PRINCIPLES FOR VOLUNTARY MERGERS
REPORT

February 2010
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Membership of the Local Government Board

The Local Government Board is an independent body established under the Local Government Act 1993.

Local Government Board members involved in this review were:

MEMBERS

Brent Armstrong OAM  
Chairperson
Immediate past General Manager of the Hobart City Council, a position held from 1997-2008

Lynn Mason  
Local Government Association of Tasmania nominee
Past President of the Local Government Association of Tasmania and Mayor of the Flinders Council, 1996-2002

Paul West  
Local Government Managers Australia nominee
Current General Manager of the Kingborough Council and former General Manager of the Waratah-Wynyard Council

Liz Gillam  
Member with local government experience
Formerly Deputy Director of Local Government and senior policy practitioner at the Local Government Association of Tasmania

Alistair Scott  
Director of Local Government

EXECUTIVE SUPPORT

Rachel Nielsen  
Project Manager

Patricia Zapotocky  
Executive Officer

Margaret Young  
Executive Assistance
Executive Summary

Background

In July 2009, the Local Government Board commenced a specific review of a potential voluntary merger between the Break O’Day and Glamorgan-Spring Bay Councils. This process was initiated by the Minister for Local Government, acting at the request of the two councils.

The Minister requested that the scope of the review include guiding principles providing insight for further voluntary mergers.

The Board determined that it would conduct the review requested by the Minister in two stages:

**Stage 1:** a review of a potential merger of the two councils

**Stage 2:** the development of guiding principles providing insight into further voluntary mergers.

In relation to the proposed east coast merger, the Board recommended against a merger, as it concluded that the proposed single merged east coast council would not have been substantially more sustainable than the two existing stand-alone councils. Nor did the Board find evidence that, if a merger were to proceed, the position of the merged council would be strong enough to ensure against the prospect of further mergers in the region.

In the broader Tasmanian context, the Board also recommended that:

- the future of the Break O’Day Council and the Glamorgan-Spring Bay Council be considered as part of a future strategic examination of the structure of Tasmanian local government; and

- following the work currently being done by the Local Government Board on guiding principles, consideration of changes to the structure of Tasmania’s municipal areas should be undertaken in a holistic and inclusive manner and involve the State and local government in consultation with their communities.

The Board commenced the second stage of the review relating to Guiding Principles for voluntary mergers in November 2009.

As part of this process, the Board released a consultation paper seeking feedback from councils and other stakeholders including the general public. Feedback was specifically sought on six issues relating to the voluntary merger process and the long-term future of local government:

1. Developing merger proposals
2. Strategic analysis including construction of a feasibility study
3. Community consultation
4. Managing change
5. Limitations of voluntary mergers

In December 2009, the Board held consultation workshops with councils, in addition to public hearings in the three regions, seeking feedback on the matters raised in its consultation paper.
Reform Context

In developing the Guiding Principles and in considering future local government reform in Tasmania, the Board noted the evolving role and definition of local government nationally and the expansion of its functions. It also noted the growing pressures on local government including changing community expectations, cost-shifting from other levels of government and limitations on revenue-raising.

In the Tasmanian context, the Board particularly noted the 2006 report by Access Economics, *A Review of the Financial Sustainability of Local Government in Tasmania*, and the findings by the Auditor-General that a number of councils continue to budget for deficits.

The Board believes that the State Government’s current policy of no forced amalgamations has limited the merger options considered by councils to those initiated by the councils themselves. Further, it noted that the recent request for the review of the potential merger between the two east coast councils was the first to be referred to the Board for formal investigation.

The Board recognises the likely impact of the recent water and sewerage reforms on council revenues, and notes the work currently underway to implement nationally-consistent financial and asset management and planning frameworks.

Principles for Voluntary Mergers

The Board’s review of the potential voluntary merger between the Break O’Day and Glamorgan-Spring Bay Councils confirmed that councils need clear guidelines when considering this option.

The Board sought feedback from councils and the public on voluntary mergers including procedural steps and guiding principles.

Key themes emerging from the Board’s consultation with councils and the community included –

- the need for a clear impetus for action and a more positive attitude towards change
- local government is experiencing what it calls “reform fatigue”
- outcomes from recent reforms are still emerging and no further work on reform should be undertaken in the short-term
- councils have an important role in providing local representation and advocacy
- councils have limited capacity to fund the examination of reform options, and there is a need for the State Government to support the process.

The Board identified nine stages in a voluntary merger process, commencing with the “exploratory phase” during which councils consider the potential for a merger, and has created a detailed guide consisting of 16 key procedural steps.

As requested by the Minister, the Board has identified five guiding principles for voluntary mergers, and has recommended their approval. Responsibilities for local government and the State Government have been assigned under each of the guiding principles.
The recommended guiding principles are as follows:

**Principle 1: Collaborative assessment of options**
Councils should consider all the available reform options.

**Principle 2: Commitment**
Voluntary merger proposals should follow the 16-step process set out in this report. All parties should commit to the outcomes of this process.

**Principle 3: Resourcing**
Participants must provide adequate resources to ensure their capacity to see the process through.

**Principle 4: Consultation and Communication**
Information on the process, the proposals, the reasons for decisions and post-reform implementation must be communicated from the outset.
Consultation with ratepayers, community and all other interested parties including all councils must occur once the council has made its initial decision to investigate options for reform.

**Principle 5: Benefits and impacts of voluntary mergers**
A merger should only proceed where it will lead to:
- long-term financial sustainability, enabling a merged council to provide services that meet community expectations and statutory requirements
- benefits for the community which may include:
  - improved governance,
  - community capacity building
  - improved service delivery
  - improved management practices, including asset management and long-term financial planning and human resource management.

**Local Government Reform**
The Board identified a number of limitations in the current voluntary merger approach to local government reform in Tasmania.
These limitations include:
- A council wishing to explore merger options may be unable to find a willing partner.
- Adjacent council/s may be excluded from consideration in a proposal, regardless of the merits of their inclusion.
The model does not account for broader systemic issues that may require resolution at the state-wide level.

Reform proposals have significant impacts and State governments may be unwilling to consider recurring requests for voluntary merger reviews.

There is apparently limited potential for successfully achieving reform through voluntary mergers.

Vested interests within the sector may contribute to the likelihood of failure.

Noting these limitations, the Board considered alternative measures to enhance council capacity and sustainability. These included State Government-initiated amalgamations of councils and various resource-sharing options within the local government sector including regional arrangements.

The Board considered previous reform processes in Tasmania, including the major reforms achieved in 1993, and the varying levels of support for these processes from local government. It also noted interstate and international approaches to local government reform, ranging from forced amalgamation to voluntary resource-sharing arrangements.

Councils expressed the view to the Board that resource-sharing options should be explored before voluntary mergers are considered. A full scale analysis of the range of resource-sharing approaches interstate and internationally, and their applicability to Tasmania, has not been undertaken as part of this review and would require further work by the Board. However, the Board has identified that there are models of resource sharing that may have further applicability as reform options in Tasmania, including service provision on a commercial basis and regional resource sharing.

The Board notes that a statutory authority framework appears to promote longevity beyond alternative local resource-sharing arrangements, and that regional attempts at cooperation have had limited success. It is the Board's view that further work in this area would significantly assist dialogue on reform in the sector.

Conclusions

The Board considers that while voluntary mergers may be a useful tool for local government to consider in response to sustainability and capacity challenges, they are, by their nature, an ad hoc solution that can only deliver change to localised areas.

The Board believes a strategy with broader applicability to the sector is needed, and that in view of the limitations of the current ad hoc approach to voluntary mergers, a holistic approach to reform to put local government in Tasmania on to a more sustainable basis is required.

The Board considers that the State Government and local government sector should develop a co-operative approach to reform, focusing on the delivery of a shared vision for local government. The State and local government need to agree on how change can be brought about.

While the Board's consultations have highlighted that the sector is 'reform weary' and there is resistance to the introduction of further reform in the short-term, the Board's view is that, given the current pressures on local government, the preparatory research that is required for any review or reform should begin now. It notes that reforms have historically been lengthy processes, and that a significant body of analysis is required to inform further reform.

The reform process could commence with a review of the role and functions of local government, including the capacity of the current structure to deliver the agreed roles and responsibilities and
the available reform options to ensure a sustainable local government sector is maintained in Tasmania for the long-term future.

This would place both the State and local governments in a good position to engage in dialogue when the outcomes of the water and sewerage reforms and of asset management and planning frameworks become clearer.

It is important for both spheres to agree on how reform should be brought about, the timeframes for bringing about change, and how this would be resourced.

To start this process the Board is recommending that a memorandum of understanding be entered into by the State and local government, giving the opportunity for the State, local government and communities to set out a comprehensive and inclusive process for reform and to determine the first steps in this process.

**Recommendations**

The Board made two recommendations:

**Recommendation 1:**

That the Minister for Local Government adopt the Guiding Principles for voluntary mergers as set out in this report.

