Purpose-Focused Governance

Moving beyond fifteen years of Funding-Focused Governance

For at least the last 15 years, '<u>Funding-Focused Governance</u>' has dominated local government in NSW and beyond. The strategic direction was clearly described by the NSW Independent Local Government Review Panel (central to the Destination 2036 Action Plan established at an event in Dubbo in 2011):

> securing local government's financial capacity and sustainability is the fundamental pre-requisite for all other moves to enhance its strength and effectiveness …
>
> There are signs of a growing understanding of what needs to be done, but there is also evident reluctance to take the hard decisions involved. Notably, only 23 councils applied for a **Special Rate Variation** in 2013: the TCorp findings suggest that number seriously understates the need for faster revenue growth.

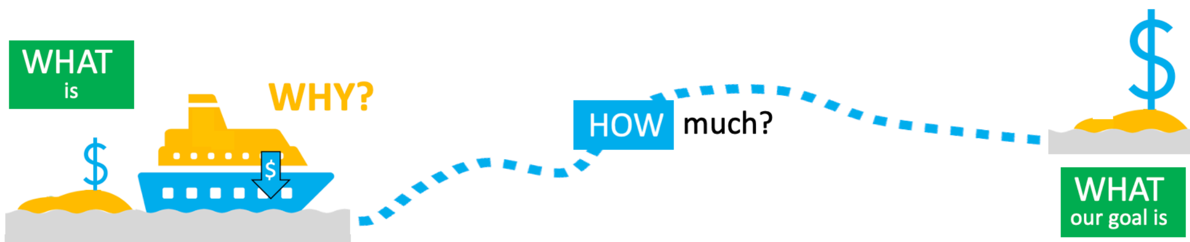
In its 2023 *Review of the Rate Peg Methodology*, IPART found rates in NSW increased at double the rate peg from 2011 to 2022, yet the financial positions of councils deteriorated in the latter half of that decade (the 5 years after NSW Government made us 'fit for the future'). Central to reforms now being pursued by NSW Government in response to the Parliamentary Inquiry into the *Ability of Local Governments to Fund Infrastructure and Services* is the Comprehensive Spending Review which is

> The NSW Government agrees with the views of the sector that financial sustainability is a serious concern for many councils, particularly in regional and remote areas. However, residents and ratepayers have also suffered a loss of real income through recent inflationary pressures. The NSW Government must ensure council rates remain affordable …
>
> The Government is confident that the new rate peg methodology is robust. It provides a good starting position for councils in matching revenue to expenditure. If a council and a community agree that current service standards are sufficient to meet community needs, the rate peg should accurately compensate for cost increases beyond a council's control.
>
> However, some communities may agree an increase above indexation is acceptable to provide for better service standards. Other councils may need additional income to maintain existing service standards due to circumstances the rate peg cannot account for.
>
> The Government will prepare legislation and regulatory changes to allow the review of council income and expenditure through a **Comprehensive Spending Review** process which will be separate to the **Special Rate Variation** process …
>
> The process should build upon a council's Integrated Planning and Reporting …
>
> The proposed process will enable councils who want to permanently adjust their rates to consult with their community and submit to IPART their proposed revenue and expenditure.

The most notable difference between principles set out, upon which NSW Government's Guidelines for this Comprehensive Spending Review will be based, and current *Special Rate Variation Guidelines* is that IPART's role will only be to 'consider whether the community has the capacity to pay the rates.'

The key criteria in *SRV Guidelines* are #1 – the need for the rate increase must be 'clearly articulated' – and #3 – 'the **impact** on affected ratepayers must be **reasonable**' and to this end, the Delivery Program and Long Term Financial Plan should 'demonstrate the council's consideration of the community's **capacity** and **willingness** to **pay rates**.' A review of IPART's determination reports clearly shows its focus is already on **capacity to pay** (#3) once a council demonstrates it has a '**financial need**' (#1).

Is it any wonder that IPART's survey of ratepayers accompanying its *Review* found almost two thirds don't **trust** their councils to keep **rate increases reasonable**? **WHY** does council **need** the **money**?



