897</td>
</tr>
<tr>
<td>Net Operating Result</td>
<td>- 65,154</td>
</tr>
<tr>
<td>Less Transfer to Reserves**</td>
<td>1,134,500</td>
</tr>
<tr>
<td>Plus Transfer from Reserve**</td>
<td>-</td>
</tr>
<tr>
<td>= Shortfall in Operating Revenue for the year</td>
<td>- 1,199,654</td>
</tr>
</tbody>
</table>

Notes: * Capital Revenue and Capital Expenditure is excluded from this calculation as depreciation should be funded from operating revenue.
** Only movements to or from operating funds should be included. Movements of revenue to and from the constrained works reserve are excluded from the calculation.

Table 7.6: Unfunded Depreciation in Queensland Local Government 2003-04

| No. of local government with more than 75% of depreciation charge unfunded | 5     | 4%    |
| No. of local government with between 50% and 75% of depreciation charge unfunded | 14    | 11%   |
| No. of local government with between 25% and 49% of depreciation charge unfunded | 37    | 30%   |
| No. of local government with less than 25% of depreciation charge unfunded | 24    | 19%   |
| No. of local government with a surplus of current revenue after allowing for transfers to reserve | 45    | 36%   |
| Total                                                                   | 125   | 100%  |

Source: QAO, 2005, p.38, Table 7.4.

Table 7.6 above indicates that Mirani Shire fits into the bottom 15% of councils, residing in the 50-75% band. As a result, Mirani Shire is considered as having an in-sufficient revenue base to fund asset replacement in the longer term. Consequently, we would recommend that Mirani Shire Council take appropriate measures to improve this ratio, including the preparation of a comprehensive asset management plan. Given its rapidly growing population and its favorable revenue bases, Mirani is in an ideal position to address this situation it is, however, conceded that the results in Mirani’s case are caused by the Shire responsibly placing a large amount of funds ($1.1m) in reserve during 2004/05. If this was not done, then the ratio would be closer to 3%, placing Mirani on par with the best within the State. The fact that the Council has placed a considerable amount of funds in reserve over the last two years for future asset replacement shows strong responsible financial management and places the council in a credible position to meet future asset requirements of the Shire.

7.7 CONCLUSION

This chapter has attempted to determine the sustainability of Mirani Shire Council in the long-term. It sought to use the various reports available in local government literature that considered sustainability in local government and apply Mirani’s data to the measures used. It was noted in Chapter 4 that each of these measurements had shortcomings and in fact there is no agreed upon definition as to what constitutes sustainability in an Australian local government context.
Application of the Queensland Size, Shape and Sustainability indicators proved to be inconclusive. The Council performs extremely well in all indicators relating to financial sustainability, but not as well in areas classified as achieving “best practice”. These issues have not had a direct impact on sustainability; nevertheless they provide many advantages to the Council if complied with. A similar argument can be applied to some “externalities” relating to the City of Mackay potentially providing services and facilities to Mirani Shire residents, for which it receives no financial recompense.

The South Australian FSRB evaluation of Mirani Shire situates the Council in reasonable condition, with good debt levels, a small deficit and with the ability, at least in the short-term, to meet its capital replacement requirements. A comparison of Mirani’s KPIs against the highly prescriptive and inflexible New South Wales LGI criteria revealed that the Council is unsustainable in an analogous manner to the average New South Wales Council. The Queensland Treasury Corporation analysis painted a positive image of the Council, claiming that Mirani was in a moderate financial condition and is sustainable in the medium-term, subject to the careful monitoring of a number of facets of its operation. An application of the Queensland Audit Office calculation of financial viability indicates that Mirani Shire fares quite well. However, its 2004/05 level of unfunded depreciation is of concern if it is not reduced in future years, and maintained at this lower level. The Council is also - based on the Queensland Treasury Corporation study - able to meet the largely discredited Walker and Jones (2006) definition of sustainability, as the Council can “maintain service delivery at pre-existing levels”.

In essence, Mirani Shire Council must thus be considered to be sustainable in the medium-term in all but the LGI method of assessment. The Council has reasonably good financial fundamentals (high reliance on own source income, a growing revenue base, a low level of debt), a growing population, and high levels of community satisfaction with the Council’s operations and services. The Council is vulnerable in the area of asset management and needs to eliminate its predicted small deficit over the coming years. The Council should consider reviewing its ten-year forecast with this in mind, and more specifically consider the effect on its ability to deliver services to its residents if it is unable to replace its assets at the rate they are deteriorating. As stated elsewhere in this Report, these issues are not “deal-breakers” that would necessarily imply that it is in need of radical structural reform, but rather issues that both management and councillors should seek to address in a timely manner.

We are also confronted by the fact that this was the first ten year plan the Council has prepared and the Council has also indicated its intention to review its depreciation rates and write down the value of its assets during 2006/07.
CHAPTER 8: OTHER ELEMENTS OF SUSTAINABILITY

8.1. INTRODUCTION

Chapter 5 examined the “non-financial” issues that affect local government sustainability and concluded by stating that the primary cause of local government failure may lie in councillor “infighting” and “policy gridlock” rather than the financial performance of the municipality. Chapter 5 also examined community participation and community satisfaction with the council, as well as the capacity of a council to meet community expectations. These issues were identified as being crucially important to a council’s ability to achieve sustainability in Chapter 7. This Chapter seeks to uses these non-financial factors as they apply to the Mirani Shire Council and, in particular, to evaluate the results of community research we undertook as part of this project.

The chapter itself is divided into five main parts. Section 8.2 evaluates the results of community surveys conducted with representative groups in Mirani Shire. Section 8.3 discusses representation within Mirani Shire Council and the likely effect of this representation if the Council were to be merged with one or more of its neighbours. Section 8.4 seeks to evaluate the technical capacity of Mirani Shire and its ability to implement the requirements of ratepayers. Section 8.5 considers the other issues pertaining to sustainability as discussed in Chapter 5 in relation to the case of Mirani Shire. The chapter ends with some brief evaluative comments in section 8.6.

8.2 COMMUNITY ASSESSMENT OF MIRANI SHIRE COUNCIL

During our visit to Mirani Shire, we hosted two community meetings, with a cross-section of 23 individuals representing some 31 different organizations from across the Shire. A list of the organizations consulted is contained in Appendix 2. The discussions with the community groups involved the completion of a survey (see Appendix 3) assessing their views on the council, and feedback was also sought on the options that may be available to Mirani Council under the SSS Guidelines.

A list of the key services provided by Mirani Shire were presented to the community members present and all individuals were asked to rank each service as either “none”, “low”, “moderate”, “considerable” or “high” importance. Each service was then allocated a score of one to five. The individual scores were averaged for each service. The results of this analysis are shown in Table 8.1. Table 8.1 indicates that road maintenance was assessed as being the most important service provided by Mirani Shire Council with a score of 4.61 out of five. Road maintenance is followed closely by community consultation and responsiveness to complaints - both scoring 4.48. Other services that were considered highly important included: general courtesy of Council staff (4.45); information about decisions and projects (4.35); drainage (4.32); and public toilet provision and maintenance (4.22). At the other end of the scale, no services were assessed by the groups as having no or low importance. The lowest level of importance was attributed to animal control (3.00), followed by sports fields (3.23), and swimming pools (3.41).
Table 8.1: Importance of Various Services to the Mirani Shire Community

<table>
<thead>
<tr>
<th>Service</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road maintenance</td>
<td>4.61</td>
</tr>
<tr>
<td>Consultation with the community</td>
<td>4.48</td>
</tr>
<tr>
<td>Responsiveness to complaints</td>
<td>4.48</td>
</tr>
<tr>
<td>General courtesy of Council staff</td>
<td>4.45</td>
</tr>
<tr>
<td>Information about decisions &amp; projects</td>
<td>4.35</td>
</tr>
<tr>
<td>Drainage</td>
<td>4.32</td>
</tr>
<tr>
<td>Public toilets provision &amp; maintenance</td>
<td>4.22</td>
</tr>
<tr>
<td>Garbage collection</td>
<td>3.91</td>
</tr>
<tr>
<td>Street lighting</td>
<td>3.87</td>
</tr>
<tr>
<td>Processing of Building &amp; Development apps.</td>
<td>3.87</td>
</tr>
<tr>
<td>Park facilities &amp; maintenance</td>
<td>3.83</td>
</tr>
<tr>
<td>Library services</td>
<td>3.82</td>
</tr>
<tr>
<td>Tourism promotion</td>
<td>3.77</td>
</tr>
<tr>
<td>Footpath maintenance</td>
<td>3.73</td>
</tr>
<tr>
<td>Youth services</td>
<td>3.71</td>
</tr>
<tr>
<td>Aged Services</td>
<td>3.55</td>
</tr>
<tr>
<td>Swimming pools</td>
<td>3.41</td>
</tr>
<tr>
<td>Sporting fields</td>
<td>3.23</td>
</tr>
<tr>
<td>Animal control</td>
<td>3.00</td>
</tr>
</tbody>
</table>

In addition to assessing the importance of various services to the community, we also asked those present to rank the performance of the Council in delivering these same services. Once again, we asked the group to rate the council from one to five with one being considered as “poor”, two being “below average”, three being “average”, four “good” and five “very good”.

The community rated the general courtesy of Council staff as the best performing council service scoring it 4.52 out of five. This was significantly higher than the next best performing service, which was a group of five that included garbage collection (4.09), youth services (4.05), swimming pool (4.00), library services (4.0), and consultation with the community (4.0). Three services received a score of less than 3, thus rated as below average: Drainage (2.90), animal control (2.95) and footpath maintenance (2.95). The item identified in Table 8.1 as being the most important service to residents - road maintenance - was assessed as having a performance of 3.17, being marginally above average.

The next step in our analysis of the community views on the Council involved subtracting the Council’s performance from the importance that the group had placed on each service. The difference between these two figures provides an assessment of what we term a “performance gap”. That is, if importance exceeded performance, then the Council had a performance gap and should thus review this service with a view of aligning its performance with the community expectations of this service. In the reverse situation, where performance exceeds the importance, this indicates that the Council may be “over-servicing” this particular area of its operation. In this case, the Council may consider reducing resources in these areas and using the savings generated from the “over servicing” to improve its performance in other, comparatively “under-performing” areas.
Table 8.2: Community Assessment of Mirani Shire Council’s Performance

<table>
<thead>
<tr>
<th>Performance</th>
<th>Good to Very Good</th>
<th>Average to Good</th>
<th>Below Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>General courtesy of Council staff</td>
<td>4.52</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Garbage collection</td>
<td>4.09</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Youth services</td>
<td>4.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swimming pools</td>
<td>4.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Library services</td>
<td>4.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consultation with the community</td>
<td>4.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aged Services</td>
<td>3.86</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsiveness to complaints</td>
<td>3.81</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall assessment</td>
<td>3.75</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism promotion</td>
<td>3.48</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information about decisions &amp; projects</td>
<td>3.45</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Park facilities &amp; maintenance</td>
<td>3.43</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Street lighting</td>
<td>3.41</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public toilets provision &amp; maintenance</td>
<td>3.26</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road maintenance</td>
<td>3.17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processing of Building &amp; Development apps.</td>
<td>3.14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sporting fields</td>
<td>3.10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Footpath maintenance</td>
<td>2.95</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Animal control</td>
<td>2.95</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drainage</td>
<td>2.90</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 8.3 lists the performance gap for each service and indicates that road maintenance at 1.43 and drainage at 1.42 have by far the largest gap between importance and performance. This is also consistent with the comments made by participants on the list of facilities that need urgent attention (as contained in Appendix 4). Other services, such as public toilets provision and maintenance (0.96), information about decisions and projects (0.90), footpath maintenance (0.77), processing of building and development applications (0.73) and responsiveness to complaints (0.67) rated considerably below roads and drainage. On the other side of the equation, Mirani Shire could potentially be marginally “over servicing” the general courtesy of council staff (-0.07), garbage collection (-0.17), library services (-0.18), aged services (-0.39), youth services (-0.34) and swimming pools (-0.59) since each recorded a result of less than one. More specifically, performance exceeded the importance placed on each of these services. However, given that the gap is close to zero, it is more than likely that the Council has got the level of service provide about right for these functions and the Council is thus meeting community expectations for these services. By and large, except for roads, drainage and public toilet services, the Mirani Shire Council seems to be meeting community expectations in all the services it provides.
Table 8.3: Service Expectation Gap

<table>
<thead>
<tr>
<th>Service</th>
<th>Importance</th>
<th>Performance</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road maintenance</td>
<td>4.61</td>
<td>3.17</td>
<td>1.43</td>
</tr>
<tr>
<td>Drainage</td>
<td>4.32</td>
<td>2.90</td>
<td>1.42</td>
</tr>
<tr>
<td>Public toilets provision &amp; maint</td>
<td>4.22</td>
<td>3.26</td>
<td>0.96</td>
</tr>
<tr>
<td>Information about decisions &amp; proj</td>
<td>4.35</td>
<td>3.45</td>
<td>0.90</td>
</tr>
<tr>
<td>Footpath maintenance</td>
<td>3.73</td>
<td>2.95</td>
<td>0.77</td>
</tr>
<tr>
<td>Processing of Building &amp; Develop apps</td>
<td>3.87</td>
<td>3.14</td>
<td>0.73</td>
</tr>
<tr>
<td>Responsiveness to complaints</td>
<td>4.48</td>
<td>3.81</td>
<td>0.67</td>
</tr>
<tr>
<td>Consultation with the community</td>
<td>4.48</td>
<td>4.00</td>
<td>0.48</td>
</tr>
<tr>
<td>Street lighting</td>
<td>3.87</td>
<td>3.41</td>
<td>0.46</td>
</tr>
<tr>
<td>Park facilities &amp; maintenance</td>
<td>3.83</td>
<td>3.43</td>
<td>0.39</td>
</tr>
<tr>
<td>Tourism promotion</td>
<td>3.77</td>
<td>3.48</td>
<td>0.30</td>
</tr>
<tr>
<td>Sporting fields</td>
<td>3.23</td>
<td>3.10</td>
<td>0.13</td>
</tr>
<tr>
<td>Animal control</td>
<td>3.00</td>
<td>2.95</td>
<td>0.05</td>
</tr>
<tr>
<td>General courtesy of Council staff</td>
<td>4.45</td>
<td>4.52</td>
<td>-0.07</td>
</tr>
<tr>
<td>Garbage collection</td>
<td>3.91</td>
<td>4.09</td>
<td>-0.17</td>
</tr>
<tr>
<td>Library services</td>
<td>3.82</td>
<td>4.00</td>
<td>-0.18</td>
</tr>
<tr>
<td>Aged Services</td>
<td>3.55</td>
<td>3.86</td>
<td>-0.31</td>
</tr>
<tr>
<td>Youth services</td>
<td>3.71</td>
<td>4.05</td>
<td>-0.34</td>
</tr>
<tr>
<td>Swimming pools</td>
<td>3.41</td>
<td>4.00</td>
<td>-0.59</td>
</tr>
</tbody>
</table>

The community’s assessment of the condition of the Mirani Shire’s road network is not surprising since the Queensland Treasury Corporation Report (2006a, p.16) noted that Mirani has spent a considerably less on its road infrastructure (per laned kilometer) than the average Rural Agriculture Large and Rural Agriculture Very Large councils in Queensland. Figure 8.1 highlights this stark difference in the amount Mirani spent per laned kilometer on its road network. In the worst situation, Mirani expended only 35% of what comparable councils spent on sealed roads per kilometer in 2003.

During discussions with Council management on the perceived lack of expenditure on its road network, we were advised that the Council experienced financial difficulties some eight years ago. However, the Council has successfully rectified this situation, as attested by the Queensland Treasury Corporation Report, but this required hard decisions to be made to ensure the future sustainability of the Council and included reducing expenditure on its roads network during this rebuilding period. The Council’s management also advised that it has since started increasing the amount spent on maintaining its road infrastructure. This increase in expenditure is confirmed in Figure 8.1 where it can be seen that expenditure has increased in all categories, and in some cases significantly. For example, rural road sealed expenditure has increased by 45% from FY2003 to FY2004, while total sealed roads increased by 38% and unsealed road expenditure increased by 17% during this period.
We also asked the community representatives present to also use the one to five rating system to evaluate the overall performance of the council. In this regard the Council was assessed to have an average score of 3.75 out of five or a 75% satisfaction rating, indicating that most respondents were satisfied with the Council’s overall performance to date.