**Recommendation 2:**

That the State Government enter into a memorandum of understanding (MoU) with local government during 2010 that:

- recognises that local government reform is needed
- acknowledges that voluntary mergers are unlikely to achieve long lasting strategic reform of the local government sector
- establishes agreement on:
  - reform principles and timelines
  - areas to be examined, including:
    - i. the roles and responsibilities of local government
    - ii. the capacity of the current structure to deliver the agreed roles and responsibilities
    - iii. the available reform options to ensure a sustainable local government sector for the long-term future
    - iv. the extent of state government support to be provided.
Chapter 1. Introduction

On 3 July 2009, the Local Government Board commenced a specific review of a potential voluntary merger between the Break O’Day and Glamorgan-Spring Bay Councils. This process was initiated by the Minister for Local Government, acting at the request of the two east coast councils.

The review was conducted under the process set out in Part 12A of the Local Government Act 1993 (the Act) for reviews of councils, including specific reviews of (voluntary) mergers. A copy of part 12A of the Act can be obtained at www.thelaw.tas.gov.au or by contacting the Local Government Division.

The Minister requested that the scope of the review should include guiding principles providing insight for further voluntary mergers. The Board determined that it would conduct the review requested by the Minister for Local Government in two stages:

- **Stage 1:** a review of a potential merger of the Break O’Day and Glamorgan-Spring Bay Councils
- **Stage 2:** development of guiding principles providing insight into further voluntary mergers.

### 1.1. Stage 1: East Coast Merger Review

The Board has submitted its report to the Minister on the first stage of its review, in which it recommended that the east coast merger not proceed.

The report can be found at www.dpac.tas.gov.au/lgboard or by contacting the Local Government Board on 1300 404 607 or by email at lgboard@dpac.tas.gov.au.

The east coast review was the first occasion on which a voluntary merger proposal was referred to the Board. The Board commended the Break O’Day and Glamorgan-Spring Bay Councils for taking a first step in exploring one of the alternatives open to the councils to bring about change.

In undertaking its review, the Board considered not only the financial sustainability of the two councils but also the benefits and impacts of a merger on the community, including the economic, environmental and social impacts.

In relation to the proposed east coast merger, the Board recommended against a merger, as it concluded that the proposed single merged east coast council would not have been substantially more sustainable than the two existing stand-alone councils. Nor did the Board find evidence that, if a merger were to proceed, the position of the merged council would be strong enough to ensure against the prospect of further mergers in the region.

The Board identified possible ways in which the two councils could have undertaken better preparation for the review, including more thorough consultation with their communities.

The Board made some more general findings including that a merger should only be considered where it would lead to:

- long-term financial sustainability, enabling a merged council to provide services that meet community expectations and statutory requirements
- benefits for the community such as improved governance, community capacity building, improved service delivery or improved management practices, including asset management and long-term financial planning and human resource management.
In the broader Tasmanian context, the Board also recommended that:

*the future of the Break O’Day Council and the Glamorgan-Spring Bay Council be considered as part of a future strategic examination of the structure of Tasmanian local government; and*

*following the work currently being done by the Local Government Board on guiding principles, consideration of changes to the structure of Tasmania’s municipal areas should be undertaken in a holistic and inclusive manner and involve the State and local government in consultation with their communities.*

1.2. **Stage Two: Guiding Principles for Voluntary Mergers**

In November 2009, the Board commenced the second stage of the review looking at principles for voluntary mergers with the release of a consultation paper seeking feedback from councils and the general public.

Feedback was specifically sought on six issues relating to the voluntary merger process and the long-term future of local government:

1. Developing merger proposals
2. Strategic analysis including construction of a feasibility study
3. Community consultation
4. Managing change
5. Limitations of voluntary mergers

In December 2009, the Board held consultation workshops with councils in addition to public hearings in the three regions, seeking feedback on the matters raised in its consultation paper.

Approximately 100 council members and staff attended the council workshops. Around 20 people attended the Board’s public hearings. The Board also received 16 written submissions from councils, stakeholders and the public.

This report sets out the Board’s work on the development of guiding principles for further voluntary mergers. It addresses:

i. the context in which Tasmanian councils are exploring reform options
ii. Principles and process for voluntary mergers
iii. local government reform
iv. recommendations
Chapter 2. Context for Consideration of Reform

2.1. Drivers for Change

National Context

The role and function of local government has continued to evolve since its inception in Australia in 1840. In 2008, the Productivity Commission identified that:

local governments are increasingly providing services beyond their traditional role of services to property, to include greater involvement in human services, planning and regulatory functions¹.

The Australian Local Government Association (ALGA) has consistently maintained that local government’s functions have expanded, particularly over the last decade, in response to the changing expectations of local and regional communities resulting in real and serious financial challenges for the sector.

ALGA has highlighted a range of growing pressures on local government as detailed in Table 2.1.

<table>
<thead>
<tr>
<th>TABLE 2.1. PRESSURES ON LOCAL GOVERNMENT²</th>
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<tbody>
<tr>
<td>• Emerging and increasing expectations of the community in respect to services and infrastructure</td>
</tr>
<tr>
<td>• A $14.5 billion³ infrastructure renewals backlog across the nation</td>
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<tr>
<td>• The level of cost shifting to local government from other levels of government</td>
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<tr>
<td>• Various constraints placed upon local government by state legislatures that restrict the ability of local government to raise revenue, including rates capping</td>
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<tr>
<td>• The capacity of local government to further increase its own-source revenue-raising efforts (noting it is already raising close to 90 per cent of its maximum theoretical benchmark for rate revenue and that the capacity of ratepayers to pay more rates is a key constraint)</td>
</tr>
<tr>
<td>• The level of general purpose funding grants (FAGs) from the Commonwealth Government</td>
</tr>
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² PricewaterhouseCoopers in 2006, National Financial Sustainability Study of Local Government, for the Australian Local Government Association

³ As estimated by PricewaterhouseCoopers in 2006, National Financial Sustainability Study of Local Government.
Cost Shifting Inquiry

In November 2003, *Rates and Taxes – A Fair Share for Responsible Local Government* (the Hawker report) was tabled in Federal Parliament. This report, on cost shifting and local government financing, highlighted that local government was underfunded and was not achieving a fair share of taxation revenue. The report noted that local government was being expected to take on an expanding range of functions but was not being provided with sufficient additional funds for those extra responsibilities.

In April 2006, the Local Government and Planning Ministers Council (LGPMC) signed the *Intergovernmental Agreement Establishing Principles Guiding Intergovernmental Relations of Local Government Matters* (IGA) aiming at addressing cost-shifting.

The agreement established an ongoing framework to address future cost-shifting. The IGA sought to address new program delivery proposals, but the cumulative effect of past cost-shifting remains a drain upon current council resources.

National Financial Sustainability Study of Local Government

In 2006, ALGA commissioned PricewaterhouseCoopers to review the overall financial sustainability of councils across the country. This report, the *National Financial Sustainability Study of Local Government*, raised serious concerns about the financial sustainability of councils and identified a significant need for cash injections from other levels of government, specifically recommending the pursuit of a community infrastructure fund to assist councils with their ageing infrastructure.

Productivity Commission Report into Local Government Revenue Raising Capacity

In 2007, the Australian Government commissioned the Productivity Commission to study:

- The capacity of different types of councils to raise revenue and the factors contributing to capacity and variability in capacity over time;
- The impacts on individuals, organisations and businesses of the various taxes, user charges and other revenue sources available to local government; and
- The impact of any State and Territory regulatory limits on the revenue raising capacity of councils.

The Productivity Commission Report identified a high degree of diversity in the functions, characteristics and revenue sources of the local government sector.

A significant proportion of local government revenue is own-source revenue, generated from rates, fees and charges. Although the Productivity Commission estimated that this is as high as 80 per cent across the sector, Commonwealth Government general purpose funding is essential, particularly in many rural and remote communities, where grants make up 80 per cent of total income.

The report acknowledged that some councils, especially in rural areas, would struggle to raise additional own-source revenue from local communities already faced with financial hardship.

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4 Productivity Commission, 2008, *Assessing Local Government Revenue Raising Capacity*
Taxation Reform

A comprehensive review of Australia’s taxation system, (the Henry Review) was announced in the 2008-09 Federal Budget. The terms of reference for the review included consideration of whether local government is receiving a fair share of Commonwealth taxation revenues. The outcomes of the Henry review could have significant impacts for financial resourcing of local government.

Tasmanian Context

Tasmanian reports demonstrate that local government is experiencing many of the drivers for change previously described.

Access Economics Review of Sustainability of Tasmanian Councils

Following the release of the national PricewaterhouseCoopers report and similar studies in New South Wales, South Australia and Western Australia, in 2006 the Local Government Association of Tasmania (LGAT) commissioned Access Economics to analyse the financial sustainability of Tasmanian councils.

