INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

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1. Introduction

This submission responds to the Committee’s Terms of Reference through the prism of the final report of the Independent Local Government Review Panel: Revitalising Local Government (ILGRP 2013). The Preamble to that report offered the following observations:

Local government in NSW needs a new agenda and a fresh start. The same applies to its relationship with the State government and how the two work together in practice.

For far too long local government has been bogged down in debates about amalgamations, rate-pegging, cost-shifting and demands for additional State and federal funding. Meanwhile the financial sustainability of many councils – and their capacity to deliver the services communities need – has declined, and a significant number are near crisis point. Local government is far from realising its potential to help achieve the State government’s goal of ‘Making NSW Number One’...

Thus the Panel’s objective is to create a revitalised system of local government that will remain sustainable and fit-for-purpose well into the middle of the 21st Century. For that to be achieved, the old debates and slogans must be put aside. The time has come to tackle the underlying issues.

The Government’s ‘Fit for the Future’ (FFTF) agenda adopts to varying degrees many of the measures proposed in the ILGRP report. It highlights the need for ‘stronger’ local government and is clearly intended to chart a new course. However, the way FFTF has been presented – especially the very substantial financial incentives it includes – and the way local government has responded, have brought us back to another heated debate about so-called ‘forced’ council amalgamations. That is both unfortunate and unnecessary. This submission attempts to explain why, to refocus attention on the underlying issues involved, and to suggest a way forward.

2. Independent Local Government Review Panel Recommendations

The Independent Local Government Review Panel (ILGRP) was appointed in April 2012, by agreement between the State government and Local Government NSW (then the Local Government and Shires Associations). Its role was to explore options for governance, structural arrangements and boundary change. In addition, it was to follow-up various issues set out in the Destination 2036 Action Plan that had been developed by the then Division of Local Government and sector representatives following a ‘summit’ held in Dubbo in 2011. Further, the ILGRP was asked to look at two other matters: local and regional governance in the Far West of NSW; and the future of local government water utilities, taking into account the recommendations of the 2009 Armstrong-Gellatly report.

It will be immediately clear that the ILGRP’s review was very wide-ranging and by no means dominated by council amalgamations.

This is also evident from the ILGRP’s recommendations. The ILGRP proposed a broad package of reforms, and emphasized that the reform process needed to proceed simultaneously on a number of fronts, so that it encompassed the system of local government as a whole, and looked at inter-relationships between different elements of reform.

Specifically, the ILGRP made it clear that further consideration of any amalgamations of councils should be preceded or accompanied by essential improvements to local government’s revenue base, borrowing arrangements, financial and asset management, regional organisations and resource sharing, and democratic governance.

The ILGRP envisaged a staged implementation process along the following lines:
• Review and amend legislation and policies in the areas mentioned above
• Fine-tune and implement the concept of regional Joint Organisations (see below) to advance sustainability and provide *an essential foundation* for structural reform in non-metropolitan regions
• Undertake group-by-group assessments of potential mergers/major boundary changes over a period of several years.

With respect to amalgamations, the ILGRP was required to present options and did not make ‘recommendations’ as such. However, it did argue strongly that some amalgamations were essential to make the best use of limited resources, improve the sustainability of local government in some rural areas, strengthen regional centres, and provide a platform for better planning and governance of metropolitan areas. To this end, the ILGRP identified a number of ‘preferred options’.

Analysis of sections 13-15 of the ILGRP’s final report, including Tables 8 and 11, yields the following summary of those ‘preferred options’:

- 24 rural and regional councils into 11 (focused on strengthening regional centres or councils with very small populations that are adjacent to one or more suitable partners)
- 6 Lower Hunter/Central Coast councils into 3
- 31 metro councils into 8 (plus one substantial boundary change).

Thus only 61 of the 144 councils required to submit a FFTF proposal were covered by the ILGRP’s ‘preferred options’. For the other 83 there was either no merger option at all (42), or the merger option was given equal weight (pending further investigation) with ‘no change’ (conditional for most non-metropolitan councils on participation in a ‘fully fledged’ regional Joint Organisation – see below).

A ‘Rural Council’ option (see section 6.1 below) was canvassed for 11 councils. Ten of those might otherwise have been ‘preferred’ for mergers.

The ILGRP emphasized that more detailed consideration of possible amalgamations would be required under the provisions of the Local Government Act.¹ In this regard, it argued that the current legislated process is seriously flawed. Its research had found that the 2004 amalgamations had been poorly planned and as a result gave rise to unnecessary concerns and disruption. There is a need for better information and careful analysis of all options in order to inform public debate and the decision-making process. Accordingly, the ILGRP recommended significant amendments to the Act. It proposed that:

- The State government’s currently unfettered right to impose amalgamations and major boundary changes more or less at will should be limited
- Any amalgamation or major boundary change should be preceded by careful analysis of the issues to be addressed and all the options available
- There should be full community consultation – essentially the current provisions but with much better, impartial explanation of the proposals and their implications

¹ In this author’s view, none of the inquiries or consultations undertaken to date by the ILGP or as part of FFTF (including the current IPART assessments) satisfy the provisions of the Act. Formulation, examination and determination of any amalgamation proposals, will need to re-commenced and conducted afresh in accordance with sections 218E and F, and 263. The factors that must be considered under 263(3) are considerably broader than those covered by the FFTF criteria.
• The process should be handled by an expert, independent body
• The Government should not be able to over-rule the findings and recommendation of that body without good cause.

2.1 Misunderstanding and Misrepresentation

The ILGRP’s proposals relating to amalgamations have been misunderstood and/or misrepresented in two main respects.

• First, that the ILGRP ‘recommended’ sweeping ‘forced’ amalgamations. In fact its ‘preferred options’ for mergers affected only 40% of the State’s councils and the ILGRP sought to reduce the Minister’s current power to force amalgamations.

• Second, that the ILGRP adopted a simplistic view that ‘bigger is better’; failed to consider ‘scholarly’ evidence against such a proposition; and proposed ‘forced’ amalgamations primarily on financial grounds (efficiency, economies of scale and sustainability). In fact the ILGRP stated clearly that amalgamations are not a panacea; considered as much of the available evidence as possible and found valid arguments on both sides of the amalgamation debate; and put forward merger options based on a wide range of factors that differed from case to case according to the objectives to be achieved. In some instances, those objectives were to some extent financial, but in others (notably the Sydney metropolitan region) that was not a significant concern at all.