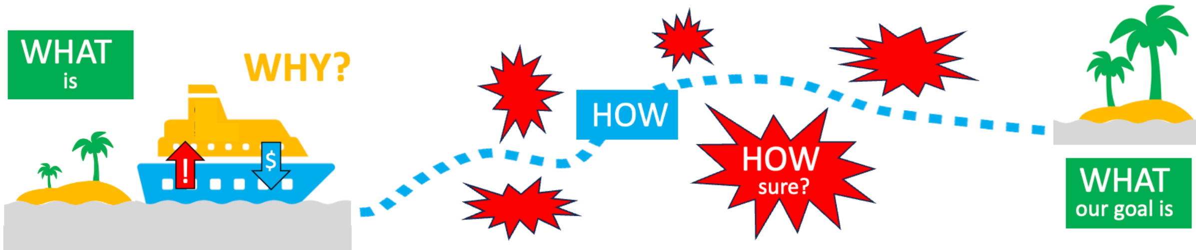
IPART was right: the **lack** of **trust** arises from a need to improve how councils communicate with ratepayers about **rates**. But to do so we've got to recognise **money** is just a **means**, not the **end**.

Here the *SRV Guidelines* offer an alternative: while evidence in support of criterion #1 may include analysis of a council's **financial sustainability** (which is IPART's focus) it can *also* include evidence of community **need/desire** for the **service levels** and limited council **resourcing** alternatives.

One benefit of 'Purpose-Focused Governance' is antagonism associated with imposing rate increases the community is ***un*****willing** to pay is *potentially* reduced, but it fundamentally rejects the underlying assumption that there is *automatically* (as the Panel put it) 'a need for faster revenue growth.'

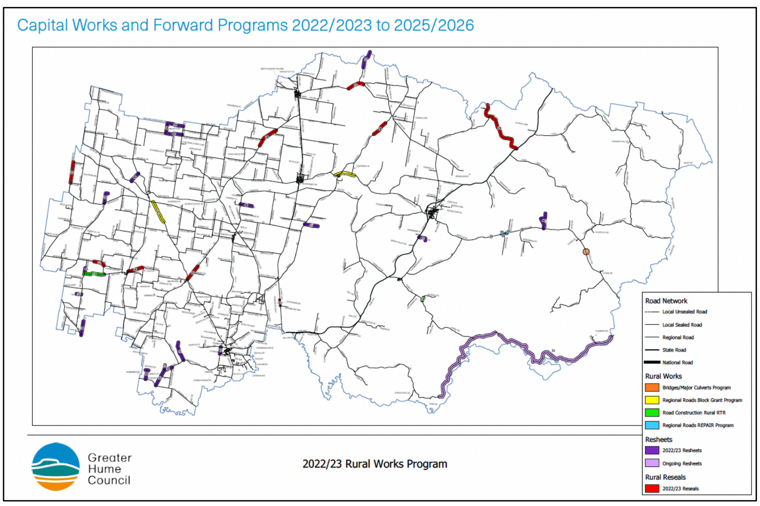
A council's **need** for extra **revenues** depends on the present situation (**WHAT is**), the **future** that the community **desires** to **create** (**WHAT our goal is**) and – where council has a role in **making** that a **reality** – **HOW** we **work** towards our **goal** and **HOW** much those **activities** will **cost** to undertake.

If we talk of **activities** to achieve our **purpose** not **money** council needs (to do **WHAT**ever it does) we make room for **executive leaders** who '**operate the ship**' to provide robust and timely **advice** to help **elected leaders** to '**steer the ship**' in consultation with the 'passengers' paying the 'fare'.



If we talk of **activities** to perform **functions** we also make room in the conversation for councils to give evidence of **effectiveness** – are we **doing** the **right things**? – and **efficiency** – are we **doing things right**?