The independent study, A Review of the Financial Sustainability of Local Government in Tasmania, provided a snapshot of councils’ performance at that point in time and the issues impacting on their financial sustainability, and detailed a range of proposed initiatives that would assist in improving their long-term sustainability. It investigated the major financial stressors on councils and highlighted an infrastructure backlog and the provision of increasing services to the community as the key challenges facing council finances.

The report identified areas of improvement regarding sustainable financial management strategies and suggested a range of actions for councils to consider, some of which could be implemented by the sector and some requiring external assistance.

Some Tasmanian councils were found to be under pressure in terms of broad financial health. Similar to the findings of the National Financial Sustainability Study of Local Government undertaken by PricewaterhouseCoopers in 2006, the report identified that these councils were generally likely to:

i. exhibit minimal (or negative) growth
ii. have limited access to rate revenue due to relatively small populations
iii. have limited access to essential asset management skills
iv. face expanding service provision due to rising community demands.

Access Economics recommended a series of actions to enhance the overall financial sustainability of Tasmanian councils in terms of financial governance policies and processes including:

- the development of 10-year financial plans
- improved asset management practices
- the establishment of audit committees
- the development of service policies.

The report also identified the need for greater scrutiny of rates and charges, including developer charges, with a view to resolving the appropriate mix of revenue-raising and expenditure saving options councils are prepared to consider.
In response, an implementation process was established by LGAT. However, this work has been affected by the resourcing imperatives of dealing with water and sewerage reform in the Tasmanian sector.

**Auditor-General’s Report**

The most recent Auditor-General’s report *Local Government Authorities, Including Business Units and Other State Entities 2007-2008*, found that a number of Tasmanian councils continue to budget for deficits. The report noted that:

- 17 councils had incurred operating deficits in 2007-08
- 12 councils recorded a deficit for a minimum of three successive financial years.

The report noted that a number of councils continued to incur deficits before capital grants, contributions and revaluation increments.

The report observed that this position could not be sustained over the medium-to-long term and that action was needed to increase revenues or reduce costs to the point where all expenditure was met from normal operating income. It also raised concerns about the level of reinvestment in infrastructure assets.

The Auditor-General suggested that councils should have asset replacement programs that are consistent with depreciation levels. The report identified that a low level of reinvestment in existing infrastructure assets was an indicator that a council might not be sufficiently rating to maintain the current level of infrastructure and services.

These findings indicate that a number of Tasmanian councils need to take action to improve their financial positions. They may also need to consider more wholesale responses to improve their performance and sustainability for the long-term.

**2.2. Consideration of Reform**

Since 1997, the State Government has had a policy of no forced amalgamations. Mergers initiated by councils have therefore been the only merger option available, although other reform options have been under consideration.

In 2002 the Waratah-Wynyard and Burnie City Councils received a $100 000 Commonwealth Government grant to consider the option of resource sharing by the integration of both councils’ outdoor workforces. At the conclusion of the study it was recommended that whilst there were potential savings from the integration of the outdoor workforces, the most significant benefits to both communities would be if there were to be a total amalgamation.

In keeping with its commitment to support voluntary mergers, the State Government was prepared to meet half the costs of a plebiscite to determine if the affected communities supported amalgamation. Prior to the conduct of a plebiscite the Burnie City Council conducted its own telephone elector survey in both the Burnie and Waratah-Wynyard municipal areas. The result of this survey indicated majority support for a merger in Burnie and minority support in Waratah-Wynyard.

The negotiations between the Burnie City Council and Waratah-Wynyard Council for a possible amalgamation were abandoned following a decision of the Waratah-Wynyard Council not to proceed.
The 2009 request for a review of a proposed merger of the Break O’Day and the Glamorgan-Spring Bay Councils is the first to be referred to the Board for formal investigation. As outlined the proposed merger was not recommended by the Board.

Voluntary merger continues to be discussed within the Tasmanian local government sector as one potential response to the sustainability and capacity challenges currently faced by the sector.

Water and Sewerage Reform

For a number of councils, the transfer of responsibility for the provision of water and sewerage services in July 2009 from individual councils to three regional water and sewerage corporations is likely to have a major impact on revenue and further highlight issues of financial sustainability.

Although the corporations are owned by councils within each region, including the fourth corporation Onstream, which provides common services and support to the three regional corporations, the final impacts on council revenue from dividends are not yet clear.

Transfer of staff out of councils into the water and sewerage corporations has presented some councils with further workforce and skills challenges.

Removal of water and sewerage from the direct responsibility of councils has, in addition, raised questions regarding the shifting role of local government.

National Financial and Asset Management and Planning Frameworks

The State Government and the Tasmanian local government sector are working in partnership under the Premier’s Local Government Council (PLGC) to implement national frameworks, endorsed by the Local Government and Planning Ministers Council (LGPMC) in March 2007, for assessing:

- financial sustainability
- asset planning and management
- financial planning and reporting for local government.

At its May 2009 meeting, LGPMC agreed to improvements to the frameworks and to commence implementation from 31 December 2009. It was agreed that substantial progress towards full implementation would occur nationally by 31 December 2010. It is expected that all Tasmanian councils will, commencing in 2010, implement the frameworks to meet this national commitment.

The Tasmanian Premier’s Local Government Council (PLGC) provided $70,000 to LGAT under its Stronger Councils, Better Services program to assess the benefits of and barriers to implementing a common specified framework for long term financial planning and asset management planning in all councils in Tasmania.

This work, which was completed in August 2009, included piloting full implementation of the frameworks with the Latrobe, Devonport City, Kentish, Waratah-Wynyard and Circular Head Councils. The frameworks were evaluated in terms of ease of use, ability to deliver useful information and effectiveness in supporting quality governance with a view to enhanced financial sustainability.

The Australian Government is providing $25 million nationally under its Local Government Reform Fund (LGRF), to support implementation of the frameworks as well as other local government reforms. In November 2009, the Tasmanian Government in partnership with LGAT submitted a
funding proposal to support development and implementation of the frameworks. A funding decision is yet to be announced but funds are expected to be provided in 2010.

In rolling out the frameworks, policy decisions will need to be made about implementation and compliance. Legislation may be required to ensure 100 per cent compliance and the State Government may need to develop guidelines to assist councils with implementation.

The Local Government Division will work closely with the LGAT in developing options for implementation and compliance. Whilst LGAT has indicated initial support for legislative compliance, consultation and further research will occur to ensure the most appropriate mechanism is put forward.

To date there has not been a comprehensive standardised set of objective measurements to allow councils to assess their own capacity to achieve or maintain financial sustainability. Implementation of a common approach to asset management, financial planning and reporting should enable councils to move from the current situation, where a council may or may not fully understand its own financial position, to sector wide understanding of the challenges facing local government, and a concerted approach to meeting those challenges.

It is the Board’s view that the implementation of consistent frameworks will affirm that reform within local government is necessary to ensure greater equity in the provision of local government services across the state, and improved capacity to meet the future demands of local communities.

Nationally, and within Tasmania, a range of reform options has been and is being explored. In addition to voluntary mergers, these options include:

i. resource-sharing options within the local government sector
ii. regional governance and alliances
iii. state government-initiated amalgamations of councils.
Chapter 3. Principles for Voluntary Mergers

While the State Government has invited councils to consider voluntary merger proposals, neither the Government, nor the local government sector itself, has established policies or practices for such processes.

The Minister for Local Government has now requested the Local Government Board to identify guiding principles for voluntary mergers.

Mergers can be defined as the creation of one new council from two or more existing councils. This can include the integration of organisational structures, management, service provision and associated policies and regulations.

While ‘voluntary mergers’ could be considered, in the purest sense, to be two councils approaching each other with a view to becoming one body, the statutory framework in Tasmania mandates a role for the State Government and the Local Government Board in any merger or boundary adjustment process.

The Constitution Act 1934 provides that any division of Tasmania into municipal areas is not to be altered without the recommendation of the Board. The Local Government Act 1993 (the Act), Part 12A, Division 2, sets out the process under which all merger proposals must proceed.

The Act enables councils interested in pursuing mergers voluntarily to approach the Minister for Local Government to request a review into the proposed merger. After this initial step, for a merger to occur, the merger proposal must be supported by both a Local Government Board recommendation and the Minister.

The Board’s review of the Break O’Day and Glamorgan-Spring Bay Councils’ voluntary merger proposal has confirmed that councils need clear guidelines when considering this option.

In its review of this first formal proposal for a voluntary merger in Tasmania, the Board made a number of findings that formed the basis for the development of its consultation paper on principles for mergers.

The Board sought feedback from councils and the public on voluntary mergers including:

- procedural steps, including transitional processes
- guiding principles.

The Board’s views on voluntary merger processes and principles are set out in this Chapter. The Board’s broader views on future directions for local government in Tasmania are set out in Chapter 4.
3.1. Themes Emerging from Consultation

Some key themes emerged from the Board’s consultation on voluntary merger processes and principles. These included that:

- Councils need to be able to point to a clear impetus for action. There must be a trigger for change to justify imposing the impacts of reform on the community and council staff. Councils indicated that a checklist was needed to provide guidance.

