

INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

Organisation: City of Canada Bay Council

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The Director
General Purpose Standing Committee No. 6
Parliament House
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Dear Director,

Inquiry into Local Government in New South Wales

The City of Canada Bay would like to thank the General Purpose Standing Committee No. 6 for initiating this inquiry into the New South Wales Government's Fit for the Future reform agenda and welcomes the opportunity to work with the government on exploring new ways for a stronger system of local government for the community.

While Council is broadly supportive of the reform agenda as recommended by the Independent Local Government Review Panel, it is concerned that the key focus of the agenda has been solely on Council amalgamations. This focus on structural reform has stifled productive discussion on other important reform opportunities in terms of strengthening local government revenue base, meeting infrastructure needs, improved accountability, political leadership and good governance.

There are a number of aspects of the Fit for the Future program that need further consideration; principally there are flaws in the scale and capacity threshold that underpins the sustainability argument. Population is not the only determinant of the capacity for local government to be effective; service quality and satisfaction is important for the community. Additionally the cost of potential amalgamations has been understated and much wider community discussion is needed regarding costs and benefits of this.

Please find following the City of Canada Bay's response to the Inquiries Terms of Reference.

Response to Terms of Reference

(a) The New South Wales Government's 'Fit for the Future' reform agenda

The Fit for the Future program has at its core the agenda of Council amalgamations. The program of reform is positioned as the response to the recommendations of the Independent Local Government Review Panel's Final Report. This report makes 65 recommendations for a stronger local government system across the areas of financial capability; revenue system, infrastructure funding, productivity; accountability; political leadership; governance practices; structural reform; regional joint organisations; rural councils and community boards; metropolitan Sydney; Hunter, Central Coast and Illawarra;

non-metropolitan regions; the far west; and recommendations for implementation of the reform agenda.

Council amalgamation is only one of the 65 recommendations within the reform agenda.

Recommendation 33 - Encourage voluntary mergers of councils through measures to lower barriers and provide professional and financial support (10.4)

In responding to the Fit for the Future reform agenda councils have not had the opportunity to consider or discuss with their communities the remaining recommendations. Councils have been required to actively assess only their scale and capacity in achieving long term sustainability and for councils to submit proposals to the Government indicating how they will achieve these objectives. The agenda as defined by the Independent Pricing and Regulatory Tribunal (IPART) emphasises 'council size' to the neglect of all other considerations.

Scale and capacity was the starting point for councils in preparing their Fit for the Future proposal and in responding, councils had to rely upon subjective criterion describing scale and capacity as outlined within IPART's assessment methodology.

Key Issues

- Fit for the Future agenda focusses only on Council amalgamations with limited focus on other reform agenda recommendations
- Scale and capacity is the threshold criterion and as such must comprehensively be considered before proceeding with the remainder of the proposal process. The scale and capacity criterion are subjective
- IPART provides an approach (through quantitative benchmarks) for how assessment of performance will be measured for the other three assessment criterion (ie non scale and capacity criterion) – sustainability; effective infrastructure and service management; and efficiency
- Limited scope for the inclusion of qualitative benchmarks such as service quality and service satisfaction information. This would provide a more complete picture of how efficiently and effectively Councils are delivering to their communities.

Evidence

- The Independent local Government Review Panel's Final Report included 65 recommendations for reform. Only recommendations regarding structural reform are being addressed.
- The definition of scale and capacity is subjective and the key elements of strategic capacity as outlined in the 'Methodology for Assessment of Council Fit for the Future Proposals – June 2015' are broadly defined – "we will use our judgement in assessing strategic capacity", p31.
- Scale and capacity criterion has become the key focus in the assessment methodology, rather than a balance of the four key measures originally proposed in September 2014 (Review of criteria for the fit for the future, local government – Final Report).