This reduces the need for faster revenue growth (criterion #5 in *SRV Guidelines*), but *if* it is required to achieve our **agreed purpose** it is far more likely that the community will be **willing** to **pay** it as they'll be more confident they'll get **VALUE** for **money** from **rates**. **Trust** must be the foundation for **revenue**.



But we need to learn to walk before we try to fly.

Roads are a great place to start as they're of high importance to the community, a big cost centre and the biggest opportunity for smaller councils in regional NSW to secure a **fair share** of **funding**.

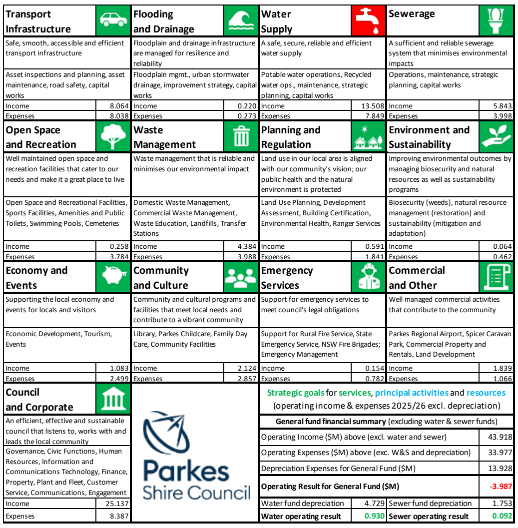
By reframing a council's integrated planning and reporting (IP&R) with a focus on **functions** not '**themes**' from traditional Community Strategic Plans, 'Purpose-Focused Governance' makes room for councils to communicate **HOW** they **spend** their **money** on **maps** like this from Greater Hume.

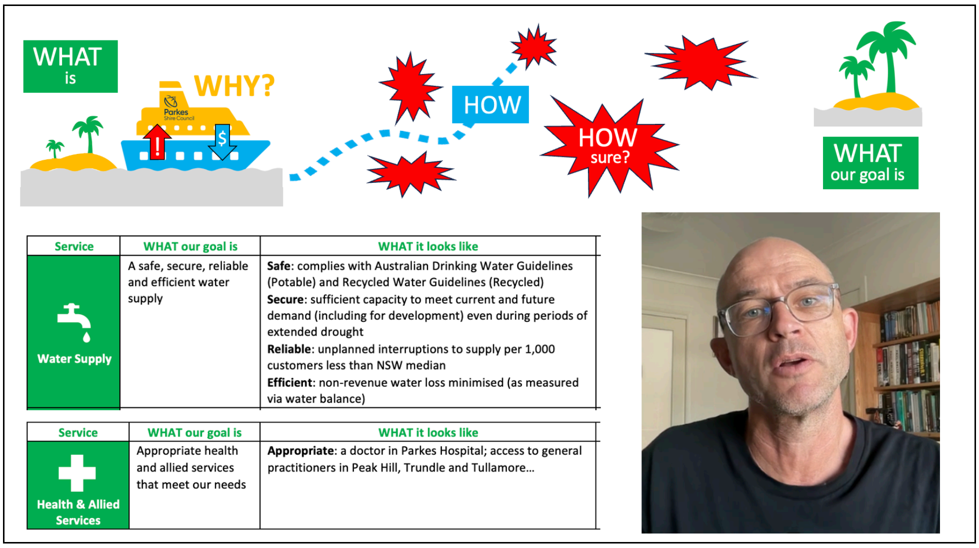
It begs all the **right** questions: **WHAT is** the current state of our **road network**? **HOW** do we **fix** it?

This map-based approach brings together **planning** for **place** in a council's *Local Strategic Planning Statement* and **planning** for **functions** given the **resources** available to do so in the Delivery Program.