- If a council is meeting the requisite criteria for sustainability then there is no need to undergo reform, e.g. financially sustainable, meeting statutory obligations, fully funding depreciation, providing minimum service levels, performing non-core functions.

- Amalgamation has been stigmatised by both spheres of government in Tasmania. A more positive attitude towards change, with media engagement in allaying community concerns, would shift public opinion from viewing reform, including possible mergers, as exceptional or catastrophic.

- Local government is experiencing what it calls “reform fatigue”.

- Outcomes from recent reforms such as the water and sewerage reforms, including dividends councils will derive from water and sewerage, are still emerging. No further work should be initiated until after December 2010, when the long-term financial and asset management planning will also be in place for all councils (See section 2.2 of this report).

- There is general agreement that the minimum standard for any council should be its capacity to deliver services to a standard acceptable to each community and to also fulfil its statutory compliance requirements for issues such as planning, environmental and public health.

- Local representation is important. Councils act as advocates for their communities on a range of issues, not necessarily council issues e.g. local factory closures. Other models of governance that deliver local representation could be considered e.g. a merged council supported by local community consultative committees.

- Alternative approaches should be explored: e.g. merged administrative services or back office operations rather than merged boundaries. The community will not object to shared services, a common services provider, or regional service delivery, provided community access is not affected – ratepayers will not object provided local governance is maintained.

- There needs to be a review of local government roles and functions. The impacts of cost-shifting can make the difference between a council being sustainable or unsustainable.

Councils also highlighted that:

- Many councils have limited capacity to allocate additional resources to undertake the necessary research into reform/merger options such as feasibility studies.

- There is a need for State Government support for the cost of the process.

- Local government needs to co-contribute to the process or risk losing input into and influence on the process.
It is necessary to maintain local representation possibly by the creation of community consultation committees, precincts or electoral districts (wards) at least on a transitional basis.

Community values and communities of interest must be considered in the assessment of a merger proposal and the financial benefits of a merger ought to outweigh the social impacts.

The need for council consultation from the start of the process and to create trust in the community, and to communicate the rationale behind reform and what a merger proposal would mean for individuals. Councils should ensure that they budget adequately for consultation and consider a state-wide approach. As soon as the strategic analysis and feasibility study are completed, these should form the basis for consultation.

While reform may be needed, the following must first be undertaken:

i. the identification of a vision for the sector (how do we want local government in Tasmania to look)
ii. a clear articulation of the problems that reform is aiming to fix
iii. a cost/benefit analysis of any potential reform.

Boundary changes need to be on the table for discussion, and could be considered in the context of regional and sub-regional planning, catchment and demographic fit.

The State Government should provide a feasibility study on the benefits of mergers. This should also educate councillors and communities.

Potential merger partners should not be excluded solely because of debt. One council may have a debt burden but have good asset infrastructure while another may have a cash reserve but poor asset infrastructure.

Some councils may never be viable because of a small ratepayer pool or geographical isolation. This should be recognised and some communities, subsidised.

Resource-sharing must have a formal structure and be legally binding.

The main focus of any reform should be on whether councils are financially sustainable, recognising that some rural or regional councils may require subsidisation to remain sustainable. Water and sewerage reforms have demonstrated that smaller councils need to be subsidised.

Further reforms should not be undertaken prior to the implementation of the national frameworks by December 2010.

Councils also considered that there was an opportunity for the State to establish a “reform fund”, to which councils could apply for assistance, provided agreed eligibility criteria were met.
3.2. The Voluntary Merger Process

The Board has identified nine stages in a voluntary merger process. Stages four to eight are mandated processes set out in the Local Government Act 1993. Stages one to three, six and nine involve the most significant roles for councils.

Table 3.2. Voluntary Merger Process

<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The ‘exploratory phase’ in which two or more councils consider the potential for a voluntary merger.</td>
</tr>
<tr>
<td>2</td>
<td>Councils commit to consideration of a merger proposal by deciding to allocate money and resources for: ● the strategic analysis (including the preparation of a detailed feasibility study) ● community consultation.</td>
</tr>
<tr>
<td>3</td>
<td>Councils complete the strategic analysis and feasibility study for a merger proposal. Decide whether to proceed with a merger proposal by requesting the Minister for Local Government to initiate a Local Government Board review.</td>
</tr>
<tr>
<td>4</td>
<td>The Minister considers a request by the councils to initiate a Board review and refers the matter to the Board.</td>
</tr>
<tr>
<td>5</td>
<td>The Board conducts a review and provides a report which includes its recommendations to the Minister.</td>
</tr>
<tr>
<td>6</td>
<td>The Minister gives councils the opportunity to comment on the Board’s report.</td>
</tr>
<tr>
<td>7</td>
<td>The Minister decides whether to accept or reject the Board’s final recommendations on a merger. This may include making a recommendation to the Governor to approve a merger proposal.</td>
</tr>
<tr>
<td>8</td>
<td>The Governor considers the recommendation from the Minister, and may make an order creating a new merged council.</td>
</tr>
<tr>
<td>9</td>
<td>The new structures are put in place, with consideration given to change management and transitional arrangements.</td>
</tr>
</tbody>
</table>

3.3. Key Steps in a Voluntary Merger Process

The Board has created the following, more detailed guide for the voluntary merger processes. This guide was informed by the first, ultimately unsuccessful, voluntary merger proposal for the two east coast councils considered by the Board.
In considering the procedural steps below, the Board considered amongst other things, the need to minimise unnecessary expenditure on merger proposals that ultimately would be unlikely to eventuate or deliver successful strategic outcomes. The need to limit community concern or confusion arising from a merger/reform process is also a pertinent issue that should be considered. In finalising its procedural steps the Board has also reflected on the feedback it received from its consultation processes.

The steps below will assist consideration of voluntary merger proposals and could be adopted by the State Government and/or local government as a preferred process.

**Step 1 - Consideration of available options**

A council should articulate what it considers to be:

- the reasons for considering change or reform
- the desired outcomes of change or reform
- the potential merits of the various available options, particularly its preferred option.

A council wishing to improve its capacity or sustainability should consider all the options available to it. In addition to voluntary mergers, these may include:

- resource sharing
- common service provision
- regional alliances.

**Step 2 - Voluntary mergers: Consultation with other councils**

If the option of a voluntary merger is considered an appropriate one, the next step is to raise this matter with all neighbouring councils and to ascertain which councils, if any, may be interested in considering such a merger.

A Local Government Board review is a mandatory step in any merger process and a review must involve all potentially affected councils. For this reason councils should consult with all relevant councils, as failure to include councils that might later wish to be included could cause substantial delay to the review process or require it to be restarted.

Formal confirmation should be sought from councils, including those not interested in considering a voluntary merger proposal.
Step 3 - Developing a merger proposal

An initial merger proposal, including a statement of intent, should be developed by each of the interested councils. This should include:

- consideration of the merits of a merger proposal including the long-term financial sustainability of a new merged council and the likely strategic and community benefits.
- a broad overview of a proposed structure for a merged council
- the changes required to implement the merger proposal.

The council should continue to inform its community throughout this process. Councils will need to consider how and at what stages each council will engage with and provide information to their respective communities on a merger proposal. (See consultation and communication at step 7)

Step 4 - Approaching the Minister for Local Government

The Minister for Local Government should be informed of the proposal before a council commits significant resources to it. This will avoid expenditure in situations in which the Minister is unlikely to initiate a Local Government Board review.

Undertaking a feasibility study may require a substantial commitment in funding and resources. This commitment may be beyond the capacity of some councils. As the State Government has previously indicated its support for voluntary mergers, councils should liaise with the Minister about the potential for assistance in meeting some of the one-off costs a voluntary merger proposal may incur.

It is the Board’s view that a consistent approach to State assistance should be agreed between State and local government.

Step 5 – Commitment to examining a voluntary merger proposal

A council should demonstrate its commitment to examining a voluntary merger proposal by allocating resources to a strategic analysis, including:

- a feasibility study
- a consultation strategy.

The council’s commitment to the merger proposal should be considered and decided in open council and confirmed by an absolute majority.

It is the Board’s view that councils must allow their communities to hear consideration of the reasons for change, and debate on the options open to the council. The decision to commence formal procedures for a possible merger should be taken, subsequently, in open council.

A decision reached by absolute majority ensures that as a bare minimum, more than half the elected members support the merger proposal.

Preparation of detailed strategic analysis of a merger proposal, including the feasibility study, is necessary to ensure that the affected councils clearly understand what may be involved in pursuing such an outcome.
The strategic analysis will also assist the councils in informing their communities on the issue and will:

- enable informed community input
- encourage councils to reach a consistent joint strategy before further resources are expended on the one-off costs of a merger process.

**Step 6 - Developing a strategic analysis**

The strategic analysis should be developed jointly by the interested councils. As set out in Step 5 it should include:

- a feasibility study
- a consultation strategy.