3. ‘Forced’ vs ‘Voluntary’ Amalgamations

Much of the opposition to local government restructuring in NSW focuses on the supposed evils of ‘forced’, as opposed to ‘voluntary’ amalgamations. However, those drawing this distinction fail to address two key points:

• There is no body of evidence to demonstrate that the outcomes of ‘forced’ amalgamations are necessarily worse than those of ‘voluntary’ mergers. For example, in the Sydney region both the ‘voluntary’ merger of Drummoyne and Concord to create Canada Bay Council, and the ‘forced’ merger of the City of Sydney and South Sydney, have delivered substantial benefits and – over time – been well received by the communities concerned.
• It is not at all clear what the terms ‘forced’ and ‘voluntary’ actually mean in practice.

Undoubtedly, some of those who argue that amalgamations should be ‘voluntary’ are in reality opposed to any amalgamations at all. They appear to believe that amalgamations are ‘forced’ and therefore wrong unless there is strong endorsement from the elected councils affected plus majority community support expressed through a mandatory referendum. This is setting the bar very high indeed, and recent experience in Perth and New Zealand shows that there is little chance of mergers proceeding on that basis, even though some councillors and large sections of the community may be supportive and the merger may also be in the interests of a wider region or the State as a whole.

The following questions need to be answered:

• Is an amalgamation always to be considered ‘forced’ unless there is overwhelming agreement on the part of all those affected?
• Is an amalgamation ‘voluntary’ simply because it is supported by a majority (perhaps a narrow one) of the councillors in each of the affected councils? In those cases, what is the community’s right to have a say?
- How do we take into account the vested interests of some councillors and council managements, and some sectors of the community, when they oppose ‘forced’ amalgamations?
- How is the community to be provided with accurate, unbiased information about the pros and cons of amalgamations, whether ‘forced’ or ‘voluntary’?

These questions are not being discussed. The ILGRP’s proposals for a new approach to considering possible amalgamations were intended to sidestep the unproductive ‘forced’ vs ‘voluntary’ debate and instead concentrate on getting the process right, and affording due process to all concerned.

However, the Government rejected those proposals and instead sought to promote ‘voluntary’ mergers through a range of cash and other incentives. It stated that it would consider: “opportunities to streamline the [Boundaries Commission] process whilst ensuring robust and transparent decision making. In the meantime, the Government will make it easier for councils wishing to merge voluntarily…” (NSW Government 2014).

The only ways in which the current amalgamation process can be ‘streamlined’ are to reduce independent scrutiny of the merits and implications of proposals, and/or to reduce community consultation. But unless there is proper scrutiny and community consultation, a decision by two or three groups of councillors to amalgamate is surely just as ‘forced’ as one made by the Minister?

4. The Fit for the Future Agenda [Term of Reference (a)]

The Government’s ‘Fit for the Future’ agenda was not released until some ten months after the ILGRP’s final report, following a further round of consultation with the sector and a change of Minister. Whilst it supported to varying degrees many of the ILGRP’s recommendations, the Government’s approach differed significantly:

- FFTF focused largely on the financial sustainability and performance of individual councils rather than the system of local government as a whole – nearly every council was required to submit a ‘Fit for the Future’ self-assessment rather than only the 61 affected by the ILGRP’s ‘preferred options’.
- It gave the impression that amalgamations were to be the dominant instrument of reform, and the Government has yet to finalise other key policy changes (especially those relating to revenues, financial management, distribution of grants and regional cooperation).
- It substantially weakened the ILGRP’s recommended approach to the establishment and role of regional Joint Organisations.
- It did not address other underlying strategic issues such as the desirability of strengthening major regional centres, and the role of local government in metropolitan planning and governance.

Moreover, implementation of several important recommendations that were adopted by Government has been delayed and outcomes will not be known until sometime in 2016. This applies in particular to the reviews of the rating system (yet to begin) and the regulatory burden on councils, as well as completion of the Joint Organisation pilots.

As a result of these delays and departures from the ILGRP’s package, it appears that councils’ FFTF submissions will have to be evaluated without a sufficient strategic framework and without knowing whether there will be significant policy and organizational changes that could materially affect councils’ future performance and sustainability.

5. Scale and Capacity [TOR (c, d)]
The ILGRP’s proposals were based to a large extent on the need for councils in NSW to have increased ‘strategic capacity’. Its argument ran as follows:

Recent research by the Australian Centre of Excellence for Local Government (ACELG) has explored the need to create more ‘strategic capacity’ in local government – both within individual councils and collectively. Building a sustainable system requires councils that are ‘fit for purpose’ to play their part in the broader system of government.

The concept of strategic capacity highlights this aspect of reform: the need for councils to shift their focus towards a more strategic view of their operations; to have the ability to respond to the diverse and changing needs of different communities; and to take on new functions or deliver improved services in order to meet those needs.

... strategic capacity can be increased both by creating larger units of local government – the approach favoured in Queensland – and through regional collaboration and resource sharing. In the Panel’s view, a mix of these two approaches will be necessary to ensure a sustainable and effective system of local government in NSW. (ILGRP 2013, p.32)

The ILGRP listed ten key elements of strategic capacity:

- More robust revenue base and increased discretionary spending
- Scope to undertake new functions and major projects
- Ability to employ wider range of skilled staff
- Knowledge, creativity and innovation
- Advanced skills in strategic planning and policy development
- Effective regional collaboration
- Credibility for more effective advocacy
- Capable partner for State and federal agencies
- Resources to cope with complex and unexpected change
- High quality political and managerial leadership.

Consistent with the findings of extensive research conducted by ACELG (2011), the ILGRP did not argue that amalgamations are a panacea to the problems facing local government. It favoured a mix of some amalgamations – where appropriate and justified – and increased regional cooperation and resource sharing.