Recommendation

- The Fit for the Future reform agenda widen its scope to include important recommendations around the financial system of local government and good governance
- Review and make transparent scale and capacity criterion to include qualitative outcomes such as service quality and service satisfaction information

(b) The financial sustainability of the local government sector in New South Wales, including the measures used to benchmark local government as against the measures used to benchmark State and Federal Government in Australia

While the City of Canada Bay Council is in a sound and stable financial position and has strategies in place to meet all Fit for the Future Benchmarks by 2020 it is concerning that the measures used to benchmark local government are inconsistent with those used to benchmark state and federal governments.

The 'operating performance' benchmark used as part of assessing council sustainability excludes capital grants and contributions in the benchmark calculation. By narrowing the sources of revenue that councils include when calculating this benchmark has the effect of making councils financial position appear worse off.

There are also flaws in the 'infrastructure backlog benchmark' and the City of Canada Bay Council is not alone in questioning the appropriateness of using the "Written Down Value" of Infrastructure Assets in calculating this ratio. Council, and its Auditor, contend that the written down value gives an inconsistent result. A more relevant indicator of backlog is achieved using the "Gross Book Value" of Assets.

The Fit for the Future reform agenda has been premised on the argument that councils are financially unsustainable. The Fit for the Future benchmarks are now the 'new' industry benchmarks and this has occurred without consultation across the sector. The benchmarks have ignored that councils have strengthened their cash reserves and liquidity positions. Government reporting, in particular numerous interviews by the Minister for Local Government propose that councils are losing \$1M a day. This reporting is not only unhelpful in trying to have a meaningful debate on local government reform but also reflects the limitations of the benchmarking criteria.

Key Issues

- Fit for the Future operating performance benchmark is misleading and inconsistently applied
- Fit for the Future infrastructure backlog benchmark gives an inconsistent asset value result
- No consultation on Fit for the Future benchmarks. These benchmarks are now considered the 'new' industry benchmarks for the local government sector
- Media reporting that Councils are losing money is unhelpful and wrong

Evidence

- In April 2013 NSW Treasury Corporation (TCorp) provided Canada Bay Council with a Financial Assessment, Sustainability and Benchmarking Report. TCorp's assessment of Council's Financial Sustainability Rating was that it was "Sound" with an outlook of "Neutral". Council's Auditors, PricewaterhouseCoopers affirm the "Sound" rating, but instead view Council's outlook as "Positive".

- The 'operating performance' benchmark as defined in 'Methodology for Assessment of Council Fit for the Future Proposals – June 2015' is:

Net continuing operating result (excl capital grants and contributions)

Total continuing operating revenue (excl capital grants and contributions)

- Audited 2013/14 Financial Reports that reference 'Gross Book Value of Assets' – p8 of Special Schedule 7

http://www.canadabay.nsw.gov.au/verve/resources/City_of_Canada_Bay_-_Financial_Statements_2013-14.pdf

Recommendation

- The government undertake proper consultation on local government benchmarks
- Consistency in the reporting of Council's financial position

(c) The performance criteria and associated benchmark values used to assess local authorities in New South Wales

Concerns regarding performance criteria are outlined under part (b) above of the terms of reference.

(d) The scale of local councils in New South Wales

Under the Fit for the Future reform agenda, councils are to respond to scale objectives as outlined in the Independent Local Government Review Panel's recommendations. The scale objectives are guided by population estimates which mean that amalgamations are needed to achieve the scale objectives. While the Panel also supports the 'one size does not fit all' approach, it is unclear if a bigger council is more effective.

Councils already work in collaboration with other councils and State government agencies on major projects, advocacy and policy development. Communities do not see major issues such as regional and State roads development, foreshore management, recreation, health and education as being constrained by local government (or other) boundaries. Effective partnerships and relationships between all levels of government and relevant stakeholders to address major issues that cut across government boundaries are more important than changing boundaries and local government area population.