As a result of this community survey, we would encourage the Council to review the service level it provides in the areas of road maintenance, drainage and public toilets as part of a strategic plan to improve its services to meet community expectations. It should be noted that these perceptions might not align with the actual situation (i.e. three public toilets in Mirani). We would also encourage the council to undertake a similar survey on an annual or biannual basis to determine if its strategic plans are addressing these deficiencies or to identify emerging trends in community expectations.

8.3 REPRESENTATION IN MIRANI SHIRE COUNCIL

One of the key issues typically raised when there is a push at state government level for structural reform within local government, which predominately has meant municipal amalgamation - as we saw in Chapter 2 - resolves around representation or the lack thereof. Moreover, Table 6.5 showed that Mirani Shire Council had approximately one councillor per 660 people - below the regional average of one councillor per 1,047 people. However, it was immediately pointed out that Mirani Shire would reach this level of representation within the next ten years given projected increases in population.

Amalgamation with, say, the City of Mackay would possibly see a combined population of in excess of 82,000 people. If we assume that the combined council would have eleven elected officials, as is currently the case in the City of Mackay, in the amalgamated council each councillor would represent approximately 7,455 people. It can hardly be denied that this high ratio would substantially reduce the efficacy of representative democracy for people in the new “super council”.

Source: QTC, 2006a, p.16.
Queensland, like many other jurisdictions across Australia, have sought to reduce the number of councillors and move to a more professional approach to reduce costs and improve decision making. At nine to around twelve councillors representing a population of 81,000 people, there would only be one elected councillor per 9,030 people. Consequently, in either case, an amalgamation with the City of Mackay would leave the current residents of Mirani Shire with, at best, one councillor representing the current population of approximately 6,000 people with the distinct possibility on not having any representative at all in a much larger amalgamated council. The unsatisfactory nature of an outcome of this kind hardly requires emphasis.

This analysis raises at least two important questions. Firstly, while it is statistically possible for Mirani Shire not to have a single elected representative in an amalgamated “super council” with the City of Mackay, has this been the reality in other comparable amalgamations? Secondly, in a democratic society, what are the views of the electors of Mirani Shire Council on this prospect and on the performance of Mirani councillors?

An answer to the first of these questions can be garnered from the recent amalgamation of the Tamworth Regional Council in New South Wales. This amalgamation, proclaimed on March 17, 2004, involved the amalgamation of the previous Tamworth City Council with the majority of the Shires of Nundle, Parry, Manilla and part of Barraba Shire Council. The total population of the newly created Tamworth Regional Council was 54,505 (significantly less that present Mackay City), in an area of 9,458.01 square kilometers, and the Council was proclaimed with 12 councillors, thus demonstrating an approximate representation ratio of 1:4542 - also significantly less than that currently in place at Mackay City.

In the case of Tamworth Regional Council, the residents of the former Shire of Manilla do not have a single elected representative on the new local council. The former Shire of Barraba only secured one representative out of 12 on the new Council. It need hardly be added that, in a democratic system, expenditure programs inevitably tend to migrate to the larger populated areas to the detriment of the smaller communities since elected representatives are under pressure to respond to the demands of the majority of voters (inevitably drawn from the largest entity in the new amalgamated council). In addition, the potential loss of identity and “sense of place” and the fact that the community does not have an elected official to “fight for their cause” is also of concern to the former Manilla Shire residents. It would be a great pity if this bleak situation were to be repeated in the Mirani Shire case.

Under the 1993 Local Government Act, Mirani Shire is obliged to review its political representation. Anecdotal evidence suggests that one division in Mirani Shire may be under quota. In any event, the review process allows Mirani Shire to reassess its representation.

The second question focused on the following issue: What are the views of the citizens of Mirani Shire Council towards the continuation of the Council and their elected representatives? More specifically, what are the community views on the possibility of an amalgamation leading to reduced representation? This critical question was put to respondents at our two community meeting conducted as part of the investigative process underlying this Report. There was an extremely strong and unanimous view that these leading community representatives did not want Mirani Shire to amalgamate with the City of Mackay for fear of loss of representation and the fact that they believed that without representation they would be badly “marginalized”. Extreme concern was also expressed about the areas within the Council that were already at the periphery of the council jurisdiction, such as Eungalla, which many believed would be completely ignored in any amalgamation with Mackay City. Most respondents believed that the current councillors on Mirani Shire Council represented them very well and this is supported by the
community survey that rated the Council very highly. There was general consensus that there should be better cooperation within the region, and this was not only at municipal level, but also between state and federal governments and local authorities to improve the council service efficiency and effectiveness rather than simply amalgamating Mirani Shire with other adjacent councils.

During our discussion with key stakeholders and throughout our investigations, we established that at the elected level the Mirani Shire Council is an extremely coherent Council that is able to operate most effectively without acrimonious individual differences. It most certainly does not suffer from “policy gridlock” and “councillor infighting”, which where considered by Murray and Dollery (2005) to be the major cause of local government failure in New South Wales. Moreover, we were able to observe at first hand the most cordial relations Mayor Dave Price had established with the rest of the elected councillors (and indeed all residents with whom he interacted in our presence). In sum, the Mirani Shire Council is blessed with the most cooperative and amicable municipal political relations we have observed in all our research into Australian local government. We believe that this accounts for much the strong level of support they enjoy from the community at large.

We therefore recommend that, if it the Mirani Shire Council is placed in the invidious situation where it is being forced to amalgamate, then the Council should engage a market research company to independently ascertain the views of the community on the proposal. It is our view, based on the limited representative sample we examined, that there is an overwhelming “anti-amalgamation” sentiment within the Mirani Shire community.

8.4 CAPACITY OF MIRANI SHIRE COUNCIL

This Report has sought to stress that sustainability is a complex, ill-understood, multi-dimensional concept. However, the capacity of a council can be determined partly by reference to its financial capacity (i.e. its capacity to raise revenue) and its human capacity (i.e. its capacity to employ suitably qualified staff to efficiently and effectively perform its roles and responsibilities to the satisfaction of its ratepayers). One of the purported benefits advanced by advocates of structural reform in local government is that amalgamation improves the capacity of the councils involved, in both of these areas, through economic of scope and scale.

The SSS Guidelines (LGAQ, 2006) suggests that a council be given high marks towards achieving sustainability if it increased its rates by more than 5% a year (plus an increase equal to any growth within the shire). However, the SSS requirements did not provide a means of assessing whether the community could sustain these rate increases or not. That is, are the council’s rates already relatively high by local government standards and when compared to the income of the population? We consider this to be a vital ingredient in determining whether the arbitrary 5% rate increase can be achieved and sustained over the long term.

Figure 8.2 shows the distribution of residential rates and charges per urban centre across Queensland. Figure 8.2 also provides the minimum, upper and lower quartile, medium and maximum residential rates in Queensland. The bottom right-hand corner of Figure 8.2 provides the average residential rates and charges for the four urban areas in the Mirani Shire Council. The residential rates and charges include the general rate, any applicable water and sewer charges, any special rates and charges, together with any applicable discount provided. Figure 8.2 indicates that Marian and Mirani fall between the medium and upper quartile, and the centres of Finch Hatton and Gargett lie slightly above the lower quartile. The latter two communities have at lower rates primarily due to the absence of a sewer scheme and therefore no
requirement to pay a sewer rate, making the total payable less than Mirani and Marian. On a relative basis (against the average Queensland council), a modest increase of 5% per annum will not make Mirani Shire’s rates relatively high, particularly if all other councils also adopt the SSS recommended annual rate increase.

![Figure 8.2: Distribution of Net Residential Rates and Charges 2003/04](source: DLGPSR, 2005, p.32.)

<table>
<thead>
<tr>
<th></th>
<th>Queensland</th>
<th>Mirani Shire Council</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>119</td>
<td>Finch Hatton</td>
</tr>
<tr>
<td>Lower Quartile</td>
<td>774</td>
<td>810</td>
</tr>
<tr>
<td>Medium</td>
<td>1,076</td>
<td>Gargett</td>
</tr>
<tr>
<td>Upper Quartile</td>
<td>1,409</td>
<td>819</td>
</tr>
<tr>
<td>Maximum</td>
<td>4,890</td>
<td>Marian</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mirani</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,215</td>
</tr>
</tbody>
</table>

One of the criticisms levelled at Mirani Shire (which we encountered during our community meetings) was that the Council’s rural rates were relatively high when compared to its neighbours, particular rural areas of the City of Mackay. Unfortunately, the Queensland Department of Local Government, Planning, Sport and Recreation do not provide comparative data on the average rates payable by rural property owners (like their New South Wales counterparts), making comparisons extremely difficult. During discussions with the Council on this subject, they indicated that this difference was arrived at due to Mirani Shire’s principle of equalizing the rating burden, and pointed to its efforts in reducing the Council’s reliance on rates from sugarcane growers (aim to reduce from 70% of rate income down to 30%), and their view that the City of Mackay’s urban, and particularly its industrial and commercial areas, were subsidizing its rural districts.

The second part of capacity considered here involves the Council’s human resource management. This was analyzed in detail in Chapter 7 where we observed that Mirani Shire has had no trouble attracting quality staff. We also noted that this situation was likely to progressively get worse as the skill shortage, the increased mining activity, and the aging population started taking effect. In addition, a second challenge facing human resources for Mirani Shire Council relates to the potential threat to its ability to service a growing population. The Council has recently increased its management team in anticipation of this growth and developed the customer service function. However, the Council will have to carefully manage this process as it is likely that more and more professional and skilled staff will be needed as the population continues to rapidly grow. The challenge will be to attract the right staff at the right time. A miscalculation might witness a slow-down in development and an unhappy community as the Council may not be able to have adequate resources available to meet community demands. At the other extreme, the Council may have expensive excessive staffing capacity as it employs resources that are not fully utilized, thus placing a strain on its financial resources. Mirani Shire
will thus need to prepare itself for this situation and ensure it has adequate plans in place to address this situation.

The use of contractors is often used as a means of supplementing a council’s internal resources, especially during peak demand periods and when a council is growing to the extent of Mirani. However, it must also be noted that, particularly because of the increase in mining activities in the area, the Council has had mixed experience with the use of contractors to boost its human resource capacity, but has generally been disappointed. A means of addressing future potential human resource problems is to share staff with other councils. This issue is explored in more detail in Chapter 9, but in essence suffice it to note that the Council may consider contracting other councils to supply Mirani with specialised services, or alternatively, it may choose to employ these resources directly, even if they are not able to use them to their capacity, and sell this excess capacity, particularly to their western neighbours, who have experienced difficulties in attracting staff, to ensure that the resources are employed to their fullest potential.

Finally, in our discussions with senior managers, they expressed the view that some of their time was absorbed in tasks that could have been undertaken by less skilled support employees. They felt that if more support staff were hired, then this would “free up” their time to concentrate on higher-level tasks, especially in the area of growth management and future planning. We thus recommend that the Council, and particularly the CEO, should consult with senior management on ways of tackling this matter. We recognise that the Council has already taken steps to address these perceptions through re-allocating staff, its Customer Service Department and hiring more staff.

8.5 OTHER FACTORS ASSESSING SUSTAINABILITY AT MIRANI SHIRE COUNCIL

The previous sections in this chapter have addressed specific non-financial indicators of sustainability used to help determine the health of a municipality and the future direction of the Council. As briefly discussed in Chapter 5 there are a number of other non-quantifiable issues that can shed light on the performance of a council and its effect on the community it serves. In order to closely examine these facets of the Council’s operation, as part of the community consultation undertaken for this project, we asked the reference groups the following question: “Can you suggest any disadvantages with Mirani Shire Council merging with any of its neighbours?”

The object of this question was to draw out the “little things” that the community valued that would potentially be lost under a state government forced amalgamation regime. In addition to the issues raised in section 8.4 relating to reduced representation, funds being diverted to the more populated areas, and the perceived fears of the disadvantages that the former Pioneer Shire residents suffered when it merged with Mackay City, other issues such as receiving “services they don’t want, but still have to pay for”, “taking decisions away from local people”, and the fear that it may “divide the community” were raised. It was also forcefully expressed by some respondents that there may less “communication with ratepayers” - an issue that was identified in our survey as being of high importance to the Mirani community. There were also numerous comments made about the “impersonal” approach of larger councils - an issue that was also identified in our survey as one of Mirani Shire’s “strong points”, Indeed we believe the entire Council staff should be commended for this enviable perception of their work. Finally, concern was also expressed over the loss of “grass-roots involvement” in Council and community activities without local leadership and representation. This latter aspect relates to the importance of social capital (considered in detail in Chapter 5). Australian country communities
enjoy an international reputation for the high level of volunteering they elicit from their residents. Mirani Shire is no exception and it would be a great pity if compulsory amalgamation with Mackay City resulted in an alienated and disenchanted community that no longer wished to volunteer in community activities. The undesirable effects of a reduction in social capital from this source should not be under-estimated by state government policy makers.

Full details of the individual responses to this question are included in Appendix 4, as well as a synoptic summary. It must be stressed that almost all people we consulted were bitterly opposed to an amalgamation with any of its neighbours. This general anti-amalgamation community view not only applied to a possible amalgamation with the City of Mackay, but also to an amalgamation with any other neighbouring shires.

**8.6 CONCLUSION**

Mirani Shire Council enjoys strong local support from its community who highly value their elected representatives. The Council excels at providing a “personal touch” and has good rapport with the community generally. The Council has a community satisfaction rating of 75% and most of the services provided by the Council meet or exceed the expectations of the community, with the exception of roads, drainage and public toilets.

The current level of representation in the Shire falls above the regional average, but will reach the regional average in the coming years given the projected population growth within the Shire. However, amalgamation will dramatically change this situation and the overall cohesiveness of the community. The expected levels of representation under an amalgamation could, in fact, drop to zero. This potential lack of representation would dramatically affect the growth and prosperity of the Shire in the long term.

In sum, we find that Mirani Shire Council possesses the capacity (both human and financial), the leadership, and the overwhelming community support to maintain its sound financial position for many years into the future.
CHAPTER 9: POLICY OPTIONS FOR MIRANI SHIRE

9.1 INTRODUCTION

The Size, Shape and Sustainability: Guidelines Kit (LGAQ, 2006, Chapter 1, p.6) specifies four “options for change” facing local councils in Queensland: “Resource sharing through service agreements”; “resource sharing through joint enterprise”; “significant boundary change”; and the “merger/amalgamation of adjoining councils”.

These options are discussed in some detail in Chapter 4 of the Guidelines Kit. It is imperative to stress that the Size, Shape and Sustainability: Guidelines Kit does not rule out other reform possibilities by individual councils or collections of councils. Indeed, the Guidelines Kit (LGAQ, 2006, Chapter 4, p.4) urges “Review Groups of Councils” to “think beyond the four main options for change as outlined above and identify additional options that are capable of ensuring the long-term sustainability of the councils involved”. In other words, any given council should consider not only the four reform options prescribed by the Guidelines Kit, but also additional feasible options, combinations of the four specified options, and composites of additional options and the four selected options. This seems to provide local councils with considerable latitude in devising long-run plans, as well as accommodate the enormous diversity in the Queensland local government system.

This chapter draws extensively on earlier discussion in the Report, and especially the detailed analysis of the particular circumstances of the Mirani Shire Council undertaken in Part B of the Report, to consider the future reform initiatives open to Mirani Shire within the quadrilateral framework proposed in the Size, Shape and Sustainability: Guidelines Kit (LGAQ, 2006). Moreover, the chapter will canvass other feasible alternatives in the light of the unique circumstances of the Mirani Shire Council.

The chapter itself is divided into six main parts. Section 9.2 examines resource sharing by means of service agreements. Section 9.3 considers resource sharing through joint enterprise. Section 9.4 evaluates the “significant boundary change” option. Section 9.5 deals with the drastic possibility of the dissolution of Mirani Shire Council and its amalgamation into a larger municipality. Section 9.6 focuses on other reform options available to Mirani Shire. The chapter ends with some brief concluding remarks in section 9.7.