The ILGRP’s ideas were reflected in the Government’s Fit for the Future criterion of ‘scale and capacity’, which has been reinforced by IPART’s proposed methodology to assess FFTF submissions. However, the Government muddied with the waters with its other criteria, namely that councils must be sustainable, efficient and effectively manage infrastructure and deliver services for communities. These are perfectly valid criteria, but as part of FFTF they are to be measured primarily by a series of purely financial indicators and benchmarks. This has opened the door to unnecessary debates about the validity of those indicators and benchmarks, which are inevitably less than ideal, especially given the current lack of consistent, reliable data with which to analyse councils’ performance. The Government’s approach has also enabled critics to argue that there is no generally applicable ‘straight-line’ relationship between size, efficiency and financial sustainability – which is true but demonstrably irrelevant to the original case for reform advanced by the ILGRP.

5.1 Recent Evidence from Clarence Valley

Dr Ian Tiley (2013) undertook a detailed analysis of the 2004 amalgamation of four Clarence Valley councils. His findings support some of the concerns raised by those opposed to amalgamations,
notably the disruption caused, a tendency to increased bureaucracy, the need to improve community engagement, and the failure of expected financial savings to materialise – at least in the early years of the new council. Overall, however, Tiley points to benefits rather than drawbacks. He identifies economies of scale and scope, and concludes as follows (ibid, p.340):

…the weight of empirical evidence produced in respect to the CVC [Clarence Valley Council] case study proves that the economic benefits have outweighed the fiscal disadvantages of this amalgamation…at least from a fiscal standpoint, bigger is indeed better, but not obviously cheaper. (emphasis added)

In arriving at this conclusion, Tiley cites the following gains:

- A consolidated strategic vision and improved strategic planning
- Increased employment and service delivery capacity generally, including improved purchasing power, more equitable delivery of services, and capacity to employ more specialist staff
- More efficient use of plant and equipment
- A more strategic approach to risk management
- Reduced processing time for development applications due to improved skills
- Economic development initiatives.

Whilst Tiley does not use the term ‘strategic capacity’, his findings lend strong support to the concept (ibid, pp.297-303):

The larger organisation has been able to increase outputs and projects that were beyond the capacity of the former councils … CVC has developed the capacity to deliver services over a wider footprint than its LGA…there is sufficient evidence to suggest that the financial strength and stability of CVC is now greater than that of each of the former councils …

6. Financial Sustainability [TOR (b, c)]

The ILGRP was required to consider the long-term future of local government – at least to 2036. It therefore undertook a wide-ranging examination of the likely sustainability of councils and local government areas in their current form, drawing on both previous studies and commissioned research. Factors taken into account included:

- Trends in regional economies and development patterns across the State
- Councils’ revenue potential (especially the rating base) and dependency on grants
- Population projections
- The findings of the financial sustainability assessments carried out by the Treasury Corporation (TCorp) and the infrastructure audits conducted by the Office of Local Government.

Financial sustainability is just one element – albeit critical – of a council’s overall sustainability. As discussed in the previous section, consideration of sustainability also needs to take into account a council’s broader capability and performance measured against the components of ‘strategic capacity’, notably the quality of governance and management, skills in strategic planning, and involvement in regional cooperation and resource sharing.

In terms of financial sustainability, the ILGRP adopted TCorp’s (2013) definition that:

A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community.
This definition takes into account the potential impact that changing circumstances and emerging challenges could have on a Council’s operating position and service levels over the long term. In this regard, the ILGRP (2013, p.26) commented as follows:

*The available evidence points to a difficult fiscal outlook for NSW and Australia as a whole: weaker revenues during a time of relatively slow economic growth, coupled with the need to fund infrastructure gaps and increasing demands for services. The federal budget is much more constrained than it has been for decades...*

*This suggests that local government cannot expect increases in total state and federal funding... Making the best use of the existing pool of grants and of local government’s own tax base – rates – will assume even greater importance.*

As it happens, the recent agreement to allocate the first two years’ revenues from Commonwealth fuel exercise indexation to the Roads to Recovery program will provide a substantial short-term boost to local government revenues. However, it seems unlikely that this largesse will be sustained.

Critics have claimed that the ILGRP relied unquestioningly on the TCorp assessments. That is demonstrably untrue, and TCorp itself acknowledged the limitations of its methodology – in particular the frequent lack of reliable data with which to make a definitive judgement. But whilst TCorp’s work will need to be updated as better information comes to hand, it clearly pointed to underlying systemic issues that must be addressed. These include the need to improve financial governance and management in many councils, increase rate revenues to tackle infrastructure backlogs and reduce operating deficits, and make more effective use of borrowings. It will be difficult to assess councils’ FFTF submissions without clear Government policy directions in these key areas.

Another concern is that FFTF’s focus on financial ratios and benchmarks is causing councils to focus on short-medium term ‘budget repair’ rather than long-term sustainability. Also it appears that in order to meet the benchmarks, some councils may simply adjust depreciation rates and their calculations of infrastructure backlogs, rather than tackle underlying revenue and expenditure issues.

### 6.1 ‘Rural Councils’

Ongoing problems of financial sustainability apply principally to smaller (in population) rural and regional councils that have limited rating bases but responsibility for an extensive road network, and are therefore highly dependent on grants and RMS road maintenance contracts. Often these councils are also struggling to maintain essential services to far-flung communities in the face of reductions in State and federal service provision.

At present, there is a widespread expectation that these councils should receive ever increasing grant funding – but is that a wise and sustainable use of taxpayer funds? The ILGRP proposed that grants should be increased, but with more strings attached, such as requirements to cut governance and senior management costs, and for much more resource sharing (including joint administrations) with nearby councils under the auspices of a mandatory Joint Organisation (see section 10 below).

The ILGRP also recommended further investigation of a new model of ‘Rural Councils’ with somewhat reduced responsibilities and a lower cost structure commensurate with limited resources. It envisaged that in due course the Local Government Act would be amended to include a ‘category’ of ‘Rural Council’ with defined characteristics, plus a set of legal provisions governing their operations. It proposed that a Working Group be established to develop a detailed model. However, this has not occurred and as a consequence there appears to be no firm indication as to how the
structure and operations of a ‘Rural Council’ would differ from those of other small (in population) rural-remote councils, nor a set of essential steps such a council would need to improve its long-term sustainability – and especially to justify continuing, very substantial grant support.