Key Issues

- Scale of local councils is a threshold criteria for assessing council performance
- The scale of councils are guided by population estimates
- Effective partnerships build capacity and they are not dependent upon local government population levels

Evidence

- Independent Local Government Review Panel final report, p104
- Lack of evidence provided by the government of the costs and benefits of amalgamation and if scale improves efficiency

- Numerous examples across the state of council partnership to deliver significant projects and effective community outcomes
For example, Victoria Ave Community Precinct - City of Canada Bay: Partnering with the NSW Department of Education and Communities (DEC) to deliver a \$30M plus Community Precinct based on an innovative model. This Precinct combines the resources of the Council, the DEC and the NSW Sydney Local Health District (SLHD) to maximise investment, optimise the use of valuable space in an inner city environment and enhance outcomes for children and their families. The Precinct includes a 600 student primary school, children's centre, early childhood health, purpose built outside of school hours care centre, a community hall, multipurpose court and playing field. The project also delivered a new lapidary club at an alternate site and through co-location of services has freed other Council assets for other uses as well as a range of traffic treatments in and around the Precinct.

Recommendation

- Review and make transparent scale and capacity criterion to include qualitative outcomes such as service quality and service satisfaction information

(e) The role of the Independent Pricing and Regulatory Tribunal (IPART) in reviewing the future of local government in New South Wales, assisted by a South Australian commercial consultant

The role of IPART in the local government sector is to set income limits, decide how Council can increase rates over time and review Council contribution plans. Due to IPART's direct influence over Council's financial positions, it has a conflict of interest and should not be undertaking the assessment of Council's Fit for the Future proposals. Assessment should be undertaken independently by an expert panel to ensure a balance of assessment opinions as to whether Council proposals meet the Fit for the Future criteria.

Key Issues

- IPART has an ongoing regulatory role in the local government sector and has a conflict of interest in the assessment of Council fit for the Future proposals
- Expert and independent assessment is needed

Evidence

- 'The government has asked IPART to perform the role of the Independent Expert panel to assess how council proposals meet Fit for the Future criteria', (Methodology for Assessment of Council Fit for the Future Proposals – June 2015), p3

Recommendation

- The government appoint an independent expert panel to ensure a balance of assessment opinions as to whether Council proposals meet the Fit for the Future criteria

(f) The appropriateness of the deadline for 'Fit for the Future' proposals

The deadline for the submission of Fit for the Future proposals is too tight as information needed to assist councils in submitting their proposal (in particular the assessment methodology) was provided too late in the program.

Councils have been working with the information provided by state government and although a 10 month window was provided for submissions, details on the assessment methodology was not released until one month prior to the submission deadline. The late release of information impacted on the effective preparation of proposals and on the ability to effectively engage with the community.

Key Issues

- Provision of all information to meet deadlines under the Fit for the Future program not provided at the commencement phase
- Assessment methodology provided in June 2015, only one month prior to the Fit for the Future submission deadline
- Late release of key information about the Fit for the Future program impacted on the ability to effectively engage with the community
- Genuine community engagement not required as part of the assessment of council Fit for the Future proposals which is contrary to the intent of the reform agenda

Evidence

- September 2014 - Fit for the Future package announcement
- September 2014 - IPART to undertake review of assessment criteria
- April 2015 - IPART Draft Methodology for Assessment of Fit for the Future proposals released
- June 2015 - IPART Final Methodology for Assessment of Fit for the Future proposals released
- Consultation processes were encouraged in earlier advice from IPART but this emphasis did not exist in the their final report:
"Public exhibition of the proposal is desirable. However, we encourage councils to submit their proposal irrespective of progress with their consultation", (Methodology for Assessment of Council Fit for the Future Proposals – June 2015), p51

Recommendation

- No action as deadline has passed

(g) Costs and benefits of amalgamations for local residents and businesses

The Independent Local Government Review Panel or the state government have not cited evidence that council amalgamations will result in cost savings to the community or will be more financially sustainable into the future. There are significant costs associated with transitioning to a new merged entity as well as disruption of services.