9.2 RESOURCE SHARING THROUGH SERVICE AGREEMENTS

9.2.1 Size, Shape and Sustainability: Guidelines Kit Specification

The Guidelines Kit (LGAQ, 2006, Chapter 4, p.4) defines resource sharing by means of service agreements as “two or more councils agree to allocate a function of the councils to one council to undertake on behalf of others”. Moreover, “this arrangement may involve each council performing one function on behalf of the group”. The Guidelines Kit cites examples of staff sharing that include “planning, building and environmental health officers”. It adds that “there is potential for service agreements to occur on a wider and larger scale”. These latter possibilities encompass areas such as works maintenance, plant and equipment management, town
planning, waste management, the human resource function, payroll services, information technology, and community services. The Guidelines Kit (LGAQ, 2006, Chapter 4) contends that numerous instances of successful resource sharing of this kind currently exist in Queensland and back this assertion with reference to the Queensland Department of Local Government and Planning website entitled Local Governments Working Together.

The Guidelines Kit (LGAQ, 2006, Chapter 4, p.5) specifies that in order for resource sharing through service agreements to be viable, the following criteria must all be met:

- Resource sharing agreements must be formalised, particularly with regard to the level of services required and the duration of service provision. It is argued that “without this certainty, the risks are too high for the council to gear up to achieve the economies of scale”. By the same token, other participating councils that must purchase the service also need certainty over the service agreement before they are able to reduce their own in-house services and expertise in the area;
- The council that is designated as the primary provider of the service in question must enjoy a comparative advantage in the provision of that service (due to its past experience, specialist capacity and technological superiority) so that it can provide the service more cheaply than other participating councils. It is not at all clear from the Guidelines Kit how comparative advantage is assessed to determine which council has an edge;
- Service agreements must “cover the scope, quality and cost of services” provided by the contracted council to the other councils; and
- Service agreements must embody specific definitions of outputs and service quality and written acknowledgement of any community service obligations.

In addition to this material, the Guidelines Kit (LGAQ, 2006, Chapter 4, Table 1, p.5) adds a table purportedly detailing the various advantages and disadvantages attendant upon resource sharing through service agreements. This is reproduced here as Table 9.1.

In its discussion of resource sharing, the Guidelines Kit (LGAQ, 2006, Chapter 4, Appendix C) places considerable weight on a Report entitled Opportunities for Local Government in the Area of Shared Services produced by KPMG Consulting (2006). While the thrust of this Report is accurate – considerable savings can be achieved through shared services – the Report is seriously flawed in a number of respects. Firstly, the literature survey on which the Report is based is both deficient and misinterpreted. For example, the Soul (2000) doctoral thesis is most definitely not “unfinished” since it was completed through Southern Cross University and author Stephen Soul graduated as a result! Indeed, a further indication of the sloppiness of the KPMG Report (2006) lies in the fact that it ignored several published papers derived from the thesis (see Dollery and Soul 2000a; Dollery and Soul 2000b; Soul and Dollery 1999; Soul and Dollery 2000). Secondly, the major criticism of the Soul (2000) thesis by Byrnes and Dollery (2002) is not even mentioned (i.e. the relationship between per capita costs and council size has no bearing on economies of scale at all).
Table 9.1: Advantages and Disadvantages of Resource Sharing through Service Agreements

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Finance and Resources</strong></td>
<td></td>
</tr>
<tr>
<td>• opportunity to achieve operational economies of scale and scope</td>
<td>• limits economies of scale to functions where service agreements are practical</td>
</tr>
<tr>
<td>• allows a Council to specialise in a particular function/service</td>
<td>• some employees may find it difficult to serve two or more organisations/employers</td>
</tr>
<tr>
<td>• improves ability to attract specialist human resources to region</td>
<td></td>
</tr>
<tr>
<td><strong>Organisation and Services</strong></td>
<td></td>
</tr>
<tr>
<td>• potential for operation cost savings, reduced duplication and resource utilisation efficiencies</td>
<td>• requires implementation of a service agreement between Councils, including service levels</td>
</tr>
<tr>
<td>• opportunity for more flexible work practices</td>
<td>• potential for agreement/contract disputes</td>
</tr>
<tr>
<td>• allows Councils to continue to have differing levels of service</td>
<td>• may not provide sufficient long-term certainty for a Council to gear-up in terms of staff/resources</td>
</tr>
<tr>
<td></td>
<td>• potential for recipient Council to feel that priority is given to “owner” Council services</td>
</tr>
<tr>
<td><strong>Community and Representation</strong></td>
<td></td>
</tr>
<tr>
<td>• no impact on arrangements for representation</td>
<td>• possible concerns over lack of control of service provided by another Council</td>
</tr>
</tbody>
</table>

9.2.2 Assessment of Specification

In Chapter 3 of this Report, we outlined various models of local government appropriate for Australian conditions. It was argued that strong grounds existed for local government reform that retained the political autonomy of current councils but sought operational savings in promising areas of cooperation with surrounding local authorities.

One way of achieving this aim was through resource sharing that carefully targeted service provision that exhibited cost characteristics that could yield cost reductions if member councils of a group of councils specialized in providing specific services. Chapter 3 demonstrated that two models of local government in the Dollery and Johnson (2005) taxonomy could accommodate this form of resource sharing: Ad hoc resource sharing arrangements and Regional Organization of Councils (ROCs). Current NSW examples of this form of resource sharing that were examined in Chapter 3 included the Riverina Regional Organization of Councils (REROC) and the New England Strategic Alliance model. In Queensland, the Darling Downs Regional Organisation of Councils (DDRoC) has also been very successful.

This general conclusion is reinforced by the findings of the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (2006) in its Final Report entitled Are Councils Sustainable. The Independent Inquiry (2006, p.22) advanced two significant observations in this regard. Firstly, it argued that “for those activities that be more economical to operate on a large scale, service sharing (e.g. mobile libraries), joint processing (e.g. rate notices) and external
outsourcing (e.g. garbage collection) might be a more targeted way to realize savings than amalgamating the entire operations of councils within a region”. Secondly, the Inquiry found that “neighbouring councils could band together to share resources (e.g. community services, emergency services, health inspections, noxious weeds, museums, water and wastewater, tourism and promotion, saleyards and markets)”. Moreover, some internal local government functions, like financial transaction processing, call centres, information technology and procurement, can “benefit from aggregation” between participating councils, provided spatial distances are not too onerous. These conclusions have significant implications for the Mirani Shire Council.

9.2.3 Implications for Mirani Shire Council

It is clear from the discussion in section 9.2.1 and section 9.2.2 that the Guidelines Kit (LGAQ, 2006, Chapter 4) change option dealing with resource sharing through service agreements holds considerable promise. It is attractive for two main reasons. Firstly, resource sharing retains the political autonomy and political representation of participating councils and thereby preserves the community identity of the local government residents involved. As we have sought to demonstrate in this Report, the importance of this aspect of local governance cannot be overestimated. Secondly, resource sharing allow for a high degree of selectivity of suitable areas for resource sharing. Shared services can thus be carefully chosen on the basis of the economic advantages that they offer. This contrasts starkly with the blunt instrument of amalgamation that cannot discriminate between areas of promise.

Past Australian experience with shared services, together with considerations drawn from the literature, suggest that two prime considerations must be taken into account. In the first place, politics is crucially important and hinges on the development of trust between participating councils. This is “easier said than done” as the current unsatisfactory operation of WHaMB ROC (Whitsundays, Highland, and Mackay, Bowen Regional Organisation of Council) seems to demonstrate. In other words, Mayors and other elected representatives have to form close ties between each other and create mutually trusting relationships before any tangible progress can be expected.

Secondly, a critical question must be investigated in the unique circumstances of the councils involved: Which services offer economic advantages through resource sharing? Put differently, once mutual political trust between councils is established, participating councils must determine potentially fruitful avenues in which to share services.

Fortunately some work has already been undertaken on this thorny problem. Joel Byrnes (2005) (in his commissioned paper for the LGI (2006)) surveyed a number of CEOs to obtain “their opinion, in consultation with their functional managers, as to which structure is best suited to the management and delivery of a wide range of council services, from administration to child care” (Byrnes, 2005, p.3). The survey differentiated between the policy determination process, the management aspect of the function and the actual delivery of the service. Each of these three areas could be deliver locally by a single council, or on a regional basis, thus providing eight different combinations. The survey is the only one of its kind in Australia and provides what we consider is a good starting point when considering investigating the options for sharing services between councils. The survey can be used to determine which service policies should be set locally and regionally, which services can be delivered locally and regionally, as well as where services should be managed in order to maximize the economies of scale and scope available for each service.
The New England Strategic Alliance of Councils (NERAC), involving Armidale Dumaresq Council and the Shires of Guyra, Uralla and Walcha, have led the way with implementing shared services in an ambitious attempt to share many “back office” functions between the four councils. NERAC has identified some fourteen services that councils can share without affecting local autonomy and the decision-making of its political masters. These services include community services management, financial management, plant and fleet management, information systems, human resources, regulatory and planning, works support, revenue management, supply and procurement, records, treasury, land information and GIS, customer service, and internal audit and risk management.

The NERAC resulted from an attempt by the New South Wales state government to forcefully amalgamate the respective councils in February 2004. While the Alliance has been in operation for almost two and a half years, it is very much in its infancy, and whereas the model shows some promising signs of success, the jury is still out on its success, with the industry providing a watching brief of the Alliance as it matures.

The NERAC model is an aggressive shared-service model that requires a great deal of trust and a high degree of conformity from each participating council. However, there several less integrated models of shared service arrangements models currently operating in NSW. For instance, in *Regional Capacity Building: How Effective is REROC?*, Dollery, Marshall, Johnson, and Witherby (2004) reviewed the efforts of the Riverina Eastern Regional Organization of Councils (REROC) in southern NSW in resource sharing, politically lobbying, and improving the efficiency and effectiveness of member councils. They found that REROC has proved “extraordinarily successful in achieving these goals” (2004, p.1), recording saving in the order of $4m. The Report went on to recommend that “the principles that have successfully underpinned REROC for the past eight years should be further developed and refined” (2004, p.1). The recommendations included a number of suggestions to further improve member councils’ efficiency and effectiveness by sharing specialized staff and resources. The Report argued that member councils should consider additional areas for cooperation. The Mirani Shire Council should also consider the application of these recommendations in their region, including a benchmarking and best value project, social planning, information technology, human resource management, asset management, and coordination of a works program. Other areas, such as contract management, purchasing and store function, regional environmental reporting, and risk management services, should be considered as well.

Mirani Shire Council is a member of WHaMB ROC. WHaMB ROC has had a somewhat chequered past and while it has made some progress on a number of issues, it is not performing at the level of other regional organizations of councils, such as REROC. In recent times, WHaMB ROC has discussed establishing a SSS Review Groups at a meeting of the WHaMB ROC CEO’s and subsequently at a full WHaMB ROC meeting during May 2006. These deliberations were followed by a Special Meeting of Mayors on Friday 21 July 2006. At this meeting, it was agreed that Bowen, Whitsunday, Mirani, Mackay and Sarina should form a Review Group and commence a SSS Review. It should be noted that the hinterland Councils of Nebo, Belyando and Broadsound have already formed a Review Group and commenced the review process.

We are encouraged by this recent development since we can see the strong potential for a much more proactive reinvigorated WHaMB ROC which is capable of achieving real political and operational gains for member councils. WHaMB ROC could use the Byrnes’ survey (2005) and the operations of REROC and DDRoC as a good starting point to create a progressive regional organisation of councils.
9.3 RESOURCE SHARING THROUGH JOINT ENTERPRISE

9.3.1 Size, Shape and Sustainability: Guidelines Kit Specification

The Guidelines Kit (LGAQ, 2006, Chapter 4, p.6) defines resource sharing through joint enterprise as two or more councils “forming a joint business to achieve operational savings and improve service delivery across one or more functional areas of their core business”. The Guidelines Kit observes further that “this option involves a continuation of the existing local government boundaries but creates a formal entity and management structure to manage the joint enterprise”. The actual organizational structure required to facilitate joint enterprise of this kind “would need to be based on an examination of a range of issues”, including “taxation, risk and future strategy for the operation” as well as “existing commercial business undertakings”. The Guidelines Kit contends that “the extent of joint enterprise may vary from a specific function to an operation that includes the major operational and regulatory areas of local government operations”.

The Guidelines Kit (LGAQ, 2006, Chapter 4, Table 1, p.5) includes a table that attempts to detail the various advantages and disadvantages of significant boundary change. This is reproduced below as Table 9.2.

9.3.2 Assessment of Specification

In section 9.3.2, it was argued that resource sharing through service agreements represented a useful avenue for change on grounds that considerable empirical support existed for local government reform that guaranteed the political autonomy of local councils, but simultaneously sought operational savings in promising areas of cooperation with adjacent local authorities. The same argument applies to resource sharing through joint enterprise. However, in both cases success resides in the careful selection of appropriate areas of service provision for resource sharing.

9.3.3 Implications for Mirani Shire Council

Mirani Council could choose to create a separate business entity to facilitate resource sharing across the region, rather than using the methods identified in section 9.2.2, such as WHaMB ROC. A separate business entity has identifiable drawbacks, including an additional level of bureaucracy that requires separate systems and management, all of which can be costly. In fact, a separate organisation can cause duplication in activities and administration - the very things that shared services models seek to overcome. There is also the potential that a separate business unit can become overly concerned with its business interests and fail to appreciate how the services they provide fit into the “big picture” in relation to the overall operations of participating councils. Separate business units can also reduce the control that participating councils have over these services because these new entities report to a separate and independent management, and not to the participating councils. Given the arguments advanced in this Report in section 9.2.2, we thus recommend that exploiting the potential advantages available through shared services should be pursued through the existing WHaMB ROC institution rather than through a separate business unit.
Table 9.2: Advantages and Disadvantages of Resource Sharing through Joint Enterprise

<table>
<thead>
<tr>
<th></th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance and Resources</td>
<td>• opportunity to achieve operational economies of scale and scope</td>
<td>• limits economies of scale to functions where joint enterprise are practical</td>
</tr>
<tr>
<td></td>
<td>• enhanced capacity to attract specialist human resources to region</td>
<td>• requires creation of an additional management structure and separate entity to manage the joint enterprise</td>
</tr>
<tr>
<td></td>
<td>• opportunity to operate on a fully commercial basis, resulting in further efficiencies</td>
<td>• involves injection of working capital into the joint enterprise</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• involves direction of the joint enterprise through a joint Council</td>
</tr>
<tr>
<td>Organisation and Services</td>
<td>• generates operating cost savings, reduced duplication and resource utilisation efficiencies</td>
<td>• requires implementation of a joint enterprise/partnership agreement between the Councils, including service levels</td>
</tr>
<tr>
<td></td>
<td>• opportunity for more flexible work practices</td>
<td>• involves setting up of a separate organisational structure to manage the shared resources with own compliance and reporting costs</td>
</tr>
<tr>
<td></td>
<td>• increases customer service focus and management autonomy</td>
<td>• costs involved in integrating the relevant parts of each Council operations, which may take two or three years to be recovered from efficiency gains</td>
</tr>
<tr>
<td></td>
<td>• produces a “purchaser/provider split”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• rationalises operating infrastructure such as depots, offices, technology, plant and equipment</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• involves integration of sometimes widely differing organisational cultures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• requires identification and adjustment for community service obligations currently undertaken within operations</td>
</tr>
<tr>
<td>Community and Representation</td>
<td>• allows Councils to continue to have differing levels of service</td>
<td>• involves integration of sometimes widely differing organisational cultures</td>
</tr>
<tr>
<td></td>
<td>• no impact on arrangements for representation</td>
<td>• requires identification and adjustment for community service obligations currently undertaken within operations</td>
</tr>
<tr>
<td></td>
<td>• establishes clear management responsibility for day-to-day activities of joint enterprise operations</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• loss of direct control by councillors over shared operations, as policy and management decisions need to involve all participating Councils</td>
</tr>
</tbody>
</table>

9.4 SIGNIFICANT BOUNDARY CHANGE

9.4.1 Size, Shape and Sustainability: Guidelines Kit Specification

“Significant boundary change” refers to alterations in local government jurisdictions that materially alter the nature of local government in affected areas. According to the Guidelines Kit (LGAQ, 2006, Chapter 4, p.9), significant boundary change “may provide the opportunity to address particular issues such as growth management, cross border service use, community of interest or inefficiencies in infrastructure provision while retaining the individual identity of individual councils and their separate communities of interest”.