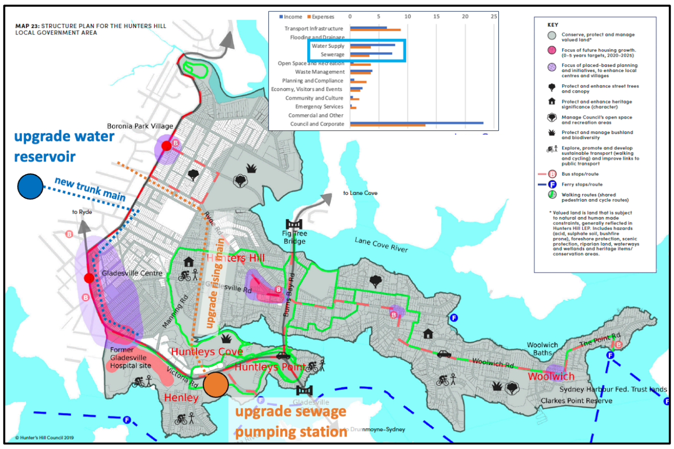
But it's not only primarily about council's **functions** but the **future** we **aspire** to **create** together. Questions like 'who is **responsible**?' and 'can they **deliver WHAT** we **need**?' are vital, but secondary.

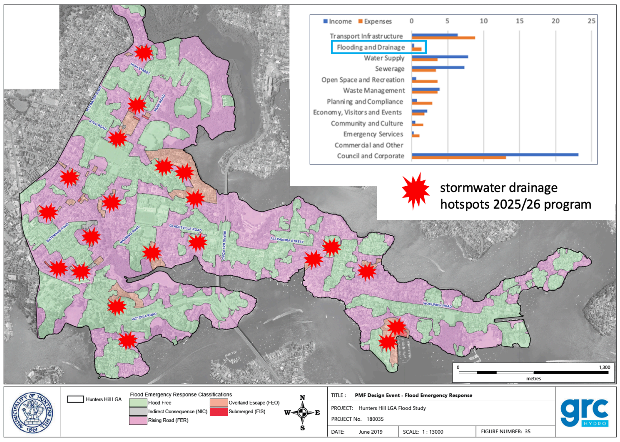
It's about **lived reality**. The **lack** of **water security** in Parkes Shire would've been of no less **concern** to the **elected leaders** of the Council had Central Tablelands Water been responsible for **performing** this **function** (as it does in neighbouring local government areas to the east), just as the **lack** of a **doctor** in Parkes Hospital is of serious **concern** despite this being the **responsibility** of NSW Government.

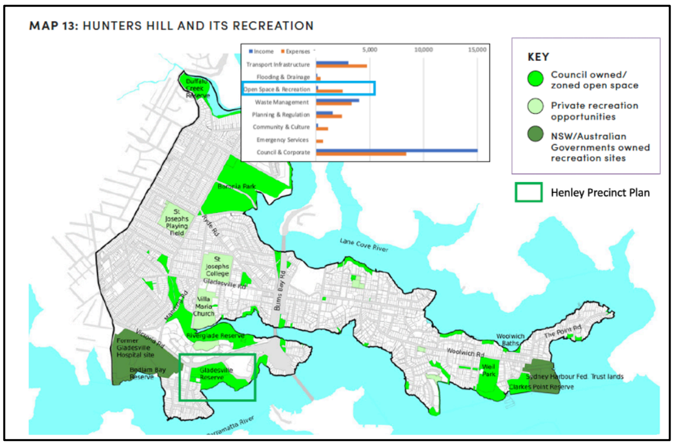


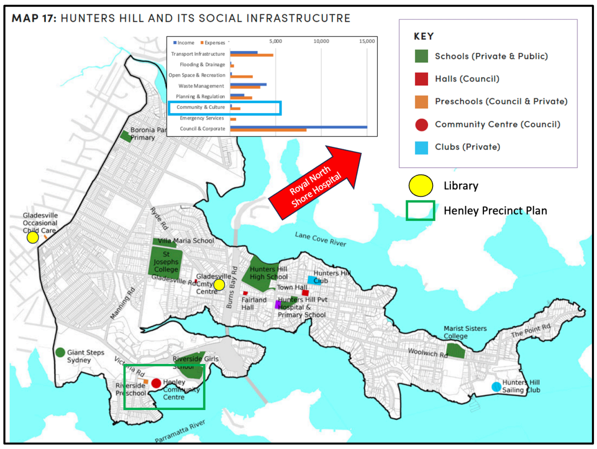


These mock-ups – good **maps** and compact **geography** make Hunters Hill the perfect prototype! – illustrate the central focus of Purpose-Focused Governance besides the service dashboard from Parkes: instead of hundreds of pages of documents, we can communicate both **WHAT is** and **WHAT our goal is** – which is WHY councils need money in the first place – and, importantly, explore alternative scenarios…



