

INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

Organisation: Save our Councils Coalition

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The Director
General Purpose Standing Committee #6
Parliament House
Macquarie Street
Sydney NSW 2000



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Sunday 5th July 2015

Dear Committee,

**Inquiry into local government in New South Wales: Submission from
Save Our Councils Coalition**

The Save Our Councils Coalition (SOCC) is a community led, cross-council, non-aligned, metro and regional, community coalition. SOCC is campaigning on a single issue: to save our councils and communities from forced amalgamations. SOCC is calling on all MP's both Federal and State to show respect for our local communities and local councils. SOCC believes amalgamations should only proceed where communities of each LGA have voted in favour of amalgamation in a valid referendum.

Thank you for this opportunity to make our submission (as attached), and thank you for the letter from the Committee Chair on 6th June. We look forward to the opportunity to engage further in this Inquiry.

The outcome of this inquiry will impact every man, woman and child and every community in NSW for many years to come.

Kind regards

Nella Gaughan
On behalf of the SOCC Executive

SOCC response to the specific areas listed in the Inquiry ToR

Throughout this attachment, Inquiry ToR areas are marked in [blue](#).

[\(a\) the New South Wales Government's 'Fit for the Future' reform agenda,](#)

NSW Government Fit for the Future reform agenda has arisen out of the 2011 Local Government Destination 2036 Conference held in Dubbo.

"On the 17th and 18th August 2011, The NSW Government, in partnership with the Local Government and Shires Associations of NSW (LGSA) and Local Government Managers Australia (NSW) (LGMA (NSW)), hosted an historic event in Dubbo - Destination 2036. The event sought to consider these issues, and to develop a clear, achievable and shared path to a strong and resilient local government sector, responsive to the current and future needs of our communities.

"The Destination 2036 workshop was the first of its kind for NSW. Every one of the State's 152 general-purpose councils was represented, both at the elected and executive levels. Most of the State's County Councils and all of the Regional Organisations of Councils (ROCs) were represented and participated in their own right."

<https://www.olg.nsw.gov.au/sites/default/files/Destination-2036-Action-Plan.pdf>

An action plan was developed. But it appears only one action from this plan has been pursued by the NSW Government.

The action plan comprised "5 strategic directions, 12 initiatives and 34 actions to achieve the vision of Strong Communities through Partnerships". Only one initiative and one action referenced amalgamation:

Initiative 8: Develop a number of different structural models for local government

Action 8c: Identify barriers and incentives to encourage the voluntary amalgamation or boundary adjustment of councils

The NSW Government then engaged the Independent Local Government Review Panel which was tasked with formulating options for a stronger and more effective system of local government. The two key words are **options** and **system**. The ILGRP made a decisive move away from 'one size fits all', and sought to give communities and regions more options for the way local government is arranged and how it operates.

The final report of the NSW ILGRP "Revitalising Local Government" was completed in October 2013.

<http://www.dlg.nsw.gov.au/documents/LGR/Revitalising%20Local%20Government%20-%20ILGRP%20Final%20Report%20-%20October%202013.pdf>

This report made the following statement in its preamble, which on face value appears to be without evidence to support the statement that the structure of Local Government in the Sydney region *"has been largely 'snap frozen' for more than half a century"*.

"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'.

"Nowhere is this more evident than in the Sydney region, where the structure of local government has been largely 'snap frozen' for more than half a century. Australia's global city is still divided amongst forty-one councils, many of which lack the scale and resources to play an important role in metropolitan affairs. There is also a deepening divide between a privileged east and a struggling west. Gaps in coordination amongst State agencies have made matters worse."

The report goes to say:

"The great majority of actions to be undertaken as part of the Destination 2036 Action Plan are to be completed by late 2013, and the current D2036 Implementation Steering Committee (ISC) has not met for some time. Unless the parties wish to launch a substantial new agenda under the Destination 2036 umbrella, the Panel suggests that any outstanding matters could be handled by the MAG."

SOCC notes that to date there is no Ministerial Advisory Group (MAG).

In total, the ILGRP made 65 recommendations; structural reform (including amalgamation) was only one of 12 of the ILGRP's principal recommendations.

(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

<http://www.olg.nsw.gov.au/sites/default/files/TCorp-Report-Financial-Sustainability-of-the-New-South-Wales-Local-Government-Sector-April-2013.pdf>

In December 2011, DLG appointed TCorp to assist DLG and NSW Treasury in respect of the State Government's Local Infrastructure Renewal Scheme (LIRS) initiative.

In April 2013 NSW TCorp completed the financial assessment of the 152 Councils in NSW within a 12 month timeframe.