7. Amalgamations: Costs, Benefits and Impact [TOR (g-k, m)]

As noted already, the ILGRP made it clear that amalgamations and boundary changes are not the panacea for local government’s problems, nor are they the only type of structural reform that should be pursued. However, it concluded that some amalgamations are an essential element of a wider package of reforms. NSW simply cannot sustain 152 high-performing councils: many are too dependent on grant support; fiscal imperatives demand efficiencies in government across the board; and there are shortages of skilled personnel.

Moreover, the ILGRP argued that taxpayers should not be expected to increase grant funding indefinitely to support councils that are unnecessarily small, lack capacity and build excessive costs into the system. Mergers should be pursued where they can make a substantial contribution to building capacity for the long term, reducing fragmentation of resources and duplication of effort, and addressing financial problems. Capacity should be further enhanced through regional collaboration via the new Joint Organisations (see section 10 below).

Arguments for and against amalgamations are hotly contested, often with little conclusive evidence to support the claims being made. There have been very few ‘before and after’ studies of specific amalgamations. Also, it is possible to manipulate the results of studies that predict the results of future amalgamations simply by adjusting the assumptions and/or data that are fed into economic models. And experience shows that the outcomes of amalgamations will depend heavily on the quality of pre-planning, as well as governance and management in the period immediately after (Tiley 2012; Jeff Tate Consulting 2013).

As noted in section 3 above, the ILGRP saw no evidence to show that the outcomes of ‘forced’ amalgamations are necessarily worse that those of ‘voluntary’ mergers – although clearly a merger that is imposed at short notice on unwilling and unprepared councils is likely to be more disruptive in the short term.

7.1 Possible Benefits of Amalgamations

Overwhelmingly, amalgamations across Australia have been initiated by State governments in the belief that larger local government units will be more efficient and effective, better suited to the needs of a modern economy, and better able to deliver services and provide sound governance.

Predictions of cost savings and hence reduced rates were a particularly common justification for local government amalgamations during the 1990s. In Victoria, it was claimed that savings of about 20% would be achieved (Moore 1996, p.65). But the extent to which real savings were made and economies of scale eventuated there and elsewhere remains a matter for debate. McKinlay Douglas (2006, p.23) reported that amalgamations in South Australia in the mid-1990s were projected to save $150m per annum in local government expenditures, but in practice the changes (albeit greatly modified from the original proposals) saved only $19m per annum. However, it is not known whether this outcome was the result of a failure to make efficiency savings, or because savings were ‘ploughed back’ into improved services and infrastructure.
Reports included in submissions to the ILGRP argued that efficiencies and cost reductions amounting to tens of millions per annum could be achieved through amalgamation of two groups of councils in metropolitan Sydney – Randwick/Waverley/Woollahra and Manly/Warringah/Pittwater (SGS 2013a and 2013b). Similarly, Dollery, Goode and Grant (2010, p.300) found that a potential amalgamation in rural Western Australia could deliver significant cost savings, albeit at the expense of adverse effects on local community sustainability. Also, as noted earlier, Tiley (2013) identified some efficiency gains flowing from the Clarence Valley merger.

The 2011 ACELG report Consolidation in Local Government: A Fresh Look looked at four different types of consolidation and compared their attributes across four potential outcomes: efficiency and economies of scale; strategic capacity (economies of scope); service improvement and innovation; and potential diminution of local democracy (see Table 1 below). Amalgamations rated highly against the first three – as did robust shared services arrangements, but with some qualifications. ACELG concluded as follows (2011, pp.10-11):

... consolidation provides important opportunities to capture economies of scope and enhance the strategic capacity of local government, ... newer evidence about the value of strategic capacity, and that it may be strongly linked to larger units of local government, means that amalgamation should not be ruled out as an option simply because other forms of consolidation can yield economies of scale or scope, or because amalgamations have not been shown to generate significant cost savings or rate reductions.

Table 1: Summary Attributes of Different Forms of Consolidation

<table>
<thead>
<tr>
<th></th>
<th>Amalgamation</th>
<th>Boundary Change</th>
<th>Shared Services</th>
<th>(Looser) Regional Collaboration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency and Economies of Scale</td>
<td>Strong link</td>
<td>Potentially strong link subject to size/disposition of</td>
<td>Strong link</td>
<td>Weak link</td>
</tr>
<tr>
<td></td>
<td></td>
<td>re-shaped councils</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Capacity</td>
<td>Strong link</td>
<td>As above – benefits will flow to larger ‘new’ council/s</td>
<td>Potential medium-strong link subject to organisation structure and governance</td>
<td>Weak link</td>
</tr>
<tr>
<td>Service Improvement and Innovation</td>
<td>Strong link</td>
<td>As above</td>
<td>Strong link (but limited to those services that are effectively shared)</td>
<td>Potential link subject to nature and scope of collaboration</td>
</tr>
<tr>
<td>Potential Diminution of Local Democracy</td>
<td>Distinct risk, but can be managed</td>
<td>Some risk depending on nature of ‘new’ councils – can be managed</td>
<td>Risk where shared services are extensive and decision-making is ceded to joint authority – may be difficult to manage</td>
<td>Little or no risk</td>
</tr>
</tbody>
</table>

Source: ACELG (2011, p.7)

7.2 Possible Disbenefits

Numerous arguments have been raised against amalgamations (see for example Dollery, Grant and Korrt 2012, pp.15-47). These include:

- Exaggerated claims are made for efficiency gains and cost savings that are subsequently not met
- There is no statistically significant relationship between council population size and per capita expenditure, and size and density of population are only weakly linked to financial sustainability
- Transition costs and disruption associated with mergers have been seriously underestimated
- Economies of scale are often illusory
Local government provides a wide range of services with varying opportunities for economies of scale, and for some services amalgamations will actually produce diseconomies of scale. Where available, economies of scale are better achieved by other means, especially shared services. Larger local governments tend to spend more with less scope for public scrutiny of larger bureaucracies. Amalgamations result in lower economic activity and falling employment levels, especially in rural and regional areas.