As well as identifying a clear vision of what the councils are trying to achieve, it should:

- identify the likely social, environmental and economic benefits and impacts on the joint capacity of the councils and the respective communities including an initial cost benefit analysis.
- demonstrate how community representation might be maintained in the new merged council, including consideration of measures such as the creation of community consultation committees, precincts or electoral districts (wards).
- indicate whether the new council will achieve:
  - long-term financial sustainability (including a comparison with the sustainability of the existing councils)
  - the capacity to meet statutory requirements
  - value for ratepayers and residents
  - benefits for the community including an improved standard of services
  - good governance
  - improved management practices including asset management, long-term financial planning and human resource management
  - recognition of communities of interest.

It should also consider the impacts on other regional and government relationships, such as local government funding, MOUs with other government spheres, or resource sharing arrangements.

It is in the best interests of Tasmania to limit as far as possible the number of voluntary merger reviews considering the financial costs, impacts on councillors, council staff and communities. Effective strategic analysis will help to minimise the number of voluntary merger reviews.

**Step 7 - Consulting and communicating**

**Provision of Information**

The provision of information to communities is an essential step that should occur from the outset and throughout the process. This should include the detail of the strategic analysis and feasibility study.
Information should be presented in terms of how the changes will affect ratepayers, residents and the community as a whole.

It should present clearly defined options considered by the council, and the associated outcomes, to enable the community to understand how council decisions have been reached.

The provision of options is an important first step, but once the council has made a commitment to the merger process the council should show leadership in promoting the merger and the rationale for the reform.

The consultation strategy should recognise that the community is the most important stakeholder in any merger proposal and provide detail on how it will be engaged in the process.

**Consultation**

Councils should consult with the community at key decision points. The councils’ decisions on merger related issues should be informed by community feedback.

Consultation should begin at the earliest possible stage to generate community confidence in the process. It could extend outside council areas to statewide approaches.

Consultation therefore should not be left solely to the Local Government Board to undertake in the course of its review.

The Board notes that members of the community will have different interpretations of the term ‘extensive consultation’. While the degree of consultation that is appropriate on a merger proposal may vary between communities, the Board considers that as a minimum, councils should:

- ensure that ratepayers and residents are informed by letter of the councils’ proposal following the development of the strategic analysis and feasibility study
- utilise other available measures such as council websites, newsletters, and regional and local media.

**Step 8 - Gauging community support**

Councils should consider carefully, how community support for a proposal will be gauged. This could be undertaken through submissions, community meetings, focus groups, elector polls or statistically reliable surveys.

The council will need to consider its role in leading the community including the degree of weight it will give to community support or opposition to a merger proposal. Potentially, this includes different localities expressing conflicting degrees of support for the proposal.

**Step 9 – Committing to the formal merger review process**

After considering its strategic analysis, the feasibility study and the results of the consultation process, the council must decide in open council whether to commit to the formal merger review process.

A council’s decision to proceed must include a commitment to any potential outcome. This should avoid a situation where a council attempts to withdraw its support for a merger process after the commitment of substantial funding to a Local Government Board review.

Although councils will have the opportunity to comment on the recommendation of the Board, prior to the Minister’s final decision, a council should recognise that by deciding to proceed to the formal process, it is agreeing to be bound by that process and to its outcome.
Step 10 - Requesting a Local Government Board Review

A Local Government Board review is a mandatory step in the voluntary merger process. The Minister has the power to initiate a Board review at any time including at the request of a council or on a petition from at least 20 per cent of the electors in a municipal area.

In making its request to the Minister for a Local Government Board Review of a voluntary merger proposal, councils need to include:

i. the strategic analysis including a feasibility study
ii. information about their actions to date
iii. information about the consultation that has occurred and the level of support in the community.

Step 11 - Initiation of a Local Government Board Review

On receiving a request by the councils, the Minister for Local Government may refer the matter to the Board.

Step 12 - Conducting a review

The Board may determine how it carries out a review and develops its own review guidelines. The Local Government Act requires the Board to provide:

- reasonable opportunity for public consultation
- reasonable opportunity for a council affected by the review to make any submissions
- at least 30 days notice, for relevant councils, of the date on which the review is to start.

Board hearings are generally open to the public except in limited prescribed circumstances. During the review process councils (and the community) have the opportunity:

- to make written submissions
- to participate in hearings.

This process enables a council to present its own analysis of the merits of any merger proposal. The Board will consider whether the merger is in the interests of the affected communities. The Board submits a written report (including its recommendations) to the Minister.

Step 13 - Input from councils

The Act requires the Minister to provide councils with the report and give them the opportunity to comment on the Board’s report, before considering the recommendations. The Act requires councils to keep the report confidential until its publication.

Step 14 - Consideration by the Minister

The Minister is required to consider the councils’ submissions and may:

- accept any or all of the Board’s recommendations
- reject any or all of the Board’s recommendations
• request the Board to reconsider any or all of its recommendations, or
• refer to the Board any alterations to its report requested by a council.

The Minister arranges publication of the Board’s report. The Minister then decides whether to proceed with the merger proposal, taking account of:

• the findings of the Board
• the views of the affected councils.

A decision to proceed with a merger proposal requires the Minister to make a recommendation to the Governor.

If the Minister has rejected a Board recommendation, he or she cannot make a recommendation to the Governor on that matter.

Step 15 - Consideration by the Governor

The Governor may, by order and acting on the recommendation of the Minister, do any of the following:

• create or abolish a municipal area
• alter and define the boundaries of a municipal area
• combine two or more municipal areas or parts of such areas to form one municipal area
• name or change the name of a municipal area
• create or abolish a council.

For any of the above to occur, there must first be a positive recommendation from the Board.

Step 16 - Transitional arrangements and change management

The transition stage begins with the issue of the Governor’s Order creating a new council and abolishing the former councils.

The Local Government Act 1993 does not provide for any transitional body or other arrangements. The transitional arrangements appropriate for a merger will vary depending on the particular circumstances of the councils involved.

However the Board notes that:

• The Local Government Board can, as part of its review, make recommendations regarding the transitional arrangements for a voluntary amalgamation.
• The councils’ feasibility study can address transitional arrangements; these would receive further consideration in a subsequent Board review.
• An independent review on transitional arrangements could be commissioned as it was for the 1997 state-wide amalgamation review\(^5\).

\(^5\) which was undertaken by KPMG
Time frames for transitional arrangements need to be realistic. Consultation with councils indicated that this would be approximately a three-year process.

Potential options for transition and implementation arrangements identified in the 1997 review included:

- Provide, by agreement with LGAT, for the establishment of Local Transition Committees (LTCs) which would have the role of planning for, and working towards, the establishment of new councils, with or without specific authority
- Legislate to require that an LTC be established for each new council
- Encouraging related councils to voluntarily establish a coordinating governance body
- Establish an Interim Council
- Take no action to implement governance with the new council beginning that role after establishment, or
- Appointing a Commissioner.

The Board notes that:

- Commissioners or Administrators could be appointed under the savings and transitional arrangements provisions in 214E (5) of the Act. This would remove councillors from the transition process.
- Interim Councils could be established under the savings and transitional arrangements provisions in 214E (5) of the Act and comprise councillors elected or appointed by the existing councils to represent them through the transition process.
- Local Transition Committees (LTCs) have no legal standing but were successfully used in the 1993 reforms. The powers of an LTC would be limited. They would have only such powers as were delegated by the relevant councils (this could require constitution in the form of a special committee to extend the potential scope of delegated powers).

Alternatively, LTCs could make recommendations subject to endorsement by the relevant councils. Importantly any such delegations or endorsements would be limited to the scope of the existing councils’ powers which do not extend to determining the policies and structures of a new council. They would however harness valuable input from existing councils and undertake preparatory work including potentially, new recommendations to be put before a new council.

The Local Government Board in its 1997 review recommended the establishment of Local Transition Committees.

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- Joint Authorities are comparable to the LTC option but have the status of a separate legal entity. A joint authority established for this purpose would continue to receive its strategic direction from the two or more member councils (via representatives).

The Board notes that none of these transitional bodies has the power to bind the new elected council, once it is in place.

In formulating transitional arrangements, councils should recognise that reforms will impact on councillors, staff and the community, and therefore should include appropriate change management processes.
### 3.4. Guiding Principles for Voluntary Mergers

The Board has identified the following key principles as the basis for a voluntary merger process. Some of these principles could apply to any future merger proposal.

The Board was also asked to consider possible transitional processes for voluntary mergers. It has addressed the potential options for transitional procedures in the section on ‘key steps in the voluntary merger process’ at 3.3. However, the Board has not proposed principles for transitional procedures because it considers that the appropriate measures will vary depending on the specific requirements of the councils and communities involved.