"TCorp's key tasks in undertaking its work included:

- *Creating a definition of sustainability*
- *Establishing a set of appropriate benchmark indicators*
- *Developing an assessment methodology including a rating scale and outlook that could be used to compare Councils against a sustainability definition*
- *Reviewing both historical financial results and the long term (10 year) financial forecasts of each Council*

"In reviewing the relevant work that had been done around Australia in recent years, TCorp determined that no concise definition of sustainability existed. Therefore TCorp developed its own definition being:

"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.

"The definition takes into account the effect ongoing change could have on a Council's operating position and service levels over the long term.

"The definition brings together what TCorp considers are the key elements of financial strength, service and infrastructure requirements, and needs of the community. TCorp considers that this definition is concise enough to be remembered, whilst broad enough to cover the key aspects."

In recommendation 15 of the report (page 66) TCorp made the following observation:

"Further development and analysis of the benchmarking data and methodologies is required - The work undertaken to-date by TCorp has generated a significant amount of data. Some of the benchmarks TCorp has adopted have not been used or seen by Councils prior to the work. TCorp consider that further development of the benchmarking work would prove beneficial to the sector and ultimately could be used for an analysis across the Australian local government sector. For example, the methodology needs to be refined to take into account the differences that exist between Rural and Urban Councils."

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

There does not appear to be any agreed performance criteria or associated benchmark values for local Councils to be measured against. As highlighted in the previous question, benchmarks were being developed as recently as 2013 by a NSW Government Department not related to Local Government.

Infrastructure, asset management and services provided by Councils are broad and varied; some are subsidised by external agencies and others are not; but all are agreed to by the community via their elected representatives through Councils' Long Term Management Plans. Councils have not previously been required to benchmark their services delivery.

It is not unreasonable for Councils to benchmark themselves against other Councils or agreed State Government benchmarks. However to date this has not been a mandated requirement and if benchmarking has occurred it has been on a limited, localised and ad-hoc basis. For example, the cost of maintaining sporting fields varies wildly, as does the level of service, as well as the expectations of different communities. Different communities have different priorities, therefore this make benchmarking in the current environment difficult. One size does not fit all.

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

In a recent paper *"Determining optimal size of Local Government: the case of Tasmanian Councils"* published in the Australian Journal of Public Administration June 2015 Volume 74 Number 2. It was clearly articulated that;

"Over the last 20 years, a key feature of Australian local government has been the reliance on structural reform as a primary policy of reform. Structural reform can take a variety of different forms ranging from resource sharing between neighbouring councils through to forced amalgamations of smaller councils into larger government entities. The rationale for this policy position resides in the belief that larger councils are more efficient than their smaller counterparts. However the assertion that 'bigger is better' rests on the underlying assumptions that local municipal service delivery is characterised by substantial economies of scale associated with larger populations. Thus it is assumed that larger councils serving a larger population would benefit from lower administration costs, increased purchasing power and improved utilisation of equipment. Given that many of these assertions are empirically testable, it is somewhat surprising that research on scale economies in the Australian local government milieu is comparatively limited."

Authors were Rui Cunha Marques, University of Lisbon; Michael A Kortt, Southern Cross University; Brian Dollery, University of New England.

Using an arbitrary population figure to entice Councils to amalgamate to achieve 'scale' is not based on any empirical evidence. The NSW Government only recently completed an Infrastructure Audit (final report June 2013). This audit did not recommend that large mega councils of any particular scale would be better placed to deliver better infrastructure and asset management than that of the current Local Government structure.

A Local Government Infrastructure Audit was completed in June 2013.

<http://www.olg.nsw.gov.au/sites/default/files/LIRSAudit-Report-June-2013.pdf>

"The key objectives of this Local Government Infrastructure Audit (the Audit) are to:

- 1. Provide information in relation to the infrastructure backlog in NSW*
- 2. Assess the reliability of the information provided by councils to determine the backlog*
- 3. Identify trends in infrastructure needs by area and asset type*
- 4. Identify current infrastructure risk exposure.*

"During the course of the Audit, the Division of Local Government (the Division) has endeavoured to identify good asset management practices and principles by councils, increase awareness of asset management issues and the impact of sound asset management.

"The Audit has involved the collection and analysis of data from councils through an audit survey, desktop reviews, financial assessments by NSW Treasury Corporation (TCorp) of all councils, gap analysis and assistance for Local Government Reform Fund (LGRF) councils, and an on-site review of 35 councils to determine the reliability and accuracy of the data provided.

"The review and analysis of the data provides for a sound understanding of the current situation as it relates to the infrastructure backlog, reliability of data used and reported on by councils in NSW and the areas of most concern.