The City of Canada Bay Council has undergone a council amalgamation (Drummoyne and Concord Councils merged to form the City of Canada Bay in 2000); this saw the community bearing the burden of the costs of transition as well as experiencing service disruption. These costs needed to be met before the new Council could focus on assets and infrastructure and move the organisation into a stronger financial position. It was not until eight years ago, that Council was able to become outwardly focussed again.

Key Issues

- No evidence provided by government of the costs and benefits of council amalgamations
- In the absence of empirical evidence, councils are investing in independent modelling in order to provide evidence based information to the community and to help inform their Fit for the Future proposals

Evidence

- Modelling undertaken by Morrison Low to inform preparation of the Fit for the Future proposal identified costs and benefits over the short, medium and long term of the City of Canada Bay Council merging with five other inner west councils as recommended in the Panel's final report. This modelling found:
"While the merged council has a number of efficiencies modelled in over the short, medium and longer term the significant short term cost arising from the merger and redundancy costs that arise in the medium term mean that the financial performance over the initial period is not positive. In the medium and longer term the financial performance of the council improves but the impact of rising costs from staff increases associated with service levels begins to also take effect", (Morrison Low, Inner West Councils Fit for the Future Shared Modelling), February 2015
- Dr Brian Dollery of the University of New England has written a number of articles on the sustainability of local government in Australia. His research documents evidence against amalgamations improving efficiency and financial viability

Recommendation

- The government provide evidence as to the costs and benefits of council amalgamation so that this information can be shared and discussed with the community

(h) Evidence of the impact of forced mergers on council rates drawing from the recent Queensland experience and other forced amalgamation episodes

As indicated at point (g) above, the Independent Local Government Review Panel or the state government have not cited evidence that council amalgamations will result in cost savings to the community.

The experience of the City of Canada Bay, which came about following Drummoyne and Concord Councils merging in 2000, did not result in a rate reduction for rate payers. This merger saw an equalisation of rates and the new rate structure resulted in increases for some and reductions for others. This amalgamation did not take pressure off rates

Key Issues

- No evidence provided by government of the costs and benefits of council amalgamations
- The merger of Drummoyne and Concord Councils resulted in the increase in rates for some properties and reductions for others

Evidence

- The merger of Drummoyne and Concord Council's to form the City of Canada Bay Council in 2000

Recommendation

- The government provide evidence as to the costs and benefits of council amalgamation so that this information can be shared and discussed with the community

(i) Evidence of the impact of forced mergers on local infrastructure investment and maintenance

Evidence of the impact of forced mergers relates to the costs and benefits issue outlined under part (g) above of the terms of reference.

(j) Evidence of the impact of forced mergers on municipal employment, including aggregate redundancy costs

Evidence of the impact of forced mergers relates to the costs and benefits issue outlined under part (g) above of the terms of reference.

(k) The known and or likely costs and benefits of amalgamations for local communities

Evidence of the impact of forced mergers relates to the costs and benefits issue outlined under part (g) above of the terms of reference.

(I) The role of co-operative models for local government including the 'Fit for the Futures' own Joint Organisations, Strategic Alliances, Regional Organisations of Councils, and other shared service models, such as the Common Service Model

Most councils, to a varying degree, work co-operatively with other councils. The City of Canada Bay is a member of the Southern Sydney Regional Organisation of Councils (SSROC). SSROC is an association of sixteen Sydney councils serving large and diverse communities that face all the challenges of metropolitan living. The role of SSROC is to undertake projects that cross council boundaries achieving results that will contribute to the sustainability of member councils and their communities. The current focus of the SSROC is on projects that cover the environment, transport, procurement, waste, library services and planning.

Many benefits have been realised through the SSROC and other collaborative arrangements on projects that traverse council boundaries. For example these benefits include strategic development outcomes such as the development of a regional waste strategy. Through this strategy increased cost savings and economies of scale were achieved by undertaking cost sharing for a regional advertising program and tendering for Bulk Household Clean up Audits. There are numerous other examples, the key point is that co-operative models exist and they are an important element in achieving ongoing sustainability of local government.