There is no doubt that adverse consequences of amalgamations have been experienced in some instances. Equally, the evidence shows that there is no simple ‘straight line’ relationship between council size, operational efficiency and per capita costs of service delivery. However, the ILGRP found that few of the assertions put forward by opponents of amalgamations are supported by conclusive evidence, and without a substantial number of detailed before and after studies of specific amalgamations it is virtually impossible to verify either their claims or those of the supporters of amalgamations.

For example, the ILGRP could find no proof that larger councils necessarily spend more or suffer from diseconomies of scale. It is hardly surprising that larger councils may tend to spend more, because they usually have a stronger revenue base and are able to provide a wider range of services to a higher standard.

Turning to employment and economic development, a survey of employment levels before and after the 2004 amalgamations in NSW found no evidence of job losses overall – total employment increased – although there may have been some shifts in the pattern of employment (different kinds of jobs, changes in the location of employment within the local government area) (Jeff Tate Consulting 2013). Also, other evidence assembled by the ILGRP indicated that larger, amalgamated councils such as Clarence Valley (Tiley 2012), Geraldton (ACELG 2011) and Tamworth Regional were able to allocate additional resources to promoting economic development.

The issue of transition costs has also been studied in some detail. Tiley’s (2012) study of the Clarence Valley amalgamation supports the view that, at least in the short term, the transition can be both costly and disruptive. This finding is corroborated by other reviews of recent Australian experience (Jeff Tate Consulting 2013, Hoffman and Talbot 2013), but with the proviso that a better planned and more consultative amalgamation process can reduce disruption and produce much improved results.

### 7.3 Recent Evidence from Queensland

Costs incurred by Queensland councils as a consequence of the 2007-08 amalgamations were reviewed in 2009 by the Queensland Treasury Corporation (QTC). The review was based on figures supplied by the councils themselves. Key findings were as follows:

- Costs were indeed substantial: the 24 councils involved claimed a total cost of $184.71m – but QTC’s assessment reduced this figure to $47.21m, largely by excluding what it regarded as discretionary decisions to adopt the wage and salary levels of the previously highest paying council.
- Additional costs would be progressively offset by savings – but savings were often ploughed back into improved services rather than made explicit.

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2 The Local Government Act protects the employment of staff of the previous councils (except ‘senior staff’) for three years after a merger. It also requires maintenance as far as practicable of previous staff numbers in ‘rural centres’ (populations of less than 5,000).
All the councils had the financial capacity to meet the costs of amalgamation, which represented only 0.3-1.5% of operating revenues.

QTC’s findings lend some support to both sides of the amalgamation debate. Similarly, a review of council amalgamations in Queensland by Hoffman and Talbot (2013) provides further valuable insights that point to the opportunities offered by well-designed amalgamations, but also to the potential pitfalls, especially when the process is poorly constructed and executed.

Hoffman and Talbot contrast the selective, consultative mergers that took place in Queensland during the period 1992-96 with the sweeping forced amalgamations of 2007-08. The former reduced the number of councils from 166 to 157, the latter from 157 to 73. Community responses to the 1990s amalgamations were very positive: 3 of the 9 new councils conducted de-amalgamation polls in 1996 but none were successful. By contrast, the 2007-08 amalgamations raised widespread community concerns about lack of consultation, declining quality of services and loss of local identity. When given the opportunity in 2013, 16 of the 31 new councils sought de-amalgamation polls, 4 were eventually undertaken and all 4 were successful.

Nevertheless, Hoffman and Talbot find that in general the Queensland public largely accepts the changes, and that the amalgamations have had beneficial effects in terms of financial sustainability and strategic capacity. Also, local government is now seen as a more effective partner of the State government with increased capacity to deal with regional and metropolitan development issues, and greater political clout. However, challenges remain and amalgamations are an ‘opportunity not an outcome’. Hoffman and Talbot conclude that: ‘Success will and has been achieved over time (5-10 years) depending on leadership, policy choices and response to external impacts.’

8. Rates [TOR (h, o)]

Municipal rates are a tax on the value of land – a tax on wealth, not income. They are not a fee-for-service: councils levy fees and charges separately from rates and (as for all taxes) there is no requirement for rates paid to be linked to services received.

Also, in any discussion of rates it is important to note that Australia-wide they amount to only 3.4% of total tax (2012 figures) – far less than State land tax and stamp duties. In NSW the average residential rate in NSW is still less than $1,000 per annum (excluding waste disposal charges). This means that a 5% increase amounts on average to less than $1 per week per household/property.

The rate per dollar of land value is set and levied council-by-council, and the total revenue collected matched to each council’s expenditure requirements. This means that the ‘rate in the dollar’ will vary greatly according to the infrastructure and services needs of different local government areas, and the total value of land in those areas (ie the council’s revenue base). The ILGRP highlighted this issue in Table 2 below.

The table shows, for example, that relative to the value of their land, residential ratepayers in Campbelltown pay on average about five times more than their counterparts in Woollahra. This is because Woollahra Council simply has no need to raise anywhere near the amount of money its land value base could generate by applying the same rate in the dollar as Campbelltown. This has nothing to do with the capacity to pay of individual ratepayers. A 2007 study by the Productivity Commission found that most larger urban councils raised far less revenue than they could, even after taking into account their communities’ capacity to pay. The study suggested that many such councils could become fully self-funding, raising questions about the current distribution of federal financial assistance grants. The ILGRP called for further examination of this issue.
Table 2: Variations in the Rating Burden