"The NSW Government only recently introduced mechanisms such as Integrated Planning & Reporting and the fair value of assets which provided significant improvements in asset management planning within NSW.

"The Infrastructure Audit commenced in 2011 and completed in June 2013 provides a base on which further asset management improvements can be measured.

*"It is important to recognise that asset management is all about managing risk and not a compliance exercise. The risks to be managed can either be strategic or operational in nature. **The greatest strategic risk is***

whether a council is sustainable and therefore able to provide the services desired by the community within councils financial capacity.

"In order to achieve this, good decisions need to be based on accurate and realistic asset management 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

No comment.

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

The extremely tight deadline for the FFTF left very little time for Councils to adequately consult with their communities. The process was left largely to General Managers and senior staff, not Councillors and therefore not communities.

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

The costs of amalgamating councils has not been tested and there is no evidence that the millions promised to Councils will result in improvements in service delivery or new and better maintained infrastructure. The majority of the 'bribe' money will be spent on administration costs, establishing new bureaucracies and payment of staff redundancies. The cost of large Councils is evident in the various studies of Brian Dollery et al (2012).

The 'bribe' money was only offered to Councils meeting a 250,000 resident base. Where is the evidence to support the proposition that amalgamated Councils of this size will benefit local communities?

There are not established benefits of amalgamations. Amalgamations of Councils in Victoria have not demonstrated savings; and after 20 years the Victorians are now seeking to 'cap rates' and seek ways to reduce the 'cost' of Local Government.

More recently examples of the failure of amalgamations to achieve savings can be seen in NZ, particularly in Auckland, where budget overruns are daily fodder for the newspapers.

http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11406157

A recent review by the Auckland City Council has highlighted the issues of failure to improve financial sustainability and structures.

<http://www.aucklandcouncil.govt.nz/en/aboutcouncil/representativesbodies/cco/pages/ccoreviewunderway.aspx>

Studies of amalgamations in Canada have also revealed that savings or efficiencies have not been realised and de-amalgamations are now being considered.

http://munkschool.utoronto.ca/imfg/uploads/266/1532_torontomontreal_web_r4_final.pdf

"Two IMFG Papers – the first by Enid Slack and Richard Bird of the IMFG and the second by Jean- Philippe Meloche and François Vaillancourt of the Université de Montréal – analyze the post-amalgamation governance of the two cities. Overall, it appears that the amalgamations failed to result in major efficiencies and cost savings in either city. Slack and Bird note, however, that Toronto's amalgamation did appear to increase equity in service levels and tax burdens for residents across the city.

"This was less the case in the City of Montréal, where Meloche and Vaillancourt show that inequities and inconsistent levels of public service across the boroughs continue. The impacts of the amalgamations on local governance, accountability, and responsiveness to residents are less clear.

"What is clear is that neither amalgamation addressed the need for planning and coordination across the broader metropolitan region. In both cases, the amalgamated cities represent only about half of the metropolitan population, and they are surrounded by a number of large and fast-growing suburban municipalities. Neither has a governance structure that can oversee the economic, social, and environmental development of Canada's two largest city-regions."

[\(h\) evidence of the impact of forced mergers on Council rates drawing from the recent Queensland experience and other forced amalgamation episodes](#)

An academic study comparing mega-council Brisbane City Council (BCC) with other NSW and Queensland Councils, including the City of Sydney (CoS), across four key financial indicators, has cast further doubt on the value of the NSW Government's amalgamation agenda.

The study, *"Is Biggest Best? A Comparative Analysis of the Financial Viability of the Brisbane City Council"*, compared the financial performance of BCC, the largest local authority in Australia, with six similar councils in South East Queensland, 10 metropolitan NSW councils and the City of Sydney over four years. BCC has a population of around 1.07 million.

The analysis was carried out by two Southern Cross University academics, Elisabeth Sinnewe and Michael A.Kortt, and Brian Dollery from the University of New England's Faculty of Economics.

Their analysis found that BCC was eclipsed by the other Councils on three of the four financial indicators but it also found that BCC households paid rates and fees that were about average in Queensland and often lower than NSW metropolitan Councils.

Financial indicators included Councils' financial flexibility and control over their operating expenditure, which was measured using the proportion of own-source revenue (such as rates and charges), compared with their external revenue, such as government grants; their ability to meet short-term debt obligations; their availability of cash to service debt payments such as interest and lease payments; and their building and asset infrastructure renewal program. BCC fell down on the first three indicators with the study revealing:

- BCC's own-source revenue (43 per cent) is well below the accepted 60 per cent benchmark and below that of CoS and the other Councils, which gives it less financial flexibility;
- BCC suffers from "severe liquidity constraints" which the report says could compromise its ability to meet short-term debt. It could also affect whether cash is readily available to meet operational costs and make investments. In contrast, the other Councils comfortably meet the benchmark short-term assets:short-term liabilities ratio;
- BCC's ability to meet its borrowing costs from its operating income was below the benchmark figure and below that of the comparison groups, who have all met the established benchmark for each of the four years.