<table>
<thead>
<tr>
<th>PRINCIPLE 1: COLLABORATIVE ASSESSMENT OF OPTIONS</th>
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<tbody>
<tr>
<td>Councils should consider all the available reform options.</td>
</tr>
<tr>
<td><strong>Local Government Responsibility</strong></td>
</tr>
<tr>
<td>• To consider all the available reform options in the preparation of an initial voluntary merger proposal. This proposal will ultimately inform a strategic analysis and councils’ communication strategies.</td>
</tr>
<tr>
<td>• To ensure that any voluntary merger proposal is developed in collaboration with the relevant councils, the State Government and the community.</td>
</tr>
<tr>
<td>• To consider the impacts of reform and change on communities and council staff.</td>
</tr>
<tr>
<td><strong>State Government Responsibility</strong></td>
</tr>
<tr>
<td>• To provide advice to the local government sector on the various available reform options and the potential benefits and impacts of these.</td>
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<tr>
<th>PRINCIPLE 2: COMMITMENT</th>
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</thead>
<tbody>
<tr>
<td>All parties must be committed to both:</td>
</tr>
<tr>
<td>• the 16-step process set out in this report</td>
</tr>
<tr>
<td>• the outcomes of this process.</td>
</tr>
<tr>
<td><strong>Local Government Responsibility</strong></td>
</tr>
<tr>
<td>• To commit to the 16-step process and the eventual outcome determined through the Local Government Board review.</td>
</tr>
<tr>
<td>• To discuss reform decisions in open council in keeping with the principle of openness and transparency.</td>
</tr>
<tr>
<td><strong>State Government Responsibility</strong></td>
</tr>
<tr>
<td>• To confirm that the guiding principles have been met before the matter is referred to the Board.</td>
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</table>
PRINCIPLE 3: RESOURCING

Participants must provide adequate resources to ensure their capacity to see the process through.

Local Government Responsibility

- To allocate sufficient financial and human resources for the entirety of the process.
- To commit the necessary resources for the provision of quality information to support:
  - the council’s decision-making process
  - the strategic analysis and feasibility study
  - communication and consultation.

State Government Responsibility

- To provide a clear statement regarding what kind of assistance or support is available and on what terms.
- To provide support for the reform process in the form of:
  - monetary support
  - in-kind support
  - policy and guidance.

PRINCIPLE 4: CONSULTATION AND COMMUNICATION

Information on the process, the proposals, the reasons for decisions and post-reform implementation must be communicated from the outset.

Consultation with ratepayers, community and all other relevant parties including all councils must occur once the council has made its initial decision to investigate options for reform.

Local Government Responsibility

- To communicate and consult with the community throughout the entire process.
- To engage with the State Government and neighbouring councils throughout the process.
- To communicate information on the process and council decisions internally to staff.
- To determine the level of community support for a merger.

State Government Responsibility

To confirm that the guiding principles have been met before the matter is referred to the Board.
PRINCIPLE 5: BENEFITS AND IMPACTS OF VOLUNTARY MERGERS

A merger should only proceed where it will lead to:

- long-term financial sustainability, enabling a merged council to provide services that meet community expectations and statutory requirements
- benefits for the community which may include:
  - improved governance
  - community capacity building
  - improved service delivery
  - improved management practices, including asset management, long-term financial planning and strategic human resource management.

Recommendation 1:
That the Minister for Local Government adopts the guiding principles for voluntary mergers as set out in this report.
Chapter 4. Local Government Reform

4.1. Limitations of the Voluntary Merger Approach

The current voluntary merger approach relies on an individual council finding a willing partner interested in exploring the potential benefits of a merger.

The primary advantage of the present approach is that it does not involve compelling the local government sector unwillingly into action. Rather, the impetus arises from the councils themselves, and in theory offers them the opportunity to engage with the community and ensure its support.

The procedural steps required by the Act mean that, in addition to the significant costs involved in an actual merger, significant costs are incurred both by the State Government through a Board review and the councils in the preliminary analysis of a voluntary merger proposal. Board reviews are unlikely to be completed in less than six months and incur significant costs regardless of the merit of the proposal.

The Board has identified a number of inherent limitations in the current voluntary merger approach. These include:

- A council wishing to explore merger options may be unable to find a willing partner.
- Some councils may be excluded from consideration in a proposal, regardless of the merits of their inclusion.
- An underperforming council may fail to recognise that it needs to look at reform options.
- The model does not account for broader systemic issues that may require resolution at the statewide level, leaving the door open to further mergers or restructuring at a later time.
- Reform proposals have significant impacts including financial, governance, staffing and community impacts. State governments may be unwilling to consider recurring requests for voluntary merger reviews.
- There is apparently limited potential for successfully achieving reforms, noting that only two proposals have emerged in the last decade and neither proceeded to amalgamation.
- Vested interests within the sector may contribute to the likelihood of failure, eg a merger proposal has political implications for councillors and impacts on the job security of staff.
- A voluntary merger requires finding two councils with a majority of councillors willing to support a merger proposal potentially in the face of community concerns, concerns which may impact upon a councillor’s electoral chances or translate into political mileage for opposing candidates.
4.2. Alternative Measures to Enhance Council Capacity and Sustainability

Consultation with the sector throughout the review revealed that many councils recognise the inherent limitations set out above. There is also scepticism that mergers are a panacea to the sustainability challenges of local government.

This may be the result of a lack of clear evidence of anticipated financial efficiencies from previous interstate amalgamations. Long-standing sectoral and community concerns about mergers generally include that the resources and budget needed to undertake a merger can be substantially underestimated or that mergers can lead to a loss of local representation, local jobs and community identity.

Resource sharing is often presented as an alternative path to improved sustainability of councils. While previous resource-sharing initiatives in Tasmania have had only a limited lifespan, a number of Tasmanian councils are expressing renewed interest in exploring resource sharing amongst other reform options. See section 4.2.2. for examples of current resource-sharing initiatives in Tasmania.

This may reflect the current international shift toward the exploration of resource-sharing options in Australia, Canada, Singapore and particularly the United Kingdom, amongst others.

The Hawker Report concluded that ‘the efficiencies of local government can be improved through a mixture of changes that may include partnerships, regional cooperation and/or amalgamations’ and further that ‘one answer does not fit all’.7

The Board has been asked to examine alternative measures to enhance council capacity and sustainability. This chapter outlines potential reform options open to state and local governments for addressing sustainability and capacity challenges. In addition to voluntary mergers these include:

- state government-initiated amalgamations of councils (such as in Western Australia, Victoria and Queensland)
- various resource-sharing options within the local government sector including regional arrangements.

4.2.1. Historical Merger Approaches

Mergers are defined as the creation of a new council from two or more existing councils, and could include:

- the creation of a larger council from two (or more) smaller councils
- significant boundary change to existing local government jurisdictions.8

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7 (October 2003) Rates and Taxes – A Fair Share for Responsible Local Government (The Hawker Report), House of Representatives: Standing Committee on Economics, Finance and Public Administration,
**Tasmanian Context**

Prior to 1993, attempts to restructure local government boundaries in Tasmania were unsuccessful. Major inquiries were carried out in 1939, 1960 and 1974, all of which recommended substantial reductions in the number of Tasmanian councils. However, the recommendations arising from these inquiries were not implemented.

It was not until 1993 to 1995 that major reform of the sector was achieved. In 1993, following the report of the Local Government Advisory Board, major boundary reform resulted in the number of councils in Tasmania being reduced from 46 to 29. Simultaneously, a new Local Government Act introduced significant changes, most importantly giving councils the general competency powers that local government had been seeking for some time.

The modernisation of local government was part of a significant reform platform that included a suite of resource-management legislation and there was strong momentum for change.

A subsequent attempt at boundary reform in 1997 by the Tasmanian minority Liberal Government was unsuccessful.

Analysis of these reforms (Haward and Zwart) has suggested that the success of the 1993 reforms, and the failure of the proposed reforms in 1997, was directly linked to the level of support from local government itself, and the amount of influence it was able to exert on the process.

However, in both the 1993 reforms and the proposed 1997 reforms, local government was extensively involved. Local government was represented on the boards of inquiry which made the recommendations and had the opportunity to make submissions to those boards. The 1993 process may appear to have involved local government to a greater extent due to the extensive consultation processes associated with the development of the new Act. Further, as the 1993 proposals proceeded to implementation, the transition processes were also strongly collaborative and supported by the State Government.

It should be noted that although local government criticism of the 1997 process was perhaps more vehement, there were significant pockets of resistance to the 1993 proposals, including a legal challenge. Unlike the legal challenge to the 1997 reforms, this was unsuccessful.

**Interstate and International Approaches**

During the past three decades the number of local governments in Australia has reduced from just over 900 to fewer than 600. During the 1990s, state governments initiated inquiries into the potential benefits of council amalgamations.

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The outcomes of these inquiries ranged from forced amalgamation to voluntary resource-sharing arrangements:

- Radical local government reforms were implemented by the State Government in Victoria from 1993-95 that included boundary reviews and reduced the number of councils from 210 to 78. An appointed board was responsible for implementing the program which included the dismissal of existing councils and the installation of a commissioner/s to administer each new body for the 18-month transition period.