The sharing of services is also a model the City of Canada Bay is reviewing and the greatest opportunities for achieving a shared service outcome exist in the technical services, works and support services such as IT, HR and Finance. The scale and capacity created from a shared service model can produce levels of efficiency that is envisaged under an amalgamated model.

Key Issues

- Well-developed co-operative models for sharing services currently exist. They bring many benefits to their communities through cost savings, economies of scale, reduced duplication and better quality of life outcomes
- The City of Canada Bay is an active member of SSROC which undertakes wide ranging cross council projects
- Many councils already share services and the City of Canada has reviewed opportunities for future shared service arrangements

Evidence

- Numerous SSROC projects
- Australian Centre of Excellence for Local Government has undertaken research into models for Shared Services – research found that councils large and small derive benefits from sharing services and that this will continue to be an option into the future
- Shared services can achieve benefits that are of a similar scale to council amalgamation, (Morrison Low, Inner West Councils Fit for the Future Shared Modelling), February 2015

Recommendation

- Continuation of regional co-operative models such as ROC's and shared service models

(m) How forced amalgamation will affect the specific needs of regional and rural councils and communities, especially in terms of its impact on local economies

No comment to provide.

(n) Protecting and delivering democratic structures for local government that ensure it remains close to the people it serves

The very nature of local government is that it is 'local' and close to the people. Democratic structures need to ensure that elected representatives can engage with their constituents and that effective engagement and consensus building are at the cornerstone of decision making processes. Amalgamations invariably result in an increase in the number of people represented by each councillor. While aspects of this could be addressed through the establishment of appropriate governance structures, this has not been identified within the Fit for the Future reform agenda and not discussed with the community.

Key Issues

- Councillors provide the closest level of political representation
- Amalgamations will result in the increase in the number of people represented by each councillor
- Alternative governance structures to support changes in representation have not been widely discussed

Evidence

- Current representation in the City of Canada Bay is 1: 9,133, this will increase under amalgamation

Recommendation

- Measures to address the loss of representation need to be further identified and a detailed proposal developed so that the community can participate in meaningful discussion

(o) The impact of the 'Fit for the Future' benchmarks and the subsequent IPART performance criteria on councils' current and future rate increases or levels

While the City of Canada Bay meets the benchmarks of Fit for the Future and is financially sound, as discussed earlier, calculations used to measure various benchmarks position councils unfavourably. This will impact on performance reporting and may influence subsequent rating decisions.

Potential amalgamation will be costly. A new merged entity will bring the rating systems of each of the constituent councils and this would require the development of a single rating

system. Rate harmonisation will be required and the rates on some properties will increase, while rates on other properties will decrease.

Key Issues

- Calculations used in some Fit for the Future benchmarks are misleading and position councils unfavourably
- Rate harmonisation will be required under a new merged entity and rates for some properties will increase

Evidence

- Operating performance and infrastructure backlog benchmark calculations (detailed under part (b) in the terms of reference)
- "A merged council would ultimately set a single rating system, and regardless of the approach there would be some properties where rates would rise and others where rates would reduce", (Morrison Low, Inner West Councils Fit for the Future Shared Modelling), February 2015, p59

Recommendation

- The government should be up front about the potential cost of amalgamations and of potential rate increases

(p) Any other related matter

No further comments.

Conclusion

The Fit for the Future reform agenda is one of the most significant in the recent history of local government in NSW. The program has required councils to actively assess their long term sustainability and in so doing have invested in evidence based research and have worked tirelessly preparing Fit for the Future proposals.

Council amalgamations are at the centre of the government's agenda and it is unfortunate that other important reform opportunities in terms of strengthening local governments revenue base, meeting infrastructure needs, improved accountability, political leadership and good governance have not been widely discussed.

The City of Canada Bay Council thanks the Legislative Council for undertaking this inquiry and welcomes the opportunity to lodge a submission

Regards

Gary Sawyer
General Manager