<table>
<thead>
<tr>
<th>Local Government Area</th>
<th>Average Residential Land Value 2011/12 ($)</th>
<th>Average Residential Rates 2011/12 ($)</th>
<th>Rates as % of Land Value 2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Woollahra</td>
<td>1,036,898</td>
<td>1,006</td>
<td>0.10</td>
</tr>
<tr>
<td>Ku-ring-gai</td>
<td>529,412</td>
<td>591</td>
<td>0.11</td>
</tr>
<tr>
<td>North Sydney</td>
<td>366,043</td>
<td>484</td>
<td>0.13</td>
</tr>
<tr>
<td>Waverley</td>
<td>563,832</td>
<td>796</td>
<td>0.14</td>
</tr>
<tr>
<td>Kogarah</td>
<td>446,270</td>
<td>887</td>
<td>0.20</td>
</tr>
<tr>
<td>Palerang</td>
<td>237,770</td>
<td>770</td>
<td>0.32</td>
</tr>
<tr>
<td>Penrith</td>
<td>229,634</td>
<td>957</td>
<td>0.42</td>
</tr>
<tr>
<td>Blacktown</td>
<td>183,763</td>
<td>808</td>
<td>0.44</td>
</tr>
<tr>
<td>Clarence Valley</td>
<td>152,449</td>
<td>784</td>
<td>0.51</td>
</tr>
<tr>
<td>Campbelltown</td>
<td>154,348</td>
<td>817</td>
<td>0.53</td>
</tr>
<tr>
<td>Bathurst</td>
<td>100,403</td>
<td>810</td>
<td>0.81</td>
</tr>
<tr>
<td>Albury</td>
<td>115,128</td>
<td>1,045</td>
<td>0.91</td>
</tr>
<tr>
<td>Warrumbungle</td>
<td>30,648</td>
<td>452</td>
<td>1.47</td>
</tr>
<tr>
<td>Broken Hill</td>
<td>28,802</td>
<td>674</td>
<td>2.40</td>
</tr>
</tbody>
</table>

Another major concern raised by the ILGRP was the need to change the basis on which apartments are rated. Currently, owners of high value apartments can pay much less in rates than owners of houses of similar value, because all rates are calculated on land value and the land value of an apartment block is typically divided between dozens or even hundreds of strata titles. In the City of Sydney, for example, most apartment owners pay only the minimum rate. This situation is clearly inequitable. Moreover, with the surge in apartment construction in many parts of Sydney as well as Wollongong, Newcastle and elsewhere, councils are foregoing large amounts of revenue that could reasonably be raised from apartment owners. The ILGRP proposed that in future councils have the option of rating apartments on their ‘capital improved’ value.

The Government has indicated that it will engage IPART to conduct a thorough review of these and other issues of concern (especially exemptions and concessions) with the current system of rating in NSW. That review could have a profound impact on local government revenues, with significant implications for sustainability and some proposals for amalgamations. However, the outcome will not be known until well into 2016 or beyond.

In the meantime, the following points can be made regarding the potential impact of amalgamations on rates:

- Creating larger local government areas has the potential to improve equity between different ratepayers, because the amalgamation may improve the mix of high- and low-value properties. Wealthier ratepayers may then pay more – an outcome which is surely reasonable but which often leads to complaints about rate increases from those seeking to protect their current privileged position.
- Unless the amalgamated council makes a deliberate decision to increase total expenditure (eg to improve services or tackle an infrastructure backlog), there is no valid reason why the total rates
burden should increase in the medium-long term, provided the new council is managed at least as efficiently as its predecessors.

- The various studies of potential amalgamations in Sydney referenced earlier all showed that efficiencies could be achieved that would exert downward pressure on revenue needs – even allowing for the likelihood that some of their findings are optimistic.
- In NSW, the rate-pegging arrangements would ensure that any significant rate increases following an amalgamation are closely scrutinized by IPART.
- The Queensland experience mentioned earlier shows that transition costs, while significant, should have at most a limited and short-term impact on rates.

It seems reasonable to conclude that the impact on rates should not be a ‘make or break’ factor when considering amalgamations – and certainly it will make no difference whether amalgamations are ‘forced’ or ‘voluntary’ (unless voluntary mergers are deliberately arranged between areas with identical patterns of land values and rating systems, which is extremely unlikely). In fact, amalgamations offer an opportunity to improve equity between different groups of ratepayers, and to overhaul rating systems that in many cases have not been thoroughly reviewed for decades.

9. Cooperative Models [TOR (I)]

9.1 ILGRP Proposals

The ILGRP put great weight on the establishment of statutory regional Joint Organisations of councils (JOs) across the whole of the State except the Sydney metropolitan region, Central Coast and Far West. It noted that voluntary cooperation has been spasmodic and patchy (see section 10.2 below), and therefore recommended that both membership of these organisations and a core group of functions should be mandatory – but governance and operation arrangements should be tailored to the specific circumstances of different regions, largely at the discretion of member councils (ie there would be no one-size-fits-all model).

The ILGRP’s rationale was that:

- Research had identified a very large number of ‘Councils at Risk’ in non-metropolitan NSW
- Greatly enhanced regional collaboration, resource sharing, strategic procurement and shared services delivery could assist those councils to address the medium-long term financial pressures they face, and enable many smaller councils to remain ‘stand-alone’ entities (ie avoid amalgamations)
- Robust regional organisations would also provide a platform for much-improved, more productive inter-government relations, including State-local partnerships, leading amongst other things to long-term gains in efficiency and effectiveness of infrastructure provision and service delivery.

Regrettably, a lengthy delay occurred in launching the JO pilots (which the Panel had envisaged being completed by now), and the Government decided against requiring extensive resource-sharing and shared services as a core function of JOs. Pilot JOs are not due to report until the end of 2015, after the FFTF assessments. Moreover, it seems that some other core elements of the Panel’s proposal for JOs, notably incorporation of existing County Councils as subsidiary boards and business units, and establishing Regional Roads Groups and Regional Water Alliances (the latter previously recommended in the 2009 Armstrong-Gellatly report), are not being pursued.

Failure to fully implement the ILGRP’s proposals for JOs can only weaken the case of many smaller (in population) councils to be declared Fit for the Future. Also, the delay in finalizing a JO model means
that assessment of councils’ FFTF submissions will require assumptions to be made about the extent to which they will benefit from resource-sharing.

9.2 Research Evidence

The research evidence on cooperative models is mixed. Advocates of regional cooperation claim that a well-established regional organisation undertaking a range of shared services, joint planning and special projects can achieve significant cost savings and service improvements, develop additional ‘strategic capacity’, and at the same time retain the benefits of smaller councils – in particular a high level of local political representation and responsiveness to community needs.