- In 1996 the South Australian (SA) Government adopted a more consultative approach to major reforms which delivered a reduction in council numbers from 118 to 72. As in the Tasmanian reforms of 1993 and the Queensland reforms of 1994, the SA Government canvassed the views of both constituents and councils prior to final decisions and established a local government board to determine the outcomes. The SA Government addressed concerns that the reforms would impact upon representative democracy of local government by subsequently enacting legislative provisions that required all municipal areas to establish community consultative mechanisms.

- In 2007 the Queensland Government implemented major reform of the State’s local government system following concerns about the long-term financial capacity of some councils and the slow pace of local government-led reform. An independent Local Government Reform Commission was established to make recommendations on the most appropriate structure and boundaries for local government in Queensland. The Queensland Government accepted the Commission’s boundary recommendations to reduce the number of councils in Queensland from 157 to 73 at the council elections on 15 March 2008.

- On 5 February 2009 the Western Australian (WA) Government announced a program for local government reform based on a voluntary reduction in the number of individual councils. Councils were invited to:

  - indicate their intentions in respect to voluntary amalgamations by 5 August 2009
  - consider reducing the total number of elected members to between six and nine in a merged council
  - form appropriate regional groupings of councils to assist with the efficient delivery of their services.

The WA Government also proposed a range of other reform measures related to sustainability, representation and capacity building and linked the program to a recently announced Country Local Government Fund. The Western Australian Local Government Association (WALGA) indicated that the reforms were initiated by the local government sector itself and had already resulted in greater resource sharing and amalgamations of some councils. WALGA and the

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11 ibid.

12 ibid.
overwhelming majority of the local government sector in WA support the need for reform but are adamant that participation needs to be voluntary to ensure community support and help enhance the prospect of any changes being sustainable in the long term. The Government’s final determination is expected to become clearer after February.

- In 1989 the New Zealand Government dramatically reduced the number of local government bodies by more than 80 per cent and introduced a structure of separately elected multi-purpose territorial and regional government with largely discrete functionalities. There are currently 85 local authorities consisting of 12 regional councils and 73 territorial authorities (cities and districts). The reforms were implemented by a Local Government Commission which adopted a flexible approach to reforms, was prepared to support local solutions over its own preferred approach and enjoyed political backing from the Government. The reforms were supported by the newly formed Local Government Association on the condition that the Government would address the issues of local government funding and powers once consolidation was completed. The Board noted the range of different approaches that had been adopted to mergers, in Tasmania and elsewhere, and that reform outcomes have been influenced by the degree to which the reforms have been initiated and engaged in by the local government sector itself.

### 4.2.2. Resource-sharing and Shared Services Options

Councillors have expressed the view that resource-sharing options should be explored before voluntary mergers are considered. This section identifies models of resource sharing that could have further applicability as reform options in Tasmania.

“Shared Services” describes a variety of arrangements whereby a service provider delivers services for a group of councils and/or for other public bodies under a service level agreement or contract. This may involve front or back office services.

**PriceWaterHouse Coopers’ National Financial Sustainability Study of Local Government** identified three possible approaches to shared services:

i. Cooperative cross-council bulk purchase or procurement of goods and services to achieve economies of scale.

ii. Specialised lead service providers amongst groups of councils (where each member council specialises in a particular service and contracts its services to other member municipal areas). This includes commercial service provision by councils.

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14 ibid.

15 Improvement and Development Agency (UK) Glossary page, website January 26 2010 [www.idea.gov.uk](http://www.idea.gov.uk)

iii. Shared corporate services with joint back office services such as human resources, finances, information technology and administration.

Other resource-sharing approaches include agreements between independent organisations to share a set of resources, such as a shared staff member in rural or regional councils that have difficulty in attracting specialist staff.

Types of services that have been identified as suitable for shared service provision on a regional basis include fire protection, emergency services, health administration and inspection, noxious plants, museums, water and waste water, tourism and areas promotion, and saleyards and markets.

**Shared Services in Tasmania**

Councils in Tasmania are engaging in various shared services and resource sharing arrangements including sharing of equipment, resources and staff expertise. Some councils have commercial arrangements in place through which they provide services to other councils. These arrangements have been driven by councils themselves. Examples of these are set out below.

**Service provision on a Commercial Basis**

The **Hobart City Council** carries out maintenance on some southern water vehicles. The Hobart City Council also has an arrangement for the use of its parks staff with the Brighton Council.

The **Brighton Council** has commercial arrangements in place to provide a number of services to other councils around the state. The Brighton Council provides software and backup support to nine other councils. In addition, it provides

- to the Flinders Council, finance and accounting assistance, including detailed financial planning and budgeting, as well as general professional services such as asset management
- to the Break O’Day Council, occasional services such as assistance on the transfer orders relating to the water and sewerage reforms
- to the Glamorgan-Spring Bay Council, planning services, plumbing inspection and regulatory services, and financial, accounting and rating assistance
- to the Tasman Council, payroll and accounts services as well as planning and plumbing services.

The Brighton Council has also been hired by the new water and sewerage corporation, Onstream, to provide billing services for eleven councils for the first year of Onstream’s operation.

**Resource Sharing**

The **Circular Head and Waratah-Wynyard Councils** have shared a general manager since 1 December 2008. These two councils have also signed an agreement in relation to the sharing of services.

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The Kentish and Latrobe Councils formed a joint sub-committee to actively explore resource-sharing opportunities in August 2008. The two councils currently share an environmental health officer and recently commissioned a review of road maintenance operations for both Councils. This follows a previous attempt to resource share within a joint authority structure which operated from 1997 to 2000.

In addition to these specific formal arrangements a number of councils, such as the Meander Valley and Northern Midlands Councils, have initiated informal talks with each other regarding the issues around shared resources and services.

In its 2008-09 budget, the State Government provided $100,000 to further progress resource sharing between Tasmanian councils through the Shared Services Grants Program. This funding was distributed between four projects across nine councils, which included:

- $32 600 to the Latrobe, Kentish, Central Coast and Devonport City Councils to develop a regional emergency management plan for potential emergencies such as bush fires, storms, floods and pandemics
- $24 000 for two feasibility studies by the Northern Midlands, Meander Valley and Launceston City Councils into joint IT opportunities and cross-council networking
- $40 000 to the Brighton and Tasman Councils to develop, trial and evaluate a centralised administration facility.

Regional Resource Sharing and Regional Organisations

Regional organisations of councils (ROCs) have been described (Dollery, Akimov and Byrnes) as a form of resource sharing, ‘a formalisation of the ad hoc resource sharing model, typically financed by a fee levied on each member council as well as a pro rata contribution based on rate income, population or some other proxy for size, which provides shared services to member councils’.18

Potential alternative models proposed by Dollery et al include:

- Joint board models where councils retain current municipal boundaries but create a shared administration overseen by a joint board of elected councillors;19, or
- Virtual local government where several small adjacent ‘virtual’ councils with a common administrative structure or ‘shared service centre’ on behalf of the individual councils with service delivery contracted out to private companies or to the shared service centre.20

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19 Ibid
20 Ibid.
The Hawker Report recommended that the federal government should engage ‘established ROCs and other regional bodies which have demonstrated their capacity to be involved in the regional planning and delivery of federal and state government programs’\(^{21}\). The use of ROCs was also supported by the South Australian Financial Sustainability Review Board.

Regional organisations exist in each of Tasmania’s three regions and carry out common strategic, and in some cases service delivery functions, on behalf of the members councils in the region. Each of the three primary regional representative bodies is currently exploring resource sharing possibilities to some degree as set out below. There are three additional authorities providing service and strategic functions at a regional or sub-regional level.

**Cradle Coast Authority**

The member councils of the Cradle Coast Authority (CCA) are the Burnie City, Central Coast, Circular Head, Devonport City, Kentish, King Island, Latrobe, Waratah-Wynyard and West Coast Councils.

In August, 2009, a Memorandum of Understanding (MOU) for a Regional Shared Services Project was signed by eight of the Authority’s member councils, with West Coast Council opting not to sign at this stage, but with the potential to opt-in in the future.

In signing the MOU the parties agreed to combine their resources and investigate shared service arrangements with the aim of delivering optimal use of existing resources, improved services, and better career paths for local government staff.

The identification of opportunities for shared services has begun with working groups established in the areas of: corporate services; planning, development and environment; community and economic development; and technical services. Each working group contains a representative from each council’s management and meetings commenced in October, 2009 and are ongoing.

**Southern Tasmanian Councils Authority**

The member councils of the Southern Tasmanian Councils Authority (STCA) are the Brighton, Central Highlands, Clarence City, Derwent Valley, Glenorchy City, Hobart City, Huon Valley, Kingborough, Sorell, Southern Midlands, Glamorgan-Spring Bay and Tasman Councils.

The STCA aims to facilitate cooperative working partnerships and improve the ability of councils to address regional development issues and progress sustainable economic, environmental and social outcomes.

The STCA focuses on the core areas of improving physical infrastructure, enhancing economic development, improving environmental performance, enhancing social well-being and improving inter-regional cooperation.