109
The Local Government Act 1993 governs significant boundary change. Under this legislation, boundary changes can occur under the auspices of the Local Government Electoral and Boundaries Review Commission at the request of the Minister (but not affected councils). If the boundary change is deemed a “limited matter”, then it does not have to be referred to the Commission, there is no prescribed consultation process, and the entire process of boundary change is abbreviated.

The *Guidelines Kit* (LGAQ, 2006, Chapter 4, Table 1, p.5) includes a table that attempts to detail the various advantages and disadvantages of significant boundary change. This is reproduced below as Table 9.3.

Table 9.3: Advantages and Disadvantages of Boundary Change

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Finance and Resources</strong></td>
<td></td>
</tr>
<tr>
<td>• creates an enhanced resource base for the recipient Council</td>
<td>• may reduce the resource base of the Council from which an area is transferred</td>
</tr>
<tr>
<td>• provides economies of scale in servicing the appended area</td>
<td>• residents of one Council exposed to assets and liabilities of the other Council</td>
</tr>
<tr>
<td></td>
<td>• may expose major differences in rates between areas of the appended Council, although this can be addressed through the use of differential rating</td>
</tr>
<tr>
<td></td>
<td>• may reduce the total amount of the general purpose component of Financial Assistance Grants</td>
</tr>
<tr>
<td><strong>Organisation and Services</strong></td>
<td></td>
</tr>
<tr>
<td>• potential to rationalise operating assets including, plant and equipment, workshops and depots</td>
<td>• involves integration of sometimes widely differing organisational cultures where staff are transferred</td>
</tr>
<tr>
<td>• opportunities to improve service options and reduce operating costs in many areas, including water supply, sewerage disposal and waste management</td>
<td>• may result in differing levels of services in some areas e.g. smaller communities, although this can also be addressed by the use of differential rates and/or a process to equalise services over time</td>
</tr>
<tr>
<td>• addresses cross-border utilisation of facilities and services of one Council by residents of the other</td>
<td></td>
</tr>
<tr>
<td>• better basis to manage growth across area involved</td>
<td></td>
</tr>
<tr>
<td><strong>Community and Representation</strong></td>
<td></td>
</tr>
<tr>
<td>• no impact on arrangements for representation</td>
<td>• possible concerns over lack of control of service provided by another Council</td>
</tr>
</tbody>
</table>
9.4.2 Assessment of Specification

If the demographic, economic and other characteristics of a region are undergoing substantial change, then this can exert numerous pressures on the local governments in that region. For instance, rapid population growth means not only an obvious need for additional residential development to accommodate new residents, with the attendant increase in local infrastructure that this requires, but also an expansion of retail development and associated costs. In other words, the problems of ‘growth management’ become acute and this can place significant stress on local councils.

Along similar lines, a rapid change in the age composition of a local government area necessitates changes in the nature of local government service provision. Thus, more old people means more aged services whereas an increase in the proportion of school-going children in the population leads to a different service mix.

However, an especially thorny problem that often emerges out of rapid change in a region occurs where developments in one council jurisdiction “spill over” into an adjacent local government area. This kind of problem – known as inter-jurisdictional externalities in the language of economics – can manifest itself in many ways. For instance, council areas adjacent to large regional cities typically form “dormitory suburbs”. Residents often live in these “semi-urban” council jurisdictions and commute to work in the large regional city. Since this involves complex patterns of local service use in both jurisdictions, inter-jurisdictional externalities represent a challenge.

The Guidelines Kit (LGAQ, 2006, Chapter 4, p.9) identifies significant boundary change as an effective means of “internalizing” these inter-jurisdictional externalities in the following instances:

- In tackling the problems of growth management;
- Dealing with “cross border service use”;
- Altered communities of interest that derive from rapid demographic and economic change; and
- “Inefficiencies in infrastructure provision”.

However, the Guidelines Kit (LGAQ, 2006, Chapter 4, p.9) does stipulate that significant boundary change should be considered “in conjunction with joint arrangements”. Unfortunately, the Guidelines Kit does not specify the nature of these “joint arrangements”, but presumably they can include a wide range of activities that flow from the inter-jurisdictional problems they identify.

Since prudent significant boundary change represents a policy instrument that retains local democracy, protects local autonomy and defends local identity, it can be most useful in situations where large regional cities are surrounded by smaller partly urbanized local government areas with different identities. Judicious changes to local government areas accommodate the interests of the large regional cities without destroying smaller adjacent local councils.

9.4.3 Implications for Mirani Shire Council

The question of significant boundary change involving the Mirani Shire Council was considered in detail in a Discussion Paper prepared by the Office of Local Government Commissioner in July 1993 entitled A Review of the External Boundaries of the City of Mackay and the Shire of...
Pioneer and Parts of the External Boundaries of the Shires of Whitsunday, Mirani and Sarina. As a consequence of this Report, Pioneer Shire was effectively subsumed under an enlarged City of Mackay. From the point of view of significant boundary change involving the Mirani Shire Council, the Report concluded that “overall Mirani has a stable financial position, but with the low interest cover level and reliance on plant operating returns, it would have limited capacity to subsidise any new areas in the Shire unless overall rate levels were increased” (Office of Local Government Commissioner, 1993, p.27). Unfortunately, the thorough statistical analysis underpinning this Report has been overtaken by rapid changes that have occurred in the Pioneer Valley and it cannot thus shed much light on the current situation.

It is our view that extreme caution should be shown when considering any major boundary alteration. Unless significant populated centres can be incorporated into Mirani Shire as part of the process, the Council’s efficiency and effectiveness will not be enhanced. Consideration would also need to be given to determining whether the Council would be obtaining an asset in the form of an addition revenue base, or a liability in the form of an unfunded backlog of asset renewals. In the case of a “land claim” of rural land around Mackay, there is the added complication of the rating differential between the two councils. Mackay rural landowners may be reluctant to “move” to Mirani Shire due to its higher rate structure. It was also pointed out to us in our research that the lower rating structure in the rural outlying areas of Mackay City has also resulted in a similarly lower level of service being provided to people living in these areas.

Perhaps the most significant reason for not pursuing a major boundary alteration is that the “pain may not be worth the gain”. In other words, a “land claim” may be perceived as predatory by other councils within the region and may thus generate distrust against the Mirani Council from its immediate neighbours. This can be extremely detrimental to Mirani Shire since this might preclude it from realizing the potential benefits available from regional capacity building through a major restructure of WHaMB ROC. In sum, “land claims” may chiefly undermine trust between councils and thereby undermine potential regional cooperation.

9.5 MERGER/AMALGAMATION

9.5.1 Size, Shape and Sustainability: Guidelines Kit Specification

The fourth and final “option for change” proposed by the Guidelines Kit (LGAQ, 2006) involves “merger/amalgamation”. The Guidelines Kit (LGAQ, 2006, Chapter 4, p.10) defines the merger/amalgamation option as “the creation of one new council from two or more existing councils” that includes “the integration of organization structures, facilities management, service provision and of policies and regulations across the combined area”. In other words, amalgamation necessarily embodies the complete destruction of existing councils and their replacement by the new entity.

Amalgamation represents the most drastic approach to local government reform. Chapter 2 provided a detailed analysis of the consequences of amalgamation and stressed that it had seldom achieved its intended aims in previous structural reform programs across Australia over the past decade. It represents a “last resort” option by policy makers.

The Guidelines Kit attempts to emphasise the positive qualities of amalgamation under circumstance where it is voluntary. For instance, the Guidelines Kit (LGAQ, 2006, Chapter 4, p.10) contends that “voluntary amalgamation allows councils to choose the other councils with which they would like to amalgamate, and also to collectively address the specific issues that arise from the amalgamation, and thus influence the structure, systems and strategies of the
new council”. Unsurprisingly, it does not even try to identify any positive features of forced or compulsory amalgamation.

The Guidelines Kit (LGAQ, 2006, Chapter 4, Table 4, p.10) includes a table that seeks to detail the various advantages and disadvantages of significant boundary change. This is reproduced below as Table 9.4.

Table 9.4: Advantages and Disadvantages of Merger/Amalgamation Options

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Finance and Resources</strong></td>
<td></td>
</tr>
<tr>
<td>• creates a sufficient resource base for the</td>
<td>• residents of each Council exposed to assets and liabilities of the other</td>
</tr>
<tr>
<td>combined Council and a stronger financial</td>
<td>Council</td>
</tr>
<tr>
<td>structure that helps spread financial and</td>
<td>• may expose major differences in rates between areas of the combined Council,</td>
</tr>
<tr>
<td>business risks</td>
<td>although this can be addressed through the use of differential rating</td>
</tr>
<tr>
<td>• reduces the total costs of governance</td>
<td>• may reduce the total amount of the general purpose component of Financial</td>
</tr>
<tr>
<td></td>
<td>Assistance Grants</td>
</tr>
<tr>
<td><strong>Organisation and Services</strong></td>
<td></td>
</tr>
<tr>
<td>• provides operating cost savings from economies</td>
<td>• cost of integrating the Councils can take two or three years to be recovered</td>
</tr>
<tr>
<td>of scale, reduced staff or the reduced need</td>
<td>from efficiency gains</td>
</tr>
<tr>
<td>for additional staff</td>
<td>• involves integration of sometimes widely differing organisational cultures</td>
</tr>
<tr>
<td>• opportunity to review customer service and</td>
<td>and disruption to organisational output during the implementation phase</td>
</tr>
<tr>
<td>the efficiency and effectiveness of</td>
<td></td>
</tr>
<tr>
<td>operations</td>
<td>• may result in differing levels of services in some areas e.g. smaller</td>
</tr>
<tr>
<td></td>
<td>communities, although this can also be addressed by the use of</td>
</tr>
<tr>
<td></td>
<td>differential rates and/or a process to equalise services over time</td>
</tr>
<tr>
<td>• potential to rationalise operating assets</td>
<td></td>
</tr>
<tr>
<td>including, plant and equipment, workshops</td>
<td></td>
</tr>
<tr>
<td>and depots, administration centres and</td>
<td></td>
</tr>
<tr>
<td>office technology</td>
<td></td>
</tr>
<tr>
<td>• opportunities to improve service options and</td>
<td></td>
</tr>
<tr>
<td>reduce operating costs in many areas,</td>
<td></td>
</tr>
<tr>
<td>including water supply, sewerage disposal</td>
<td></td>
</tr>
<tr>
<td>and waste management</td>
<td></td>
</tr>
<tr>
<td>• addresses cross-border utilisation of</td>
<td></td>
</tr>
<tr>
<td>facilities and services of one Council</td>
<td></td>
</tr>
<tr>
<td>by residents of the other</td>
<td></td>
</tr>
<tr>
<td>• better basis to manage growth across area</td>
<td></td>
</tr>
<tr>
<td>involved</td>
<td></td>
</tr>
<tr>
<td><strong>Community and Representation</strong></td>
<td></td>
</tr>
<tr>
<td>• formalises communities of interest that may</td>
<td>• increases the number of electors per Councillor and dilutes the existing</td>
</tr>
<tr>
<td>have previously been divided by council</td>
<td>levels of representation, although this may not necessarily reduce the</td>
</tr>
<tr>
<td>boundaries</td>
<td>effectiveness of representation</td>
</tr>
<tr>
<td>• increases political lobbying power through</td>
<td>• smaller communities may lose direct representation, e.g. they may not have</td>
</tr>
<tr>
<td>representation of larger population base</td>
<td>a candidate from their own area – although this may not be offset by new</td>
</tr>
<tr>
<td>• opportunity for fulltime Mayor and</td>
<td>representational arrangements e.g. Community Boards</td>
</tr>
<tr>
<td>Councillors because of increased revenue</td>
<td></td>
</tr>
<tr>
<td>base</td>
<td></td>
</tr>
</tbody>
</table>
Finally, the *Guidelines Kit* (LGAQ, 2006, Chapter 4, Table 4, p.10) provides a list of Queensland local councils that have been involved in amalgamation over the “last ten years or so”. It offers no comment at all on the success or otherwise of these amalgamation processes.

The *Guidelines Kit* offers no guidance on how newly amalgamated local councils should proceed in forming a successful larger local government entity. However, it does underline the severe problems faced by the new structure. For instance, it points out that the “cost of integrating the councils can take two to three years to be recovered from efficiency gains” (Table 9.4, p.10). It also stresses the difficulties involved in the integration process joining “widely differing organizational cultures” and the inevitable “disruption to organizational output during the implementation phase”. Thirdly, it outlines the dangers of differential service levels, especially for “smaller communities”.

These reservations echo a central theme of this Report. We have repeatedly drawn attention to unrealistic claims made for amalgamation on economic grounds, the deleterious social impact of amalgamation on small communities, and the political costs of amalgamation on local autonomy and local democracy. In its evaluation of amalgamation, the *Guidelines Kit* provides no cogent reasons for dismissing these reservations.

### 9.5.2 Assessment of Specification

Chapter 2 provided an exhaustive assessment of amalgamation as a means of increasing local government efficiency in Australia. The summary of the purported “advantages” of amalgamation provided in Table 9.4 thus represents a familiar litany of “bigger is better” arguments typically advanced by Australian advocates of municipal consolidation. In particular, the traditional arguments that hinge on economies of scale and a larger “resource base” are rehearsed.

However, in fairness to the authors of the *Guidelines Kit* (LGAQ, 2006), the problems with municipal amalgamation discussed in depth in Chapter 2 are canvassed in Table 9.4.

For example, Tables 9.4 specifically observes that amalgamation will “dilute the existing levels of representation” and “smaller communities may lose direct representation” - a points repeatedly stressed in meetings between Professor Dollery and Andrew Johnson and Mirani Shire community members.

It is critical to note that the Local Government Act 1993 (section 92(1)) stipulates that where structural change (by means of either significant boundary change or amalgamation) is substantial, it constitutes a “major reference” in terms of the Act. This implies that a referendum is compulsory where:

- ♦ A new local council is created from areas that are to be abolished; and
- ♦ A new council is created that merges existing local government areas with an existing local council.

Referenda conducted under the Local Government Act 1993 must define the “affected area” and identify “voting areas” by regulation (section 124). A successful referendum in favour of amalgamation can only be carried by a majority of voters in all “voting areas”.
9.5.3 Implications for Mirani Shire Council

Any amalgamation proposal that involves councils in the Pioneer Valley will undoubtedly create a new “Mackay City Super-Council” in some form or another. From a political perspective, in practical terms this will mean almost complete dominance of smaller councils by the numerically much larger Mackay City Council. As a result, political representation of residents of the smaller councils will be drastically reduced, even where a geographical divisional system is implemented. Under these circumstances, it is hard to see how scarce resources will be equitably distributed across the new local government entity when the weight of representation will be centred in Mackay. For Mirani Shire this can have ominous implications. The critique of amalgamation presented in Chapter 2 lends support to this view.

From the perspective of the efficiency and effectiveness of local government amalgamation, the abolition of Mirani Shire and its submergence in a “Mackay City Super-Council” is likely to follow the experience of similar amalgamation programs elsewhere in Australia. As we showed in Chapter 2, exponents of amalgamation invariably make extravagant claims over the probable benefits of amalgamation that are seldom met in practice.

However, as we have seen, the Size, Shape and Sustainability: Guidelines Kit (LGAQ, 2006) and in terms of the Local Government Act 1993, provision is made for a referendum amongst affected parties. This Report urges that, if an amalgamation proposal does eventuate from the SSS process, the Mirani Shire Council sets out the likely consequences of amalgamation with Mackay City (and any other councils) before its residents. Experience elsewhere in Australia with amalgamation policy proposals has demonstrated a high degree of well-founded scepticism amongst residents of the smaller councils, who typically fear the impact of a loss of representation stemming from lower representation, with a corresponding apathy amongst the population of the larger centre. Since the Local Government Act 1993 stipulates that a majority of all residents in all voting areas is necessary for success, it is probable that a fully informed Mirani Shire electorate will vote the proposal down.