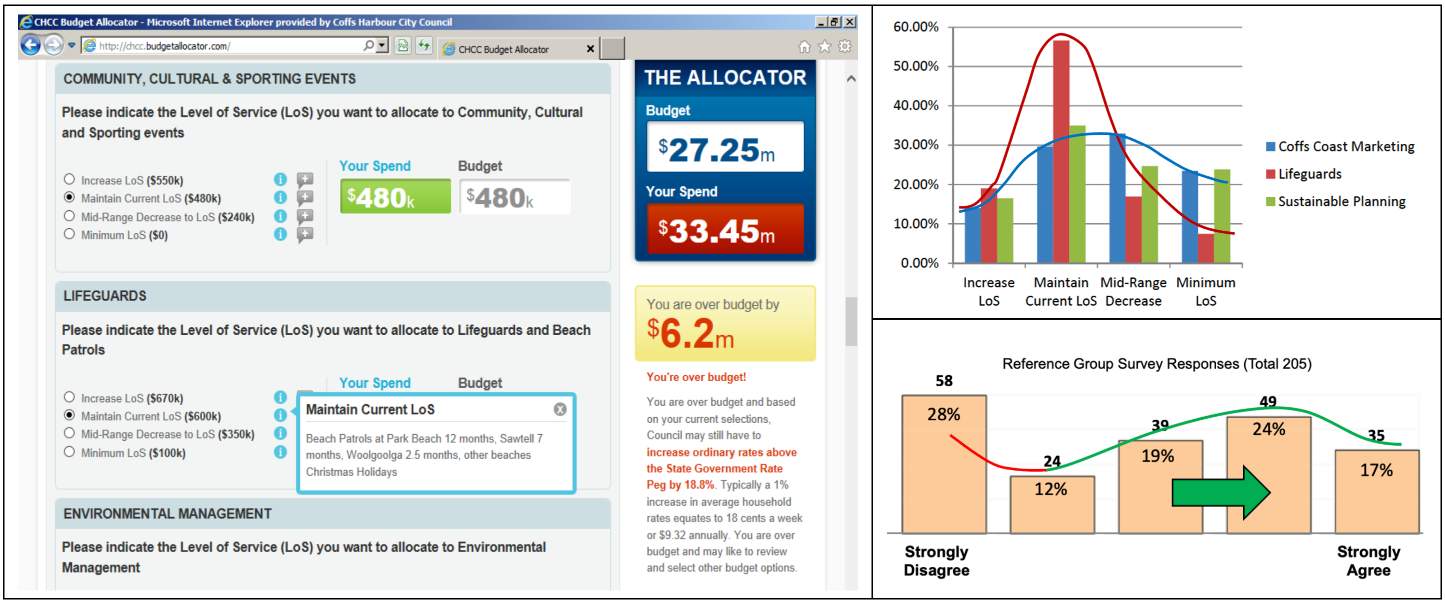




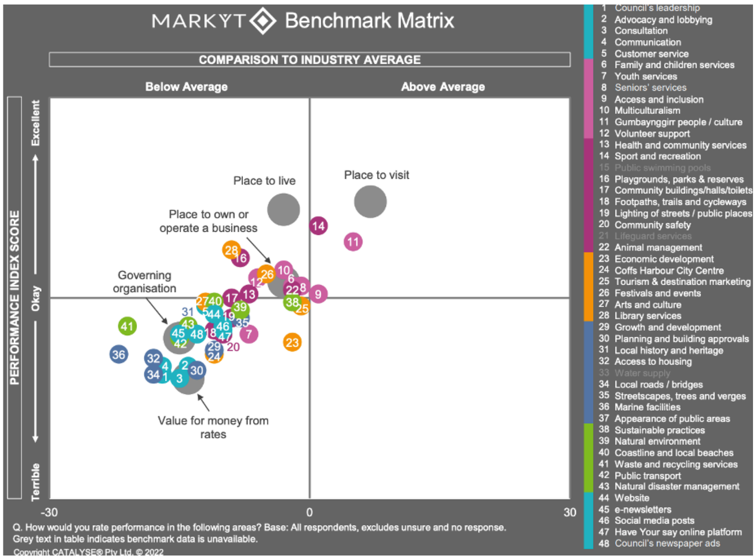


The radical simplification of the bureaucratic frameworks established by NSW Government over the last 15 years could easily be mistaken as the defining characteristic of Purpose-Focused Governance.

But the maps and service dashboard are just tools to support elected leaders who 'steer the ship' to navigate the 'dire straits' of local government and maintain a course of action that realises the vision of the future that the community has agreed to. The defining characteristic is that the 'passengers' who 'pay the fare' are willing to 'get on board' when *invited* to do so. We seem convinced it's not possible, but as this engagement program that Ben Lawson led at Coffs Harbour City Council in 2013-14 – not long before he was made redundant in Council's 'transformation to sustainability'! – is evidence that it is:



But the fact that, just 8 years later, the community rated 'value for money from rates' the lowest of any areas of Council's performance on this chart – yet twice as high as other characteristics of sustainable community LEADER*SHIP* such as clear vision, good understanding of community needs, Council listens to and respects views and clearly explains reasons for decisions – points to deeper problems than those we see in terms of 'financial sustainability.' Trust is the foundation of revenue. WHAT is the money for?



Sustainable community leadership

↓ Down by 4 or more points
= Steady (within +/- 3 points)
↑ Up by 4 or more points