One of the STCA’s stated goals is pursuing opportunities for cooperation and resource sharing projects.\(^{22}\). The Authority has engaged in common service provision role on behalf of the member councils, negotiating a regional office supplies contract and receiving a percentage commission.

\(^{21}\) (October 2003) *Rates and Taxes – A Fair Share for Responsible Local Government* (The Hawker Report), House of Representatives: Standing Committee on Economics, Finance and Public Administration,

Northern Tasmania Development

The member councils of Northern Tasmania Development (NTD) are the Break O'Day, Dorset, Flinders, George Town, Launceston City, West Tamar, Meander Valley and Northern Midlands Councils.

NTD is owned by its member councils and focuses on undertaking strategic economic, community and environmental initiatives in Northern Tasmania.

NTD has recently restructured its leadership and organisation and is reviewing its role and functions including consideration of resource sharing.

The Southern Waste Strategy Authority

The Southern Waste Strategy Authority (SWSA) was established in 2001 to implement a comprehensive waste management strategy for Southern Tasmania with a focus on waste avoidance, resource recovery, responsible waste disposal, community awareness and performance monitoring. The 12 southern Tasmanian councils are member councils. The aims of the authority are to:

- cooperate closely with the other arms of government, industry, and the community to refine regional and statewide waste management policies and procedures
- provide professional advice in investigating and analysing improvement proposals for waste management in the region
- facilitate specific service-development projects
- liaise with external bodies to develop and implement its regional public awareness program
- develop and implement a regional performance monitoring system
- the Board notes that member councils make financial contributions to the authority by way of an actual or notional tonnage to landfill sites.

The Copping Refuse Disposal Site Joint Authority

The Copping Refuse Disposal Site Joint Authority (CRDSJA) was established in March 2001 by the Sorell, Tasman and Clarence City Councils for the purpose of developing a landfill refuse disposal facility for their use. Kingborough Council has recently become a member council. The Authority also has long-term contracts for disposal of waste from Glamorgan-Spring Bay, Huon Valley and Break O'Day Councils. In addition, the Authority has a long-term contract with the Tasmanian Department of Health and Human Services for the treatment and disposal of bio-medical and clinical waste through its Lutana facility.

The Dulverton Regional Waste Management Authority

The Dulverton Regional Waste Management Authority (DRWMA) was established for the management and disposal of waste generated predominantly in the Mersey-Leven region through a cooperative agreement between the Central Coast, Devonport City, Kentish and Latrobe Councils. The authority’s rules define the core business as:

- management of waste generated within the Mersey-Leven region
- management of waste solid inert material, putrescible waste, fill material and low-level contaminated soil as defined in the Landfill Sustainability Guide
activities identified in the strategic plan as approved by the representatives.

The original purpose of the Authority was to build and operate a regional landfill, but because of the Authority’s expertise and to achieve economies of scale, its core activities have been expanded to include the preparation and management of regional contracts with a combined value of greater than $1.5million per annum.

Conclusions

A full scale analysis of the range of resource-sharing approaches interstate and internationally, and their applicability to Tasmania, has not been undertaken as part of this review and would require further work by the Board.

The Board’s view is that a statutory authority framework appears to have longevity beyond local resource-sharing arrangements and regional attempts at cooperation outside of these structures have had limited success.

It is the Board’s view that further work in this area would significantly assist dialogue on reform in the sector.
Chapter 5. Conclusions

Sustainability challenges within local government have been identified in the Access Economics and Auditor-General’s reports. Recent water and sewerage reform has presented Tasmanian councils with further challenges but, to date, there has been no clear guidance from the sector or State Government on what constitutes an underperforming (or unsustainable) council.

The Board notes that in October 2009, the Premier’s Local Government Council agreed to the development of sustainability objectives and indicators for the local government sector and that these are intended to help:

- define local government sustainability in terms of financial, community, environmental and governance objectives
- develop indicators to measure the sector’s progress towards achieving those objectives.

While there is much debate nationally and in Tasmania on how local government sustainability should be achieved and what change is needed, the lack of objective criteria or benchmarking has limited the capacity of elected members to objectively assess, or to inform the community about, the sustainability of their council.

Action has been further hindered by resource constraints and the complexity of the challenge. Additionally there is a real gap in the information available to councils on the range of reform options available to them, and their respective merits.

In undertaking research and consultation for this review, the Board has identified that local government reform and review efforts would be significantly assisted by a comprehensive analysis of the range of reform options and their respective benefits and impacts.

The absence of such analysis may have significantly limited the capacity of the State Government and local government to engage in shared dialogue and to progress action on reform. Such analysis, including the provision of practical case studies, could become the basis of a handbook or online guide that could assist the sector to make progress on reform.

This is a significant body of work, which is urgently required. However the scope of the necessary work is beyond the context of the Board’s review on guiding principles for voluntary mergers.

The complexity of the subject will require an appropriate commitment in terms of time and resources.

As one of a number of reform options available to the sector, voluntary mergers may be a useful tool for local government to consider in addressing sustainability and capacity challenges. However one has yet to be successfully delivered in Tasmania. Additionally, by their nature, voluntary mergers are an ad hoc solution that can only deliver change to localised areas.

The Board considers that there is a need for a strategy with broader applicability to the sector. In its review of the potential merger of the Glamorgan-Spring Bay Council and the Break O’Day Council the Board recommended:

*That following the work currently being done by the Local Government Board on guiding principles, consideration of changes to the structure of Tasmania’s municipal areas should be undertaken in a holistic and inclusive manner and involve the State Government and local government in consultation with their communities.*
The Board considered that in view of the limitations of the current ad hoc approach to voluntary mergers, that a holistic approach to the consideration of merger and other proposals to put local government in Tasmania on to a more sustainable basis was required.

The Board’s recommendation in that report reflected its view that while ad hoc voluntary mergers are unlikely to provide a strategic solution to sector-wide challenges, there may be an alternative to forced mergers that has yet to be explored effectively in Tasmania.

Following on from its previous recommendation, the Board proposes that the State Government and local government sector develop a co-operative approach to reform, focusing on the delivery of a shared vision for local government. This will require the State Government and local government to agree on how change can be brought about.

In summary the Board’s consultation has confirmed the need for:

- an objective assessment of the problems that reform aims to resolve, including articulation of measures which will assist councillors and communities to assess council performance and sustainability
- the articulation of a vision for the sector (what does a sustainable council look like and what roles and functions does it carry out)
- an analysis of the available reform options and their relative merits
- a cost/benefit analysis of any potential reforms to the sector.

The Board’s consultations have highlighted that the sector is ‘reform weary’ and there is resistance to the introduction of further reform in the short term. It was suggested to the Board that the timing of any further structural reform be delayed until the outcomes from current reform, particularly water and sewerage reforms, are evident, particularly on the position of individual councils.

Reforms have historically been lengthy processes. The last round of successful reforms in 1993, while certainly extensive, took two years to implement. Noting the significant body of analysis required to inform further reform, it is the Board’s view that, given the current pressures on local government, the preparatory research that is required for any review or reform should begin now.

The reform process could commence with a review of the roles and responsibilities of local government including the capacity of the current structure to deliver the agreed functions and the available reform options to ensure a sustainable local government sector in Tasmania.

This would place both the State and local governments in a good position to engage in dialogue when the outcomes of the water and sewerage reforms and of asset management and planning frameworks become clearer.

It is important for both spheres to agree on how reform should be brought about, the timeframes for bringing about change, and how this would be resourced.
To start this process the Board is recommending that a memorandum of understanding be entered into by the State and local governments, giving the opportunity for the State, local government and communities to set out a comprehensive and inclusive process for reform and to determine the first steps in this process.

**Recommendation 2:**

That the State Government enter into a memorandum of understanding (MoU) with local government during 2010 that:

- recognises that local government reform is needed
- acknowledges that voluntary mergers are unlikely to achieve long-lasting strategic reform of the local government sector
- establishes agreement on:
  - reform principles and timelines
  - areas to be examined, including:
    i. the roles and responsibilities of local government
    ii. the capacity of the current structure to deliver the agreed roles and responsibilities
    iii. the available reform options to ensure a sustainable local government sector for the long-term future
    iv. the extent of state government support to be provided.
Chapter 6. Recommendations

Recommendation 1:
That the Minister for Local Government adopt the guiding principles for voluntary mergers as set out in this report.

Recommendation 2:
That the State Government enter into a memorandum of understanding (MoU) with local government during 2010 that:

- recognises that local government reform is needed
- acknowledges that voluntary mergers are unlikely to achieve long lasting strategic reform of the local government sector
- establishes agreement on:
  - reform principles and timelines
  - areas to be examined, including:
    i. the roles and responsibilities of local government
    ii. the capacity of the current structure to deliver the agreed roles and responsibilities
    iii. the available reform options to ensure a sustainable local government sector for the long-term future
    iv. the extent of state government support to be provided.
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