In the event that a firm proposal emerges at the end of the SSS process for an amalgamation of Mirani Shire with Mackay City (and perhaps some other surrounding councils), this Report deems it prudent for the Council to get expert advice on the merits of the proposal. The resultant Report could be made public and put before the voters of Mirani Shire.

9.6 OTHER OPTIONS

The assessment of the four “options for change” provided in this chapter indicates that boundary change, resource sharing through service agreements, and resource sharing through joint enterprise all represent methods by which the efficiency and effectiveness of local government can be improved with any concomitant loss in local autonomy, local representation and local democracy.

An obvious fifth option not included in the Size, Shape and Sustainability: Guidelines Kit (LGAQ, 2006) would be a “do-nothing” position. However, this option does not seem feasible for the Mirani Shire Council on several cogent grounds:

♦ Local governance in central Queensland is under significant external pressure from several sources, not least rapid economic development and associated fast population growth.
♦ These pressures are amplified by financial pressures derived from cost shifting, the
devolution of additional responsibilities onto local councils, rising community
expectations, and the plethora of other factors outlined in Chapter 2 of this Report.

♦ Both the general public and the state government hold expectations of increased local
government efficiency in service delivery.

♦ The Size, Shape and Sustainability: Guidelines Kit (LGAQ, 2006) implicitly propagates
the view of organized local government in Queensland that local councils must adopt an
active policy stance and be open to reform.

For these reasons, a “do-nothing” option appears untenable. Indeed, if the Mirani Shire Council
does not develop and propel its own reform program, this increases the probability that
unpalatable reform will be forced upon the Council by the state authorities.

This concern has a solid foundation in experience in other Australian states with structural
reform. For example, the recent program of forced amalgamation in NSW has vividly illustrated
that where councils adopt a proactive reform agenda, they can successfully avoid compulsory
structural reform. By the same token, the NSW experience also demonstrated the perils of a ‘do-
nothing’ option.

9.7 CONCLUDING REMARKS

This chapter has reviewed a number of policy options available to Mirani Shire Council to meet
the state government’s agenda under the SSS regime, and to potentially improve the council’s
efficiency, effectiveness and the quality of services provided to its community. While the analysis
conducted in Chapter 6, Chapter 7 and Chapter 8 of this Report has demonstrated that the
Mirani Shire Council is considered sustainable in its own right, there are still opportunities
available to Mirani Shire Council to improve its operations and provide further value to its
ratepayers.

We strongly recommend that Mirani Shire Council continue - as it has during the whole SSS
process - to show regional leadership and reinvigorate WHaMB ROC as a conduit to deliver a
strong regional political voice, enhance member councils’ efficiency and effectiveness, and
facilitate resource sharing among its member councils.

It is acknowledged that this will be no easy feat given the history of WHaMB ROC. Moreover,
these difficulties are undoubtedly compounded by the fact that there are a number of sub-groups
within the ROC that are already looking at their SSS prospects. However, a “whole of ROC
approach” would allow member councils to achieve economies of scope and scale in each
service it provides by determining the particular scale required, whether delivered by all member
councils, a single council, or a small group of councils. Consideration should also be given to
determining at which level (i.e. individual, regional, sub-regional) service policy should be set, at
which level it should be managed and at which level it should be delivered. Accordingly, it is
recommended that the effort to enhance regional capacity in this manner will be worth the initial
“pain” that may be encountered in combating the resistance for such a regional plan. An
environment of trust and goodwill is essential for ventures of this kind to be successful.

A good starting point would be to review the operations of some successful ROCs, such as
REROC and DDRoC, and undertake a number of facilitated sessions with these participating
councils to review each service provided and determine what opportunities may be available for
cooperative provision, in a similar manner to the Byrnes’ survey (2005). In addition, areas
already identified as having potential for regional delivery, such as waste disposal and mobile libraries, are also a good place to commence discussions on shared service delivery in WHaMB ROC itself.
CHAPTER 10: RECOMMENDATIONS FOR MIRANI SHIRE

10.1 INTRODUCTION

This Report is based on a thorough examination of the literature on local government reform in Australia in general, and structural reform in particular. We have conducted a detailed evaluation of the Size, Shape and Sustainability: Guidelines Kit (LGAQ, 2006) program; undertaken a comprehensive “on-the-ground” inspection of Mirani Shire; considered the views of two focus groups made up of Mirani Shire community leaders and concerned citizens respectively; held discussions with Mayor Dave Price, a full meeting of the Mirani Shire Council, CEO Ray Geraghty, senior managers from the Mirani Shire Council, and the Mayor of Mackay City Council. In addition, we have analyzed the Queensland Treasury Corporation Report on the financial status of Mirani Shire Council. This final chapter seeks to summarize the findings of the Report, offer some general observations and put forward specific recommendations for the Mirani Shire Council.

The chapter itself is divided into three main parts. Section 10.2 provides a synoptic review of the overall thrust of the Report. Section 10.3 advances some general observations on the manner in which the Mirani Shire Council should deal with the Size, Shape and Sustainability program. The chapter concludes with a set of specific recommendations for the Mirani Shire Council.

10.2 SYNOPTIC REVIEW OF THE REPORT

The Final Report fell into three main parts. Part A examined the SSS process against the background of Australian local government reform. Part B conducted a detailed analysis of the Mirani Shire Council. Part C considered the policy options available to the Mirani Shire Council and assessed the merits of these options.

10.2.1 Part A

Part A comprised four chapters. Chapter 2 examined Australian local government reform and difficulties faced by Australian local government. In particular, the question structural reform in local government, and especially council amalgamation, was examined in detail. It was argued that amalgamation represented only one of several alternative models of structural reform that could be followed. Moreover, available theoretical and empirical evidence on municipal amalgamation strongly suggested that it seldom achieved its intended economic aims and came at an unacceptably high price in terms of local government democracy.

Chapter 3 focussed on the problem of alternative models suitable for contemporary local councils in non-metropolitan Australia and outlined five promising alternative governance models, some of which have already been implemented. It sought to provide a conceptual system for evaluating these alternative models of local governance that involved structural change and process change. By way of concrete examples of current models, the chapter described research on the Riverina Regional Organization of Councils (REROC), the NSW Shires Association (2004) Joint Board model, and the New England Strategic Alliance.

Chapter 4 dealt with the difficult problem of determining financial sustainability in local government. After discussion of the generic problems associated with local government performance measurement and Key Performance Indicators, it considered the work of the South
Australian Financial Sustainability Review Board (2005), the Independent Inquiry into the Financial Sustainability of NSW Local Government (2006) Final Report, the approach developed by Murray and Dollery (2005; 2006), and the Walker and Jones (2006). This served to place Section 4.7 the Queensland (2006) Size, Shape and Sustainability manual in perspective. In essence, the chapter found that no general agreement existed in Australia on the meaning of “financial sustainability” in local government and no consensus existed on the best way to measure this slippery concept. This meant that Australian local government policy makers had no reliable method of identifying financially unsustainable councils.

Chapter 5 argued that financial sustainability in any event only dealt with one aspect of overall sustainability of local authorities and a much broader view had to be adopted. The chapter considered the problem of defining adequately council sustainability and identifying the chief determinants of this broader conception of local government sustainability. It tried to identify the chief attributes of community or social sustainability in local government and develop methods of measuring these characteristics.

10.2.2 Part B

Part B comprised three chapters. Chapter 6 presented a statistical profile of the Shire and the surrounding region, in order to provide some background information on the council to assist with evaluating the sustainability of Mirani Shire Council. The chapter included details of the Council’s demographics and it observed that the district is rapidly growing. The most significant conclusion drawn in the chapter focused on the unreliability of the “official” data on the Shire, in particular the predicted growth rates. The Report cautioned against the use of this data for decision-making purposes.

Chapter 7 conducted a detailed evaluation of Mirani Shire Council using all the various techniques discussed in Chapter 4 including the Size, Shape and Sustainability indicators, the South Australian Financial Sustainability Review Board approach, the New South Wales Local government Inquiry assessment, the method employed by the Queensland Audit Office to determine financial vulnerability, and we reviewed the assessment made by the Queensland Treasury Corporation of the council. Mirani Shire Council fared particular well under all of these indicators, except the excessively onerous LGI method. The Council’s only significant problem appeared lie in its predicted $3m deficit over the next ten years and its decline in its capital expense ratio.

Chapter 8 considered the non-financial aspects of sustainability as they related to Mirani Shire Council, as outlined in Chapter 5. In particular, it focused on community satisfaction with the Council and the services it provides, it reviewed the Council’s relative level of political representation, evaluated the Shire’s financial and human resources capacity to deliver the services expected by the community, as well as examined the community’s views on reform options confronting the Council. The chapter found extremely strong support for Council staff, the councillors and the Council in general. It found that the Council was performing well in all areas, except for road maintenance, drainage and public toilets. The main conclusion reached is that the Council can meet the challenges of the future and could benefit from the sharing of resources with its neighbouring councils.
10.3 GENERAL OBSERVATIONS

The analysis conducted in Part A of the Report lead to several firm conclusions on structural reform in local government. These conclusions may be summarized as follows:

♦ Amalgamation is only one of several kinds of structural change that can enhance local government operational efficiency.

♦ Compared to other structural arrangements, amalgamation carries very heavy costs in terms of the loss of local autonomy, local democracy and local representation and has seldom achieved substantial cost savings.

♦ Other models of local governance that are based on shared services offer much greater promise since they protect local autonomy, local democracy and local representation and can generate significant cost savings.

♦ No agreement exists on the meaning and measurement of financial sustainability in Australian local government.

♦ Different approaches arrive at different conclusions on the financial status of individual local councils and in any event have a very poor predictive efficacy in identifying which municipalities that will fail.

♦ The inability to determine the financial sustainability of individual councils means that policy makers have no reliable method of identifying “at risk” councils and this precludes drawing firm policy implications from data on financial sustainability.

♦ Financial sustainability is only part of the much broader concept of overall council sustainability that includes local democracy, local social capital and local capacity.

♦ While these and other attributes of the functioning of councils are difficult to define and measure, this does not reduce their vital importance.

The analysis conducted in Part B of the Report allowed us to derive some firm conclusions on the status Mirani Shire Council. These conclusions may be summarized as follows:

♦ As determined by the Queensland Treasury Corporation (QTC, 2006a), the Council “has a high capacity to meet its financial commitments in the short to medium term and an acceptable capacity in the long term. The Council is expected to be able to manage unforeseen financial shocks (with minor to moderate revenue/expense adjustments) and any adverse changes in local government business and general economic conditions. The capacity to manage core business risk is acceptable”.

♦ The Council produces good result against all indicators of sustainability analyzed in Chapter 4, except for the burdensome LGI method of appraisal.

♦ The Council should consider reversing its proposed $3m deficit over the next ten years and the decline in its capital expense ratio for the period 2010 to 2016

♦ The Council has overwhelming community support for the level of service it provides, for the accessibility of its staff and councillors, the level of representation, the leadership provided to the community by the Council.

♦ The community is bitterly opposed to any attempt to amalgamate the Council or remove local decisions from local residents.
♦ Elected councillors function very well together with no significant factional problems and the Council does not suffer from any “policy deadlocks” or councillor “infighting” that tend to plague larger councils.

♦ The current growth rates will cement the Council’s future if managed well.

♦ The Council should consider putting resources into achieving industry “best practice” in a number of areas.

♦ The Council should invest in preparing an integrated strategic plan that is linked to an assets management plan, a service level statement, a revenue policy, its current corporate and operational plans, and its ten-year financial plan to strengthen Council’s ability to tackle the challenges ahead.

♦ There are opportunities for the Council to show leadership within the region, and within WHaMB ROC in particular, to improve regional political representation and allow for the sharing of staff and other resources to improve the efficiency and effectiveness of all member councils.

10.4 RECOMMENDATIONS

Chapter 7 and 8 found that the Mirani Shire Council is most definitely sustainable in the medium term. We undertook a vigorous assessment using multiple indicators of sustainability to come to this conclusion, including information from the SSS Guidelines (LGAQ, 2006), the South Australian Financial Sustainability Review Board (2005), the NSW Local Government Inquiry (2006), the Queensland Treasury Corporation (2006) and the Queensland Audit Office (2005). While Mirani Shire is considered to be sustainable in the medium term, we have made a number of recommendations to assist the Council to achieve “best practice” in local government and take the Council’s operations to even higher levels.

Recommendation 1: Asset Management

The Council has prepared a ten-year financial plan, which was recently reviewed by the Queensland Treasury Corporation. The Council also prepares a corporate plan together with an annual operational plan. The next step for Mirani Shire would be to expand its operational plan beyond the current year, include an asset management plan, and tie both to its ten-year financial and corporate plan together.

It is strongly recommended that Mirani Shire Council develop a comprehensive Asset Management Strategy that is intergraded into its existing ten-year financial plan. We would encourage the Council to put resources into this area in order to assist in planning for the expected growth in the Shire and provide for the future demands for services. The Asset Management Plan should carefully consider the remaining lives of its existing assets, the cost of renewing these assets, any additional assets and facilities required, identify any assets renewal backlog, determine the cost required to maintain Council-owned infrastructure in a satisfactory condition and any resultant “funding gap”.

Council’s long-term plans should include an asset replacement and renewal plan. Council must plan to replace these assets at least at the rate they are deteriorating. The Council should also ask itself if the assets are actually still required or whether they have become surplus to requirements.
**Recommendation 2: Service Levels**

Council should aim to meet the SSS Guidelines “best practice” and “regularly monitor and report on the condition and performance of all assets against identified service levels and understand the likely future levels of service required based on population growth, demographic change and community expectations” (LGAQ, 2006, p. 3.13).

The South Australian FSRB found that “councils in recent years have put community demands for services in front of their own financial sustainability and that this cannot continue”. This Inquiry also made a number of recommendations in relation to the delivery and management of services by councils. These recommendations are contained in Table 10.1 below and we recommend that they be implemented by Mirani Shire Council.

**Table 10.1: SA Sustainability Review Board’s Recommendations in Relation to Service Provision**

- That, in canvassing alternative methods of delivery, councils consider further resource-sharing initiatives, especially involving the smaller councils, ranging from working together more effectively to more formalised regional groups, area integration and whole-of-sector initiatives.
- That each council develops and publishes a policy framework clearly specifying its policies regarding the number and nature of services to be delivered and the methods for delivery. This framework should define service levels and quality and quantity standards for the range of services they deliver.
- That councils subject their existing service programs to regular review, to demonstrate that:
  1. the services provided are appropriate and effective in achieving the policy outcomes sought for the community; and
  2. the expenditure involved is at levels incurred by a prudent service provider intent on achieving the lowest sustainable cost of delivering council services.
- That councils subject proposals for new or additional services to review, to demonstrate that:
  1. the new or additional services will be appropriate and effective in achieving the policy outcomes sought for the community; and
  2. the method of provision will achieve the lowest sustainable cost of delivering the services involved.
- That the LGA develops and publishes guidance for councils to be used when a council reviews the appropriateness, effectiveness and efficiency of the council’s current services or of any new or proposed additional services.
- That councils, as a matter of course, publish the results of the outcomes of their service reviews and their experience with efficiency initiatives such as resource sharing, and the dollar value of savings achieved.


We also recommend that Mirani Shire Council should consider including in its operational plan clear objectives for each service, defined the levels of service, outline the costs associated with providing each service (that is full life cycle costs), and set appropriate targets and performance indicators to ensure that each service is meeting its objectives, efficiently and effectively (Johnson, 2006). Consideration should also be given to clearly spelling out in its planning documents the method of funding each service, together with what action will be taken if this funding is reduced for any reason. The Council should also detail how much a given service charge or fee actually contributes to the costs of the activity (i.e. percentage of cost recovery achieved). Council should also consider having a resource allocation policy to determine its priorities and how its resources will be allocated to meet its various objectives (Johnson, 2006).
Recommendation 3: Performance Management

It was observed that Mirani’s annual report does not provide sufficient details of the Council’s performance against its operational plan. As a result, we conclude that the Council could be described as having “a basic performance management process and reporting annually on its performance”.