Dollery, Grant and Kortt (2012) have provided a thorough review of various models of regional collaboration and shared services in Australian local government, including several case studies. They argue strongly in favour of regional cooperation as an alternative to amalgamations. However, the closing paragraph of their book (ibid, p.251) also suggests that there are significant limits to what regional collaboration and shared services can achieve:

*While in this book we ... have concluded that shared service arrangements have a vital role to play in Australian local government, it is important not to ‘oversell’ this message by way of exaggerated claims for what shared services models can realistically achieve ... like all instruments of public policy, shared services models have their limitations which must be recognised.*

Elsewhere, Dollery, Grant and Crase (2011, pp.161-162) have pointed out that the success of regional arrangements depends on a complex range of factors that go well beyond relatively straightforward issues of service delivery:

*Dollery and Akimov (2009) argued that while shared service arrangements can improve the efficiency of local service provision, the degree of success varied considerably from case to case, and did not seem to depend on the characteristics of the services in question... Moreover, [they] observed that there are often significant barriers to the implementation of shared service arrangements, which are difficult to overcome, including the loss of ‘local identity’, the complexity of the processes involved, conflicting objectives between participating councils and uncertainty surrounding potential benefits.*

The history and eventual failure of the New England Strategic Alliance of Councils (NESAC) highlights these potential problems (Dollery, Grant and Kortt 2012, pp.197-207).

Similar findings were made in a report by Gooding Davies commissioned by the ILGRP. The report explored options and models for enhanced regional collaboration through Regional Organisations of Councils (ROCs). It found that:

*... the delivery of shared services by ROCs remains patchy and uneven. This reflects the disparate size, number and wealth of participating councils, as well as variations in factors such as the level of commitment and institutional leadership involved. These factors apply to all forms of shared services activity. (Gooding Davies 2012, p.1)*

10. Local Identity and Democracy [TOR (n)]

The ILGRP (2013, p.21) defined local government as ‘the government of communities and places’. It argued that elected councils are a fundamental element of our democracy, giving expression to
people’s aspirations for their neighbourhoods, towns and regions. The ILGRP was therefore committed to establishing a framework within which democratic local government can flourish.

However, this does not require ‘snap-freezing’ the current map of local government. The number of councils in NSW has declined dramatically over the past century due to both ‘voluntary’ and ‘forced’ mergers. Many councils that now claim a strong local identity for their area, and oppose amalgamations, are in fact the product of previous boundary changes. The present City of Sydney is a classic example: it can hardly be claimed that the current boundaries are somehow a definitive expression of the community’s will.

In a similar vein, patterns of development in both urban and regional areas have created communities that cross old local government boundaries. Urban development in Sydney, the Central Coast and the Lower Hunter is seamless and many council boundaries are purely arbitrary – and often an obstacle to sound planning and infrastructure and service provision. In the Central West, a large number of people who are in reality part of the community of the City of Orange live on the Cabonne Shire side of the historical border. And so on.

Turning from boundaries to the issue of sheer size, opponents of amalgamation rely heavily on the argument that local identity will be lost in bigger local government units: that larger councils will pay less attention to the specific needs of different suburbs or neighbourhoods and will fail to take steps to maintain their character. However, the ILGRP could find no evidence that loss of local identity is an inevitable consequence of creating larger local government areas.

Very rarely, however, communities are so different, or so fiercely independent, that forcing them to share a local council is probably unwise. The recent example of the four de-amalgamations in Queensland highlights this point – but it should be noted that in the overwhelming majority of cases, communities come to terms with new local government boundaries within a few years of the change. Since 1990 the number of councils in the six States has been reduced by more than 220, but there have been only five de-amalgamations.

Nevertheless, experience suggests that special efforts need to be made after an amalgamation, or in a large, growing local government area, to maintain a sense of local identity and place. Good examples in NSW include the steps taken by Tamworth Regional Council following its creation by the merger of five councils in 2004, and the strong focus on ‘place management’ by councils such as Lake Macquarie, Parramatta, the City of Sydney and many others.

Clearly, it is simply not possible to have a separate council for every identifiable place or community. That would mean, for instance, dividing Sydney into hundreds of suburban council areas. The ILGRP therefore proposed that as part of a wider package of structural reform, a range of methods should be used where necessary to keep the ‘local’ in larger local government areas. These could include:

- Establishing elected Community Boards to undertake functions delegated by the ‘parent’ council, as occurred in New Zealand following the sweeping 1989 amalgamations – many of those Boards still operate successfully and in recent years increasing emphasis has been placed on their value.
- ‘Place management’ approaches as mentioned above, including preparation of suburb or townships plans and development projects, and maintenance of local service centres (already required under the Local Government Act in some instances following amalgamations).
- Making better use of dividing local government areas into wards, with ward councillors, convening local committees or forums and playing a stronger role in community engagement
- Using new communications technologies and social media to establish closer contact between councils and their communities, to inform and engage local people, and to conduct ‘citizens panels’ or online forums to explore community views and ideas.
- Modern customer service systems that ensure swift replies to requests for information and rapid responses to problems or concerns.

11. Sydney, Central Coast and Lower Hunter

In the case of the Sydney region, the Central Coast and the Lower Hunter the ILGRP was firmly of the view that wide-ranging council mergers were essential as part of a broader agenda to improve metropolitan governance, planning and management. Therefore, (with the exception of Dungog Shire in the Hunter) the Panel’s arguments were based overwhelmingly on the need for councils to achieve adequate strategic capacity as units of government, as effective democratic institutions, and as valued partners of the State government in managing the future of Australia’s foremost ‘global city’ and adjoining regions.

Contrary to claims made by some critics (see for example Drew and Dollery 2014), and currently by a number of councils in their case against amalgamations, the ILGRP did not base its case for metropolitan mergers on the need to improve financial sustainability, nor to achieve increased efficiency and cost savings as a primary objective. Whilst some metropolitan councils need to improve various aspects of their financial performance, the revenue base available to them is generally more than sufficient for this to be achieved within their current boundaries. Similarly, the great majority have considerable scope to improve efficiency where necessary through changes to their own operations or through cooperation with others. Thus metropolitan councils should have no difficulty meeting the FFTF financial benchmarks.

The ILGRP’s objectives were clearly articulated as follows (ILGRP 2013, pp. 98-99):

- Create high capacity councils that can better represent and serve their local communities on metropolitan issues, and be true partners of State and federal agencies
- Establish a more equitable pattern of local government across the metropolitan area, taking into account planned development
- Underpin Sydney’s status as a global city
- Support implementation of the Metropolitan Strategy, especially the planning and development of major centres and the preparation and implementation of sub-regional Delivery Plans.