Factor	Indicator	Rating	2016	2018	2020	2022	Trend^	Benchmark	Comparison	Source
Leadership	Clear vision	% Agree	-	-	-	18	-	32	↓	MARKYT
	Council's leadership	Index	-	-	-	31	-	48	↓	MARKYT
	Advocacy and lobbying	Index	-	-	-	33	-	47	↓	MARKYT
Governance	Governing organisation	Index	56	57	-	40	↓	55	↓	MARKYT
	Value for money	Index	-	-	-	30	-	44	↓	MARKYT
Service	Customer service	Index	62	62	-	48	↓	60	↓	MARKYT
Consulting	Community is actively involved in local issues	% Agree	-	-	-	52	-	-	-	-
	Good understanding of community needs	% Agree	-	-	-	15	-	33	↓	MARKYT
	Council listens and respects views	% Agree	-	-	-	14	-	31	↓	MARKYT
	Council clearly explains reasons for decisions	% Agree	-	-	-	14	-	26	↓	MARKYT
	Consultation	Index	-	-	-	30	-	45	↓	MARKYT
Informing	Communication	Index	-	-	-	33	-	50	↓	MARKYT
	Website	Index	64	64	-	46	↓	57	↓	MARKYT
	E-newsletters	Index	-	-	-	41	-	56	↓	MARKYT
	Social media posts	Index	-	-	-	43	-	53	↓	MARKYT
	Newspaper ads	Index	-	-	-	41	-	54	↓	MARKYT
	Have Your Say platform	Index	-	-	-	42	-	52	↓	MARKYT

^ The trend indicator shows the change in performance since the last study.

MARKYT 24

One diagnosis of the problems in the City where Ben and his family still live is the opposite of the old saying 'a poor workman blames his tools': the problem *is* the tools *not* the workman. How does your community *evaluate* your council's performance in relation to 'value for money from rates'?

Purpose-Focused Governance begins with: 'WHAT future are we trying to create together?' Everything else—planning, assets, funding and reporting—exists to help us faithfully pursue that shared purpose.