An effective performance framework, according to the UK Office of the Deputy Prime Minister (2004, p.16), “drives continuous improvement in the delivery of cost-effective, efficient services that meet users’ needs and expectations; support greater accountability to local people and across local partners for performance; secure the effective delivery of national interests and priorities; and encompass the contribution of partnership working to delivering local outcomes”.

Performance measurement and monitoring is also an important part of good financial governance. As a result, the Council should consider introducing key performance indicators outlining the efficiency and effectiveness of its operations. These reports should be designed to be concise and provide an accurate picture of the organisation as well as be readily understandable by the general public (Johnson, 2006). The performance reports should also include non-financial data as well as financial information.

Recommendation 4: Community Surveys

We observed during our analysis of Mirani Shire Council that a more accurate assessment (as opposed to the SSS Guidelines requirements) of “capacity to supply and match the level of service provided by an asset with the expectations of the community” was required. We suggest that it would be appropriate to undertake a regular community satisfaction survey, which we strongly advocate, and to review the type and volume of ”service requests” or “complaints” received.

For this reason we recommend that the Council undertake an annual or bi-annual survey of residents to ascertain the Council’s performance and any improvements and emerging issues identified, in a similar manner to the Victorian and British “best-practice” requirements. This will enable the Council to identify areas for improvement and assess the results of its corporate plan (as it is perceived from the community’s perspective). We also recommend that summaries of service requests and complaints are reported to Council on at least a quarterly basis to enable Council to predict early trends in declining services or areas that require further attention.

Recommendation 5: Risk Management

It was observed that the “Council has no risk management policy or internal control system”. We thus recommend that Council implement an effective approach to the identification, assessment, monitoring and management of risks. Risk management is referred to in AS/NZ 4360:1999 as “a logical and systematic method of establishing the context, identifying, analyzing, evaluating, treating, monitoring and communicating risks associated with any activity, function, or process in a way that will enable organisations to minimise losses and maximise opportunities. It is also defined in the standard as the culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects”. Risk management is a key part of excellence in governance. It is broader than simply having safe footpaths and gutters. It actually involves consideration of all the activities of the organisation – that is, all processes, structures, culture and parts of the organisation. Very importantly, contemporary risk management focuses not only on risks in terms of what is done, but also the risk, in terms of lost opportunities of what is not done. This ties risk management intricately to the overall goals and objectives of the organisation and how it goes about all its activities. A local government with an
effective risk management strategy is recognising and supporting its accountability to its stakeholders, in particular its community for the stewardship of the community’s resources (CPA Australia, 2005, p.19).

We recommend that Mirani Shire should also have well-documented internal controls that are religiously followed and independently reviewed to ensure compliance. Internal controls are vital to ensuring the integrity of Council’s finance information and must ensure that it is reliable for good decision-making.

**Recommendation 6: Internal Audit Function**

The internal audit function is generally dismissed in smaller councils as they often consider that their council is not large enough to be justified this function. However, it can be argued that the reverse is true and the internal audit function can be more important in a smaller council with limited personnel, limited experience and training, and high staff turnover. It can also be difficult in smaller councils to undertake peer review and to separate these responsibilities, thus placing more importance on having an internal audit function.

CPA Australia (2005, p.23) advocate councils establish internal structures that provide for the independent review of processes and decision-making to assist the local authorities to meet accountability to stakeholders and it is achieved through audit committees and an internal audit function. The independent review function will also greatly assist with council’s continuous improvement program as well as ensure the integrity and credibility of the council.

Mirani Shire should therefore consider the opportunities to resource share and participate in regional cooperation as a means of improving financial governance, particularly in areas such as internal auditing and other areas that required specialised staff. This option provides a low-cost alternative for smaller councils to share specialised staff and assist with attracting and retaining staff. It is also important to have documented systems and processes and good internal controls in general. This is even more essential where high staff turnover and inexperienced staff are present.

**Recommendation 7: Operating Surplus**

Mirani Shire Council expects to record an aggregated operating deficit of around $3m over the next ten years. While only representing about 3% of income, it nonetheless means that future ratepayers are paying for the cost of servicing current ratepayers. We thus strongly recommend that Council review its ten-year plan and provide for an operating surplus in order to ensure its longer-term sustainability.

**Recommendation 8: Capital Expense Ratio**

The ten-year forecast prepared by Mirani Shire Council provided for a capital expense ratio (capital expenditure/depreciation expenditure) of less that one for the period 2010 to 2016. The capital expense ratio is an extremely important determinant of the long-term health of the Council. A ratio of greater than one indicates that the Council is replacing its assets at greater than the rate they are deteriorating. Put differently, the Council is replacing its assets at a rate greater than they are used. We therefore encourage the Council to review its ten-year forecast, after completion of its Assets Management Plan, and ensure that its capital expense ratio is greater than one.
Recommendation 9: Growth Management
We have documented that fact that Mirani Shire is currently experiencing unprecedented growth which will see an influx of people in the next few years. While this will ensure the future prosperity and sustainability of the Shire, extreme care will be needed to ensure that this process is managed to avoid potential adverse financial results. Mismanagement of growth could see the Council struggle financially or alternatively not provide sufficient infrastructure and facilities to its residents and damage the Council’s reputation and its prospects of ongoing growth.

To this extent we recommend that detailed plans be prepared identifying the likely effects of the population growth on existing infrastructure, the requirement for new facilities, together with the cost, timing and funding of these projects. Following this analysis, the council should also review the current level and appropriateness of its contributions levied on developers as a potential means of funding some of requirements this growth will produce.

Recommendation 10: Human Resource Management
We observed during our evaluation of Mirani Shire that the Council has to date had no trouble attracting and retaining staff due to its envious lifestyle and the cohesiveness of its councillors. However, we also cautioned that Mirani should be conscious, with the current boom in the mining industry in the region (which traditionally offers higher wages for skilled and semi-skilled labour), the aging population, and the skills shortage in general, that the Council may struggle to maintain this envious position in relation to human resources. As a result, we recommend that Mirani continue the use of trainees for its future employment requirements as well as put training plans in place and take other measures to protect its operations, as much as practically possible, from any potential skill shortage.

Recommendation 11: Roads, Drainage and Public Toilets
We would encourage the Council to review the service level it provides in the areas of road maintenance, drainage and public toilets as part of a strategic plan to improve its services to meet the unfulfilled community expectations.

Recommendation 12: Requirement for Independent Market Research
We would recommend that, if it appeared that Mirani Shire Council was placed in a situation in which it was being forced to amalgamate, the Council should engage a market research company to independently ascertain the views of the community on this proposal. It is our view, based on the limited representative sample we considered, that there is a very strong anti-amalgamation sediment within the Mirani Shire community.

Recommendation 13: Regional Leadership & Cooperation
The Auditor General in his 2003/04 Report on local government (QAO, 2005, p.9) observed that “there remains significant scope for councils to adopt resource sharing arrangements to enhance the efficiency and effectiveness of delivery of services to ratepayers”.

We have observed in this Report that there are many options available to improve the efficiency and effectiveness of the Council’s operations without incurring gravely disadvantageous amalgamation that will remove “local voice and local choice”. As a result, we recommend that Mirani Shire continue to provide the strong regional leadership that has been shown throughout the SSS process, and seek to exploit the opportunities available through sharing resources.
throughout the Pioneer Valley and surrounding districts. In this regard, we find that Mayor Dave Price has demonstrated superb leadership. A prime vehicle to facilitate these regional objectives is a greatly reinvigorated WHaMB ROC that could allow for a greater regional political profile as well as enable member councils to obtain staff and sell any surplus capacity to other member councils, or alternatively, purchase staff under contract from other member council to meet excess demand.
REFERENCES


CPA Australia (2005), *Excellence in Governance for Local Government*, CPA Australia, Melbourne.


# APPENDIX 1: SSS INDICATORS

## SSS CATEGORY #1: FINANCIAL AND RESOURCE BASE

<table>
<thead>
<tr>
<th>Description</th>
<th>Rules for Scoring</th>
<th>Possible Datasets</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Forecast</strong></td>
<td></td>
<td>Financial Plan / Model</td>
<td></td>
</tr>
<tr>
<td>This indicator examines whether Council is effectively developing and adopting financial policies. These include borrowings, revenue and asset management. Ideally these policies will be linked to a robust 10 year financial plan which should incorporate financial forecasting demonstrating whether or not Council has the ability to sustain its future activities?</td>
<td></td>
<td>Financial Sustainability Review</td>
<td></td>
</tr>
<tr>
<td>Key Question(s)</td>
<td>• Does Council have a robust ten year financial plan and forecast?</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Key Question(s)</strong></td>
<td></td>
<td>Financial Plan / Model</td>
<td></td>
</tr>
<tr>
<td><strong>Rules for Scoring</strong></td>
<td></td>
<td>Balance Sheet</td>
<td></td>
</tr>
<tr>
<td>1=Very limited capacity to meet short term financial commitments and no capacity to meet medium to long term financial commitments. Major revenue/expense adjustments and structural reform will be required for the Council to meet its medium and long term obligations and to be able to manage any unforeseen financial shocks and adverse changes in Council business and general economic conditions. Difficulty in managing core risks.</td>
<td></td>
<td>Profit &amp; Loss Statement</td>
<td></td>
</tr>
<tr>
<td>2=Limited capacity to meet financial commitments in the short term and medium term and very limited capacity long term. Council is highly unlikely to be able to manage unforeseen financial shocks (without the need for some structural reform and major revenue/expense adjustments) and any adverse changes in Council business and general economic conditions. Managing core business risks may test Council's capacity.</td>
<td></td>
<td>Cash Flow Forecasts</td>
<td></td>
</tr>
<tr>
<td>3=Acceptable capacity to meet financial commitments in the short to medium term and a limited capacity in the long term. Council is unlikely to be able to manage unforeseen financial shocks (without the need for significant revenue/expense adjustments) and any adverse changes in Council business and general economic conditions. Difficulty may be experienced in managing core business risks.</td>
<td></td>
<td>QTC Financial Sustainability Review</td>
<td></td>
</tr>
<tr>
<td>4=High capacity to meet financial commitments in the short to medium term and an acceptable capacity in the long term. Council is expected to be able to manage unforeseen financial shocks (with minor to moderate revenue/expense adjustments) and any adverse changes in Council business and general economic conditions. The capacity to manage core business risks is acceptable.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5=High to very high capacity to meet financial commitments in the short, medium and long term. Council is highly likely to be able to manage major unforeseen financial shocks (without the need for any revenue/expense adjustments) and any adverse changes in Council business and general economic conditions. The capacity to manage core business risks is strong to very strong.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Possible Datasets:
- Financial Plan / Model
- Balance Sheet
- Profit & Loss Statement
- Cash Flow Forecasts
- QTC Financial Sustainability Review

Score
Size, Shape and Sustainability,
A Report on the Mirani Shire Council

### Revenue Base

**Description**

This indicator examines the strength of a Council's revenue base which underpins its ability to provide essential services and facilities.

Some factors affecting the long term sustainability of Council's revenue base include, population growth, population size and age dependency. These are external factors generally beyond the direct control of a Council.

**Key Question(s)**

- Is Council experiencing population growth or decline?
- Does Council have a high age structure dependency ratio?
- Does population size impact on capacity to efficiently use resources?

**Rules for Scoring**

<table>
<thead>
<tr>
<th>Population Growth Score</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1= -0.5% or greater</td>
<td>1</td>
</tr>
<tr>
<td>2= -0.5% to 0.5%</td>
<td>2</td>
</tr>
<tr>
<td>3= 0.5% to 1.5%</td>
<td>3</td>
</tr>
<tr>
<td>4= 1.5% to 2.5%</td>
<td>4</td>
</tr>
<tr>
<td>5= &gt;2.5%</td>
<td>5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Age dependency Score</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1= &gt;60%</td>
<td>1</td>
</tr>
<tr>
<td>2= 45% to 60%</td>
<td>2</td>
</tr>
<tr>
<td>3= 35% to 45%</td>
<td>3</td>
</tr>
<tr>
<td>4= 25% to 35%</td>
<td>4</td>
</tr>
<tr>
<td>5= &lt;25%</td>
<td>5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Population Base Score</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1= &lt;3,000</td>
<td>1</td>
</tr>
<tr>
<td>2= 3,000 to 6,000</td>
<td>2</td>
</tr>
<tr>
<td>3= 6,000 to 10,000</td>
<td>3</td>
</tr>
<tr>
<td>4= 10,000 to 15,000</td>
<td>4</td>
</tr>
<tr>
<td>5= &gt;15,000</td>
<td>5</td>
</tr>
</tbody>
</table>

**Score for Revenue Base**

\[
\text{Score for Revenue Base} = \frac{(\text{Population Growth Score} + \text{Age Dependency Score} + \text{Population Base Score})}{3}
\]

**Possible Datasets**

- Australian Bureau of Statistics
- State and Statistical Division Populations Projections

---

1 The IRF will work with QTC to provide an overall 1 - 5 score for this indicator.
### Rating Capacity

**Description**
This indicator examines whether a Council is utilising its rating capacity to generate sufficient own source revenue to ensure financial flexibility.

An increasing reliance on external grants and subsidies (in lieu of rate increases) to meet the cost of providing essential services and facilities diminishes a Council's ability to respond to changing circumstances and demands.

Currently, there are no positive signs in relation to increased Financial Assistance Grants (FAGs) to reduce pressure on rating effort.

**Key Question(s)**
- Does Council increase rates by at least CPI each year?
- How flexible is Council's revenue base?

**Rules for Scoring**

<table>
<thead>
<tr>
<th>Revenue Ratio Score</th>
<th>Rating Policy Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1= Revenue ratio &lt; 25%</td>
<td>General + separate rates per capita increase &lt; 2 % p.a.</td>
</tr>
<tr>
<td>2= Revenue ratio 25% to 40%</td>
<td>General + separate rates per capita increase 2% to 3% p.a.</td>
</tr>
<tr>
<td>3= Revenue ratio 40% to 55%</td>
<td>General + separate rates per capita increase 3% to 4% p.a.</td>
</tr>
<tr>
<td>4= Revenue ratio 55% to 70%</td>
<td>General + separate rates per capita increase 4% to 5% p.a.</td>
</tr>
<tr>
<td>5= Revenue ratio &gt; 70%</td>
<td>General + separate rates per capita increase &gt; 5 %</td>
</tr>
</tbody>
</table>

**Score for Rating Capacity**

\[
\text{Score for Rating Capacity} = \frac{(\text{Revenue Ratio Score} + \text{Rating Policy Score})}{2}
\]

**Possible Datasets**
- Council Annual Budget
- Council Annual Financial Statements
- Rating Policy

---

2 The IRF will work with QTC to provide an overall 1 - 5 score for this indicator.
### Asset Sustainability

**Description**

This indicator examines a Council’s capacity to manage and sustain its infrastructure assets. Infrastructure assets represent a major investment by Councils and provide key services to local communities. In the past, many Councils have obtained grants in order to provide much needed infrastructure. Over time these assets age and require refurbishment and upgrade. Unless effectively budgeted for, it is often difficult to find the resources needed to maintain the infrastructure at a desirable standard.

In some Councils there is a limited appreciation or knowledge of what assets Council owns, their condition, level of service and whole of life cost. All this information is vital for effective asset management and good decision making by Council in relation to the sustainability of its infrastructure assets.

Most significantly, the decisions regarding infrastructure acquisition and maintenance made today, will also impact on future Councils and the communities they serve.

The International Infrastructure Management Manual (2002) defines an Asset Management Strategy as:

“A strategy for asset management covering the development and implementation of plans and programs for asset creation, operation, maintenance, rehabilitation l replacement, disposal and performance monitoring to ensure that the desired level of service and other operational objectives are achieved at optimum cost.”

**Key Question(s)**

- Does Council have the capacity to manage and sustain its infrastructure?
- Does Council evaluate whole of life cost before accepting grants and subsidies for asset projects?