The ILGRP was particularly concerned about growing inequality between eastern and western Sydney and the need to strengthen the role of local government in metropolitan governance. It argued that (2013, p.98):

- Without changes to council boundaries there will be an increasingly severe imbalance in the structures of local government between eastern and western Sydney: by 2031 the 28 councils east of Parramatta will have average populations of 108,800, whilst the 13 to the west will average 212,900.
- With 41 councils in metropolitan Sydney (excluding the Central Coast) local government is fragmented (especially in the eastern half of the region) and lacks credibility as a significant player and partner in metropolitan planning and management. There are simply too many voices striving to be heard, and there also tends to be a ‘lowest common denominator’ effect that undermines the efforts and standing of those councils that do have the resources and initiative to play a strategic role.
- There is continuing unnecessary duplication between councils in planning and service delivery, and scarce expertise and resources are not being used to their full potential.
Achievements to date in sub-regional cooperation and shared services in the Sydney region and Central Coast can at best be described as patchy.\(^3\) The evidence therefore suggests that enhanced capacity for local government to play a major role in strategic planning, delivery of major infrastructure and improvement projects, and partnering effectively with State and federal agencies is more likely to be achieved if the basic building blocks – individual councils – are larger and more capable.

There are severe inequities in the amounts currently paid in rates (see section 9), and councils in northern and eastern Sydney with a very strong and largely under-utilised rating base should be amalgamated into larger units that would undertake additional functions, freeing-up State resources to provide greater assistance to western Sydney.

Of crucial importance is the need to ensure that any amalgamations in metropolitan areas are designed to achieve strategic outcomes, and are not simply ‘marriages of convenience’. As noted above, the ILGRP’s ‘preferred options’ for Sydney, the Central Coast and the Lower Hunter were geared to drawing a new map of local government that would facilitate long-term strategic planning and development goals eg to revitalize Newcastle; to achieve the ‘critical mass’ necessary to make Parramatta the second CBD and develop Liverpool as the major sub-regional centre in south-west Sydney; to create a City of Sydney of global stature and to make better use of the massive revenue potential of the CBD to fund strategic projects over a wider area.

By contrast, current proposals for voluntary mergers covering Randwick and Waverley, as well as Canada Bay, Burwood and Auburn, appear designed primarily to deflect amalgamation proposals that those councils oppose. It is difficult to see how either of those voluntary mergers would achieve anything of strategic value at a metropolitan scale. Amalgamations should not be pursued purely to reduce the number of councils. NSW should examine the lessons of the ‘semi-voluntary’ mergers that took place in Adelaide in the 1990s, and which created a very diverse mix of councils of greatly varying capacity and relevance to metropolitan issues.

12. The Way Forward

To re-iterate: the ILGRP was clear that the number of councils in NSW should be reduced. The current mix of large and small, metropolitan and rural councils is unnecessarily diverse and not geared to achieving the best possible long-term outcomes for local communities, regions or the State as a whole.

So whilst regional cooperation offers an alternative in some cases, and amalgamations are not a panacea, there must be some. The ILGRP’s ‘preferred options’ would reduce the total number of councils by 39 to 113. The eventual outcome may be more or less depending in particular on whether or not truly effective regional Joint Organisations are established. But this will not be known until the JO pilots are completed and the Government announces its policy and proposals for legislation.

Local government’s response to the Government’s offer of support for voluntary mergers indicates once again that most amalgamations would have to be ‘forced’. But as discussed in section 3, the distinction between ‘forced’ and ‘voluntary’ is in practical terms illusory. To address this issue, the ILGRP recommended major improvements to the current legal process for formulating, examining and determining amalgamation proposals – including reducing the minister’s discretion and reconstituting the Boundaries Commission as a well-resourced, genuinely independent body.

\(^3\) Even the more successful Hunter Councils group only deals with a few selected functions of its member councils.
However, the Government did not support the ILGRP recommendations and has suggested instead ‘streamlining’ the Boundaries Commission process, potentially reducing scrutiny and community consultation. This may require Parliamentary approval of amendments to the Local Government Act. Unless amendments are passed in the near future, any amalgamation proposals that emerge from the current Fit for the Future process would be handled under the existing, unsatisfactory provisions.

At the same time, it will be very difficult to assess the merits of potential amalgamations without a more fully articulated policy framework. New policies for Joint Organisations, ‘Rural Councils’, auditing, performance monitoring, council borrowing and necessary improvements to the rating system are yet to be finalized and it will be well into 2016 before the framework is complete. Those policies are vitally important in their own right, as well as to judge amalgamation proposals.

Currently, too much attention is being focused on the financial ratios and benchmarks included in the FFTF documentation. IPART has clearly flagged the importance of demonstrating broader ‘scale and capacity’, but apparently that many councils see becoming FFTF primarily as a matter of short-medium term ‘budget repair’. They argue that if they can achieve the financial benchmarks, amalgamations are unwarranted. This raises two key questions:

- Will the IPART assessments and the Government’s response re-affirm the need to address long-term strategic issues, especially in metropolitan areas and around key regional centres?
- Will action taken now amount to anything more than a temporary ‘fix’?

The Government’s Fit for the Future agenda has considerable merit and needs to be pursued to a successful conclusion. However, some aspects of the package and its implementation warrant a ‘mid-term review’ and adjustments to achieve the best possible results. In particular, the Government needs to move quickly to complete the broader policy and administrative framework identified by the ILGRP as the foundation of effective, long-term local government reform. This should include the ‘interim’ package of amendments to the Local Government Act recommended by the ILGRP – including in particular the improved Boundaries Commission arrangements and process.

These steps need to be taken before any amalgamation proposals are determined. If necessary, the 2016 local government elections can be postponed for 12 months, as has happened in the past. The Government’s challenge is to create a modern system of local government that can serve NSW into the middle of the 21st Century and beyond: thorough ‘whole of government’ policy development is essential and this is no time for hasty or ad hoc decisions.
References


Tiley, Ian (2012) Divided We Fall: An Insider’s Perspective on Local Government Amalgamations, XLibris Corporation