**Rules for Scoring**

<table>
<thead>
<tr>
<th>Score</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1=</td>
<td>Council has no credible Asset Management Strategy nor has it been implemented.</td>
</tr>
</tbody>
</table>
| 2=    | Council has an out of date Asset Management Strategy that it partially implemented: The strategy:  
- Could be linked to the corporate plan; and  
- Provides a process for assessing and recording the condition of some assets. |
| 3=    | Council has mostly implemented a documented Asset Management Strategy that:  
- Is linked to the corporate plan;  
- Loosely considers whole of life cost; and  
- Provides a process for regularly assessing and recording the condition of some assets. |
| 4=    | Council has implemented a well documented and up to date Asset Management Strategy that:  
- Is linked to the corporate plan;  
- Mostly considers whole of life cost; and  
- Provides a process for regularly assessing and recording the condition of all assets. |
| 5=    | Council has implemented a well documented up to date whole of organisation Asset Management Strategy that:  
- Is linked to the corporate plan;  
- Considers whole of life cost; and  
- Provides a process for regularly assessing and recording the condition of all assets. |

**Possible Datasets**

- Percent of Unfunded Depreciation
- No. of Sewer Breaks per 100km of Main Road
- Condition Data
- Customer Complaints
- Annual Budget
### Levels of Service

<table>
<thead>
<tr>
<th>Description</th>
<th>This indicator examines a Council's capacity to supply and match the level of service provided by an asset with the expectations of the community. The International Infrastructure Management Manual (2002) defines Level of Service as: &quot;The defined service quality for a particular activity or service area against which service performance may be measured. Service levels usually relate to quality, quantity, reliability, responsiveness, environmental acceptability and cost.&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key Question(s)</td>
<td>• Is Council able to provide the community with the expected level of service?</td>
</tr>
</tbody>
</table>
| Rules for Scoring | **1=** Council does not monitor or report on the condition and performance of any assets against identified service levels and does not understand the likely future levels of service required.  
**2=** Council sometimes monitors and reports on the condition and performance of some assets against poorly defined service levels and has little understanding of the likely future levels of service required based on population growth / decline, demographic change and community expectations.  
**3=** Council sometimes monitors and reports on the condition and performance of some assets against poorly defined service levels and has little understanding of the likely future levels of service required based on population growth / decline, demographic change and community expectations.  
**4=** Council monitors and reports on the condition and performance of all assets against identified service levels and has some understanding of the likely future levels of service required based on population growth / decline, demographic change and community expectations.  
**5=** Council regularly monitors and reports on the condition and performance of all assets against identified service levels and understands the likely future levels of service required based on population growth / decline, demographic change and community expectations. |
| Possible Datasets | Customer Complaints  
Existing Community Surveys  
Various Legislative Requirements—Total Management Plans (TMPs), Strategic Management Plans (SAMPs) |
| Score |  |
## Human Resourcing

<table>
<thead>
<tr>
<th>Description</th>
<th>This indicator examines a Council's ability to attract and retain suitably qualified staff to fill key positions across a range of disciplines (CEO, Planning, Engineering, Environmental Health, Finance and Administration). The LGAQ/LGMA study of CEO recruitment and retention identified problems for rural and remote Councils in recruitment of suitably qualified personnel for CEO positions. A recent study of the Environmental Health profession(^3) shows that there is less than one environmental health officer position required, on average, to service a Local Government population of 10,000 people. The capacity to attract and retain required human resources is a key indicator of the need to look at structural reform options.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key Question(s)</td>
<td>• How difficult is it for Council to obtain and retain required human resources?</td>
</tr>
</tbody>
</table>
| Rules for Scoring | 1= Significant difficulties in recruiting/retaining CEO/senior staff  
2= Some difficulties in recruiting/retaining CEO/senior staff.  
3= Occasional/limited difficulties in recruiting/retaining senior staff but limited applicants.  
4= No difficulties in recruiting/retaining senior staff but limited quality applicants.  
5= No difficulties in recruiting/retaining senior staff and extensive range of quality applicants. |
| Possible Datasets | Staff Turnover Rates  
Staff Service Profiles  
Recruitment Costs  
Staff Training Costs |
| Score | 3 |

# Cross Border Use of Council Services

## Description

This indicator examines the extent to which the residents of a Council utilise services and facilities (recreation, libraries, aerodromes, refuse, etc) provided by a neighbouring Council(s).

There are many situations where residents of one Council make significant use of services and facilities in other Council areas where there are no formal arrangements to equitably spread the cost burden across the various user groups.

A lack of such formal arrangements where significant cross-border service use of Council services exists is a clear indicator of a need to consider structural reform options.

## Key Question(s)

- Is there significant cross border use of Council services?

## Rules for Scoring

<table>
<thead>
<tr>
<th>Score</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1=</td>
<td>Very significant use of facilities/services (e.g. library, cultural, recreational, waste, traffic and parking facilities) of other Councils by this Council's residents and no comprehensive formal arrangements in place to achieve equitable distribution of costs and benefits.</td>
</tr>
<tr>
<td>2=</td>
<td>Significant use of facilities/services (e.g. library, cultural, recreational, waste, traffic and parking facilities) of other Councils by this Council's residents and no comprehensive formal arrangements in place to achieve equitable distribution of costs and benefits.</td>
</tr>
<tr>
<td>3=</td>
<td>Significant use of this Council’s facilities/services (e.g. library, cultural, recreational, waste, traffic and parking facilities) by residents of other Councils and no comprehensive formal arrangements in place to achieve equitable distribution of costs and benefits.</td>
</tr>
<tr>
<td>4=</td>
<td>Relatively limited use of this Council's facilities/services by non residents or use of other council's facilities or services by this Council's residents, Or Comprehensive formal arrangements in place to achieve equitable distribution of costs and benefits where use is significant.</td>
</tr>
<tr>
<td>5=</td>
<td>Relatively high level of self containment and no cross border use issues.</td>
</tr>
</tbody>
</table>

## Possible Datasets

- Existing Community Surveys
- Recreation Organisational Membership
- Library Membership Records
- Grants Commission Data
### SSS INDICATOR CATEGORY # 2: COMMUNITY OF INTEREST

#### Service Centre and Community Linkage

| Description | This indicator examines the extent to which Council boundaries impact upon the identification and/or division of a Community of Interest. Where there is extensive commuting between one area and another, the community of interest may be weakened because individuals have an interest in two or more Council areas but feel unable to influence decisions in the area where they are not an elector. The availability of important health, education and related services indicates whether residents of a Council area are likely to visit other Council areas on a regular basis as well as indicating the degree of self-containment of an area. Communities with a district hospital facility (say more than 30 beds) and a full secondary school are likely to be more self-contained on a community of interest basis as well as enhancing the prospects of attracting professional staff. Strong interaction with other centres for work, education, social, recreational or shopping activities is likely to erode the cohesiveness of a community and their participation in local affairs. |
| Key Question(s) | • Is there a major service centre within the Council area? • How strong are community linkages within the Council area? |
| Rules for Scoring | **Service Centre Linkage**<br>1= Very significant use of health, education and shopping facilities located in another Council area.<br>2= Relatively high level of use of health, education and shopping facilities located in another Council area.<br>3= Moderate level of use of health, education and shopping facilities located in another Council area.<br>4= Relatively self contained health, education and shopping facilities located in this Council area.<br>5= A major service centre for health, education and shopping facilities for those from another Council area.<br>**Community Linkage**<br>1= Very significant employment, leisure and social links with another Council area.<br>2= Relatively significant employment, leisure and social links with another Council area.<br>3= Moderate employment, leisure and social links with another Council area.<br>4= Relatively high proportion of employment, leisure and social links are within Council area.<br>5= Council area acts as major center for employment, leisure and social activities for those from another Council area. |
| Service Centre and Community Linkage Score = | (Service Centre Linkages Score + Community Linkages Score) / 2 |
| Possible datasets | Traffic Counts<br>Community Profile/Surveys<br>Social Atlas<br>ARIA<br>SEIFA<br>Australian Bureau of Statistics |
| Score | }
Community Engagement

**Description**
This indicator examines how well a Council engages its community.

Where a community feels a strong sense of involvement in or engagement by their Council, the existing governance arrangements are likely to be more sustainable. On the other hand, where the community feels little empathy for their elected Council and its leadership role in the development of their community, this may be an indicator of a need to consider structural change.

The LGAQ defines community engagement as:
“Connections between governments, citizens and communities on a wide range of policy, program and service issues. It can be formal or informal. Community engagement contains the key elements of information, consultation and participation.”

**Key Question(s)**
- Does Council engage its community in local governance issues using the elements of information, consultation and participation?
- How satisfied is the community in the leadership and advocacy roles of Council?

**Rules for Scoring**

<table>
<thead>
<tr>
<th>Score</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1=</td>
<td>No real efforts to engage the community through use of community engagement methods which support the elements of information, consultation and participation.</td>
</tr>
<tr>
<td>2=</td>
<td>Some effort to engage the community through use of community engagement methods which support the elements of information, consultation and participation. Outcomes reveal low levels of satisfaction with Council performance.</td>
</tr>
<tr>
<td>3=</td>
<td>Good engagement of the community through use of community engagement methods which support the elements of information, consultation and participation. Outcomes reveal average levels of satisfaction with Council performance.</td>
</tr>
<tr>
<td>4=</td>
<td>Strong engagement of the community through use of community engagement methods which support the elements of information, consultation and participation. Outcomes reveal high levels of satisfaction with Council performance.</td>
</tr>
<tr>
<td>5=</td>
<td>Strong and regular engagement of the community through use of community engagement methods which support the elements of information, consultation and participation. Outcomes reveal very high levels of satisfaction with Council performance.</td>
</tr>
</tbody>
</table>

**Possible Datasets**
Existing Community Surveys
Current Community Engagement Plans
Community Complaints Register

Score
### SSS INDICATOR CATEGORY #3: PLANNING

<table>
<thead>
<tr>
<th>Service Coordination Efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
</tr>
</tbody>
</table>

**Key Question(s)**
- Is key infrastructure coordinated and proving efficient services?

**Rules for Scoring**

1= Significant duplication of infrastructure such as water, sewer, solid waste, cultural and recreational facilities across Council areas or a region as a result of current boundary arrangements and a lack of effective joint arrangements.

2= Some duplication of infrastructure such as water, sewerage, solid waste, cultural and recreational facilities across Council areas or a region as a result of current boundary arrangements and lack of effective joint arrangements. This duplication may be expected to increase with population growth.

3= Joint arrangements across Council areas or the region have reduced the likelihood of duplication or inefficiency in infrastructure such as water, sewerage, solid waste, cultural and recreational facilities but problems could be expected as growth occurs.

4= Joint arrangements across Council areas or a region have minimised duplication and inefficiency in infrastructure such as water, sewerage, solid waste, cultural and recreational facilities, with few problems expected as growth occurs.

5= Full coordination and integration across Council areas or the region of infrastructure such as water, sewerage, solid waste, cultural and recreational facilities and is capable of meeting future growth.  
**OR**  
Council area is independent from neighbouring Councils in all key infrastructure services, with no impacts from boundaries in planning or provision of infrastructure to meet future population growth and no efficiencies available through joint arrangements.

**Possible Datasets**
- Local Government Planning Schemes Priority Infrastructure Plans (PIPs)
- Regional Planning Strategies/Frameworks
- Integrated Regional Transport Plans (IRTPs)
- Regional Growth Management Strategy

<table>
<thead>
<tr>
<th>Score</th>
</tr>
</thead>
</table>
## Growth Management

### Description
This indicator examines how well a Council is able to respond to and manage population growth impacting on its area.

Where urban or rural residential overspill in one Council area is impacting on a neighbouring Council area(s) then enhanced structural arrangements may be required.

While regional planning arrangements are intended to assist in required coordination, these do not have a statutory basis (other than South East Queensland) and rely on voluntary coordination arrangements.

### Key Questions
- How well can growth be managed having regard to the policies of neighbouring Councils?

### Rules for Scoring

<table>
<thead>
<tr>
<th>Score</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Population growth/development in neighbouring Council areas has had, and will continue to have, very significant impacts on this Council or growth/development within this Council area has had, and will continue to have very significant impacts on neighbouring Councils.</td>
</tr>
<tr>
<td>2</td>
<td>Population growth/development in neighbouring Council areas will have significant impacts on this Council or growth/development within this Council area will have significant impacts on neighbouring Councils.</td>
</tr>
<tr>
<td>3</td>
<td>Population growth/development in neighbouring Council areas will have some impacts on this Council or growth/development within this Council area will have some impacts on neighbouring Councils.</td>
</tr>
<tr>
<td>4</td>
<td>Population growth/development in neighbouring Council areas has very limited impacts on this Council or growth/development within this Council area has very limited impacts on neighbouring Councils.</td>
</tr>
<tr>
<td>5</td>
<td>Population growth/development in neighbouring Council areas has this Council or growth/development within this Council area has neighbouring Councils.</td>
</tr>
</tbody>
</table>

### Possible Datasets
- Local Government Planning Schemes
- Priority Infrastructure Plans (PIPs)
- Regional Planning Strategies/Frameworks
- Integrated Regional Transport Plans (IRTPs)
- Regional Growth Management Strategies
- State and Statistical Division - Populations Projections.
### Decision Making & Management

**Description**
This indicator examines a Council's level of competence relating to three key decision making and management processes.

Effective internal decision making and management are vital to a Council's performance and stewardship role.

**Key Question(s)**
- Can Council demonstrate good standards of governance in relation to its key internal decision making and management practices?

**Rules for Scoring**

<table>
<thead>
<tr>
<th>Rules for Scoring</th>
<th>Corporate Planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>1=</td>
<td>Corporate &amp; operational plans exist only to meet the basic requirements of the Local Government Act 1993.</td>
</tr>
<tr>
<td>2=</td>
<td>Limited use of corporate &amp; operational plans to guide decisions of Council and no linkage of strategic documents</td>
</tr>
<tr>
<td>3=</td>
<td>Recognition of importance of corporate &amp; operational plans but only limited linkage and use in decision-making.</td>
</tr>
<tr>
<td>4=</td>
<td>Corporate &amp; operational plans integrated and recognised by Councillors and senior management as important decision-making tools.</td>
</tr>
<tr>
<td>5=</td>
<td>Corporate and operational plans well integrated, up-to-date and used actively throughout the year in decision-making.</td>
</tr>
</tbody>
</table>

**Risk Management**

<table>
<thead>
<tr>
<th>Rules for Scoring</th>
<th>Council has a well defined risk management policy which supports the Australian and New Zealand Standard (AS - NZ S4360:2004) and internal control system which is reviewed on a regular basis.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1=</td>
<td>Council has no risk management policy or internal control system</td>
</tr>
<tr>
<td>2=</td>
<td>Council has an out of date basic risk management policy and no real internal control system.</td>
</tr>
<tr>
<td>3=</td>
<td>Council has a risk management policy and internal control system which is reviewed on an annual basis.</td>
</tr>
<tr>
<td>4=</td>
<td>Council has a risk management policy which supports the Australian and New Zealand Standard (AS - NZ S4360:2004) and internal control system which is reviewed on an annual basis.</td>
</tr>
<tr>
<td>5=</td>
<td>Council has a well defined risk management policy which supports the Australian and New Zealand Standard (AS - NZ S4360:2004) and internal control system which is reviewed on a regular basis.</td>
</tr>
</tbody>
</table>

**Delegations**

<table>
<thead>
<tr>
<th>Rules for Scoring</th>
<th>Delegation Register up to date with extensive delegation to appropriate level across organisation.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1=</td>
<td>No up to date Delegation Register and no delegation of authority below CEO.</td>
</tr>
<tr>
<td>2=</td>
<td>No up to date Delegation Register and limited delegation of authority below CEO</td>
</tr>
<tr>
<td>3=</td>
<td>Delegation Register up to date with limited delegation across organisation.</td>
</tr>
<tr>
<td>4=</td>
<td>Delegation Register up to date with appropriate delegation across most of organisation</td>
</tr>
<tr>
<td>5=</td>
<td>Delegation Register up to date with extensive delegation to appropriate level across organisation.</td>
</tr>
</tbody>
</table>

**Score for Decision Making & Management**

\[
\text{Score for Decision Making & Management} = \frac{(\text{Corporate Planning Score} + \text{Risk Management Score} + \text{Delegations Score})}{3}
\]

**Possible Datasets**
Corporate plan  
Risk Management Policy  
Delegation Register
## Accountability

**Description**
This indicator examines how a Council accounts for its key activities and what systems and processes are in place to support this accountability.

**Key Question(s)**
- Can council demonstrate good standards of governance in relation to its accountability practices?

### Performance Management

<table>
<thead>
<tr>
<th>Score</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Council has no performance management process.</td>
</tr>
<tr>
<td>2</td>
<td>Council has an ad-hoc performance management process, but does not report on a regular basis.</td>
</tr>
<tr>
<td>3</td>
<td>Council has a basic performance management process and reports annually on its performance</td>
</tr>
<tr>
<td>4</td>
<td>Council has a performance management process which reports against the corporate and operational plan on an annual basis.</td>
</tr>
<tr>
<td>5</td>
<td>Council has a well defined performance management process which reports against the corporate and operational plan on a regular basis.</td>
</tr>
</tbody>
</table>

### Internal Audit Process

<table>
<thead>
<tr>
<th>Score</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Council has no audit committee or internal audit plan.</td>
</tr>
<tr>
<td>2</td>
<td>Council has an loosely defined audit committee, but no real internal audit plan.</td>
</tr>
<tr>
<td>3</td>
<td>Council has an audit committee and basic internal audit plan.</td>
</tr>
<tr>
<td>4</td>
<td>Council has an audit committee and internal audit plan which mostly functions in line with the relevant statutes and regulation.</td>
</tr>
<tr>
<td>5</td>
<td>Council has an audit committee and internal audit plan which has been endorsed by Council and functions in line with the relevant statutes and regulations.</td>
</tr>
</tbody>
</table>

**Score for Accountability**
\[
\text{Score} = \frac{\text{Performance Management Score} + \text{Internal Audit Process Score}}{2}
\]

### Possible Datasets
- Corporate Plan
- Performance Management Strategy/System
- Internal Audit Plan

**Score**
APPENDIX 2: LIST OF ORGANISATIONS CONSULTED

- Eungella Business Group
- Gargett Q CWA
- Gargett District Community Development Association
- Mirani Sugar Valley Lions Gargett Board
- Central Region Rural Innovation & Support (CRRIS)
- LMAC
- PCAL
- AFG
- Pioneer Valley Machinery Pres. Soc. Inc.
- Finch Hatton/Marian Combined Parish Council (Catholic)
- Valley District Family Day Care
- Catholic Church
- Lifeline Mackay-Whitsunday
- Marian Interest Group
- Mirani Museum
- Broken River Mountain Resort
- Pioneer Valley Tourism & Development Assoc Inc
- Mirani Rotary Club
- Valley Theatrical Players Inc
- Mackay Sugar Cooperative Assoc. Ltd.
- Finch Hatton Rural Fire Brigade
- Ministerial Forum Member
- Cane Growers
- Pioneer Valley Water Board
- General Community
- Gargett Community Dev. Assoc
- General Community area
- Whitsunday Hinterland & Mackay Bowen Regional Organisation of Councils (WHaMB ROC)
## APPENDIX 3: COMMUNITY SURVEY

**Question 1:** Please tick one box in each set of columns. You should answer for each member of your household.

<table>
<thead>
<tr>
<th>FACILITY or SERVICE</th>
<th>Have you used?</th>
<th>Importance to YOU</th>
<th>Council’s Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
<td>None</td>
</tr>
<tr>
<td>1. Road maintenance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Footpath maintenance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Drainage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Park facilities &amp; maintenance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Sporting fields</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Swimming pools</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Public toilets provision &amp; maintenance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Street lighting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Garbage collection</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Animal control</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Tourism promotion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Library services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18. Aged Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20. Youth services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21. Information about decisions &amp; projects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22. Consultation with the community</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23. General courtesy of Council staff</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24. Responsiveness to complaints</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**What is your assessment of Council’s overall performance?**
**Question 2:** Bearing in mind Council’s restricted financial situation, please list any facilities or services that you think need urgent improvement.

Your suggestions:

A.  

B.  

C.  

D.  

**Question 3:** Are there any facilities or services that Council does not provide that you believe it should?

Your suggestions:

A.  

B.  

C.  

D.  

**Question 4:** What do you like most about Mirani Shire?

Your suggestions:

A.  

B.  

C.  

D.  

**Question 5:** What do you like most LEAST about Mirani Shire?

Your suggestions:

A.  

B.  

C.  

D.
Question 6: Can you suggest any advantages with Mirani Shire merging with any of its neighbours?

Your suggestions:

A. 

B. 

C. 

D.

Question 7: Can you suggest any disadvantages with Mirani Shire merging with any of its neighbours?

Your suggestions:

A. 

B. 

C. 

D.

Items for discussion

Looking at the future of Mirani Shire Council, we would be interested in obtaining your views on the following options:

- The status quo - Mirani Shire to continue operating as it currently does, well into the future
- Shared Services - Mirani Shire integrating its back office functions with one or more of its neighbouring councils
- Stronger more dynamic Regional Organisation of Councils (ROC) - increase the political lobbying and sharing of resources and ideas across WHaMD ROC (Belyando, Bowen, Broadsound, Mackay, Mirani, Nebo, Peak Downs, Sarina & Whitsunday councils)
- Boundary Changes - undertake minor boundary changes increasing/decreasing the size of Mirani Shire
- Amalgamation - merge Mirani Shire with Mackay City Council
- Other options?
APPENDIX 4: SURVEY RESPONSES

Question 2. Bearing in mind Council’s restricted financial situation, please list any facilities or services that you think need urgent improvement.

- Toilets (Position)
- Van Parks
- Roads
- Access to camping
- Traffic signs Re: Noise
- Drainage
- Quality of drinking water (in Mirani)
- Recycling of reusable rubbish
- I live in a rural area. I consider that road improvement lags behind progress as the shire develops. I live beside a major district road which has been upgraded once in my living memory of 70 years
- More cooperation between council, the State Government and local organisations (Mackay sugar) would be desirable
- Better and safer roads
- Waste management/Recycling services and support for people with disabilities.
- More innovative and flexible approach to provision of water
- Disabled toilets in Gargett
- Sealed roads on school bus routes
- All bus routes should be bitumen
- Tourists travel back roads through Eton – dirt road
- Library needs expanding
- Toilets
- Medical Facilities
- Lower rental housing
- Waste facility management
- Road maintenance & drainage
- Upgrade of old inadequate infrastructure
- Road improvement
- Bus service
- Standard of shire roads
- Road Maintenance for general safety
- Access to walking tracks and signage
- Waste Recycling
- Property numbering for emergency purposes
- Road numbering
- Beautification and regular cleaning of public toilets on the Valley to create a good impression to tourists (e.g. Murgon, Wondah)
- Clearing up and planning of camping facilities at Grediton Hall to co exist with National Parks
- The development of the Pipe Line Road to all wheel drive vehicles
- Removal of council infrastructure and beautification of the “EDGE” at the Eurgdale oval and to develop that into picnic areas and boardwalk with views down the valley.
- Medical Services
- Weed control
- Methods of controlling grass naturally (e.g. steam)
- Some of the roads rated as “low priority” (understanding recourses constraints)
- Weed control in outlying areas of shire
- Communication of planning priorities to relevant organisations
- Drainage of main road in Maria from services – school
- Street cleanliness (gutters)
- Subsidy for transport (e.g. bus to Mackay on Saturdays for youth employment)
- Utilise Mackay facilities for recycling
- Improve/new parks to attract tourists and exercise for locals
- Connect up footpaths and bikeways to encourage exercise
- Provision of land for integrated service centre
- Road and footpath maintenance/construction/upgrade
- Finalise Marina Sewerage scheme
- Encourage tourism related industries
- Waste reticulation
- Mirani Library and museum need more space
- Storm water drainage needs urgent upgrade throughout shire
- Feeder Road maintenance
Question 3. Are there any facilities or services that Council does not provide that you believe it should?

- Bus Service (daily & often)
- Better water supply
- Community centre/hub – with office space for various small community groups (e.g. Lifeline, Community Health, Family Day Care) could all share same facilities at reduced cost.
- Indoor sports – gym in particular (can Council assist the establishment of such a facility?)
- I am happy with council services, except that their garbage service could be extended. Council is easy to consult and are well organised in their shire office.
- Leadership in climate change management control
- More bio-logical and alternative methods of weed control, other than using synthetic chemicals
- More support and leadership for improving soil health, human health and enhancing water quality.
- An area with suitable cooking facilities (e.g. BBQ for tourists and locals to meet, in each small town)
- Budget accommodation for tourists
- Playground at Gargett
- Caravan stop over similar to Home Hill
- Chemist shop centrally situated
- Playground near Melba House
- Community housing
- Services for the elderly in remote areas – Blue Nursing
- Information for new business or enterprises on what is required by council before DA is required (outline of processes)
- Public areas and sports fields
- Truck (MDR) stop on outskirts of Marian
- Regular Street sweeping
- Signs on streets
- Signs for trucks using loud brakes
- Accommodation is one of the biggest issues in this area. Perhaps council could have a role in provision of low cost housing.
- Facilities for youth (e.g. multi purpose complex)
- NO
- Mobile Library
- NO
- Mobile library
- Council minutes on web site are too general
- Although a number of services are provided in Mirani town, it is accepted that it is not economical e.g. to provide same in Marian.
Question 4. What do you like most about Mirani Shire?

- People
- Ease of contact
- Services provided
- Self controlled
- Natural areas – Eungella, Finch Hatton, River areas maintained
- Council’s community consultation & information sharing
- Presentation – Parks, riverside area at Marian, walking tracks is a priority
- I like living in a rural area. It has good climate and friendly people. I have lived in this locality all my life and I do not intend to move unless for failing health.
- Friendly atmosphere
- Strong support of community events (e.g. having the remotest idea conference in 2005)
- Close nit
- Openness. Willingness to undertake this review and seek community consultation.
- Looking ahead
- Low key personal touch
- Good office
- Prompt response ability
- Open and accountable
- Topography allows for a compact entity
- Extremely pleasant surroundings
- Vibrant Communities
- Smaller Council size allows for more face to face contact with communities
- Scenery
- People
- Good cane growing area
- Growing population
- Central position
- Willing to listen to community members
- Centrally located office: easy access
- Employment of local people in workforce
- The relaxed lifestyle
- The beauty of the natural surroundings
- The people of which a certain few are active in striving for a better community and good to work with
- The council staff and the Mayor for being proactive and proud of their region
- Community friendly
- Desire for excellence
- Support for community groups
- Accessible to the rate payer
- Approachability
- Accessability to planning information/assistance if requested
- The staff on the phones – good people skills
- Community involvement and support
- Provides a good mix of services
- Councillors always ready to listen to rate payer problems
- Accessability of council & services
- Roads though not 100% area kept clean
- Shire has great natural beauty
- Potential for tourism
- Small communities and large urban allotments
- Clean air
- Compact shire
- Rural shire
- Friendliness of staff
- Space
- Bigger building blocks
- Country lifestyle
- Does reasonably well with limited rate base.
Question 5. What do you like most LEAST about Mirani Shire?

- No regular bus service
- No Centrelink office
- No Broadband outside Mirani
- Paying of all water usage
- No incentive to use alternative energies
- High rates
- Some systems are slow
- Drinking water
- Drainage
- Some years ago council changed the method of rate assessment for cane farms. Cane farms in marginal cane growing areas are now paying cane farming rates on all land, in some cases cane will never be grown on land rated as cane growing – I consider this to be unfair
- Use of dangerous herbicides (to humans, water quality, agriculture and tourism alone roads and footpaths
- Perceived and real problems for small farmers, small developers with sub-division and development applications (partly state government)
- The lack of communication still exists between towns.
- Difficulty in dealing with building and development
- Traffic in Marian
- Poor roads, footpaths
- No bikeways
- Use of herbicide along roads
- Transport (public)
- Difficult to come up with a genuine complaint
- The way council has done things in the past, like lack of consulting on decision making
- Getting the whole community involved
- High rates when we are so far from hospitals and medical services
- Processes seem to take a long time (probably same as elsewhere)
- Never seems to be money for anything!
- Ability to support growing population
- Spread out (small communities)
- No big business other than sugar.
- Level of rates on rural properties compared with other shires.
- Standard of repair of rural roads
- Extra money required to keep towns clean
- Lack of ancillary medical services – dental, pharmacy
- Single road main access to Mackay city passes through the centre of all towns causing delays and danger to pedestrians from speeding motorists
- A little too small
- Rate base too small
- No public transport
Question 6. Can you suggest any advantages with Mirani Shire merging with any of its neighbours?

- Pooling of financial resources and skills
- NO – I have witnessed the decline in services in areas of Pioneer shire since it amalgamated with Mackay City – I would not like to see this happen to Mirani Shire – Rubbish disposal may have to become regional.
- Sharing of services (e.g. weed control, pest control)
- Possible advantages through economics of scale
- Greater lobby power to shire
- Hopefully not as top heavy as Mackay City = 3 staff to one worker
- Use of MacKay’s garbage and recycling facilities
- Pooling facilities for tourism development
- More resources to share around (in theory)
- Facilitate looking at region as a whole/more broad perspective
- Large cross-over with employment (e.g. people live here but work in Mackay or Coalfields). Larger district could even out problems related to this.
- Shared facilities (e.g. waste management)
- NONE NO
- Basically = NO
- Possibility of a greater rating/revenue base
- Waste management
- Economy of scale
- Sharing of skills/expertise – ability to attract quality people
- Larger source of income
- Meet the challenge of expanding area.
- Would have a larger base for revenue
- Sharing costs in certain areas
- Decrease in annual rates
- A larger commercial precinct to boost rates revenue
- Increase size for rating purpose
- NO
- More efficient use of resources (staff, plant and technology etc.)
Question 7. Can you suggest any disadvantages with Mirani Shire merging with any of its neighbours?

- We will become like second cousins
- More money spent in larger area (e.g. SE QLD)
- Other areas may need services which we don’t but we have to pay
- Possible lack of communication
- Disadvantage due to our size, lot of Mackay don’t know where some of our towns are or have never been here.
- Become non existent like Pioneer is to Mackay
- Loss of identity
- We appear to have a council that works well together with good leadership and well regarded by community – this may change
- Our representations on council would suffer as has happened in neighbouring shires.
- Decisions taken away from local people
- May divide communities
- More area to cover with maintenance schedules etc.
- Fears of larger centre’s takeover rather than genuine merger.
- Less personal
- Change of priorities (town vs country)
- $ go to where people live
- More options for where $ to be spent
- Could loose local grass routs involvement
- Could leave rural industries, the poor cousins of a larger shire
- Loss of representatives and therefore input into discussions
- Rate payers problems could be neglected
- Urban areas concerns ahead of rural areas
- Lack of population means little influence by small communities, in a large local government
- Council staff and councilors are less likely to offer individual response
- Not so bad if with another rural shire, but not Mackay city.
- Potentially poorer services
- Loss of representation
- Risk of decisions being made “outside Mirani
- Focus may be lost on important local issues
- Outlying areas lost in the system
- Eungilla township would be forgotten about as too far away.
- Large shires may become too impersonal
- Not understanding needs of its constituents
- If MSC were to merge with a neighbouring shire my concern would be that areas which are already outlying would become further marginalized.
- Less autonomy and influence to councils administration
- Greater lobby power to shire would be offset by a loss of prominence of some areas within more marginal shires.
- Seen how Pioneer shire has been neglected. We would be left behind all road money goes into town.
- Not confident in Mackay’s management ability!
- Less populated or more remote areas may be neglected
- Loss of local identity, uniqueness. Would not like to see us “swallowed up” by Mackay – would still need strong local body to represent issues of this area.
- Similarly, if we were to merge with Coalfields district – needs of this area would adversely affect us (e.g. their accommodation problems already affect us).
- Firmly opposed – top heavy – impersonal – slower movement
- Poorer councilor representation
- Larger area – council staff and councilors unable to address/view all problems
- Larger area – more council infrastructure required – roads, bridges, dumps etc.
- Larger council – councilors and staff want/demand higher pay.
- Can loose some of its power at board room
- Loss of identity
- Distant management