Where BCC does well

- BCC's rates and fees per household were \$1980 per year – about average for other larger South East Queensland Councils, below the average for the Metropolitan NSW group (\$2165) and far below that of CoS, where households pay an average of \$4619 pa in rates and fees;
- The study found that BCC scored well on investing in new infrastructure compared with the rate its assets deteriorated, investment being at the ratio of 3:1. This is in stark comparison to NSW Councils, whose ability to renew infrastructure has steadily declined over the past four years, although the study pointed out that NSW has a narrower definition of asset renewal.

The study concluded:

"In sum, our financial analysis of BCC casts considerable doubts over the continuing mantra that 'bigger is better' in the context of contemporary Australian local government.

"Employing standard measures of financial sustainability, we found that between 2008 and 2011, the three comparison groups consistently 'outperformed' the BCC in key areas of financial flexibility, liquidity and debt servicing ability.

"Moreover these finding lend further support to the growing corpus of research that suggests that 'bigger is not always best'.

"If the claims of proponents of the 'bigger is best' doctrine underlying compulsory council consolidation are correct, then BCC should easily outperform comparator Councils across a majority of performance indicators."

The findings are particularly relevant in the light of the NSW government's push to dramatically reduce the number of Councils in the state. An Independent Local Government Review Panel recommended in a 2013 report that 105 of the state's 152 councils consider merging that eight councils in the far west of the state should form a Far West organisation and cutting Sydney's councils from 41 to about 15.

Overseas data on Council mergers

The *"Is Biggest Best?"* report also quotes studies of Council amalgamations overseas, claiming they have unearthed similar, mixed but mostly uninspiring evidence, that flies in the face of claims that bigger Councils deliver improved services, greater efficiency at a lower cost making them more sustainable.

- In Europe (including Italy, Greece, Spain, France and Italy) researchers found that *"municipal mergers had failed to deliver on their intended objectives"*
- Evidence from Canadian councils showed wages went up post-amalgamation and consequently so did costs
- US research found that *"municipal mergers had not met their proposed economic objectives but had instead led to increased expenditure"*

The report concluded:

"In general, the majority of this empirical literature casts considerable doubt on whether the purported benefits of council mergers were realised, particularly in relation to enhancing the operational efficiency of local councils...and cost savings had not been realised."

Australian data

Dollery et al said that research on Council mergers in Australia was almost exclusively through public enquiries at state and national level.

"A common theme that has emerged from these official public inquiries is that the continued use of force amalgamations as the preferred policy instrument has failed to address the seemingly intractable financial problems facing local councils across Australia (in particular rural and remote councils).

"Notwithstanding the dearth of empirical evidence, the belief that 'bigger is better' is so entrenched in the psyche of local government policy makers that forced amalgamation has been repeatedly used in Australia and abroad in an attempt to enhance local government efficiency."

(Dollery et al. 2008, 2012).

Canadian data

De-amalgamation in Canada: *"Breaking Up Is Hard to Do"*, by Miljan and Spicer, Fraser Institute 2015.

<http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/de-amalgamation-in-canada.pdf>

"A significant proportion of the anticipated cost-savings from the Toronto amalgamation was lost in the transition period. Schwartz (2003) found that the transition from Metropolitan Toronto to the new consolidated city cost \$275 million. The harmonization of service levels across the city was the major cause of these transition costs, but harmonization of wages and salaries was also a significant expense. Research has also found that, while some positions were eliminated in the wake of amalgamation, many more were added over time. Schwartz (2004) found that, between 1998 and 2002, about 2,700 positions were eliminated because of amalgamation but, over the same time period, an additional 3,600 positions were added. "Downloading" — that is, the transferring of responsibility for services from the provincial government to municipalities — also complicated the post-amalgamation financial picture of the city. The provincially mandated process of Local Service Realignment drove up expenditures in key Toronto service areas, particularly social services (Schwartz, 2001; Slack and Bird, 2013)."

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

There is no evidence on improved investment in, and maintenance of, local infrastructure in any state where amalgamations have occurred.

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

Victoria saw an initial reduction in local Council employees as services were privatised, however this has now been reversed with Councils increasing their numbers of direct employees.

This experience is also reported in Canada (see above reports).

No studies have been completed on the demographics of Local Government employees and the cost of redundancies or cost to local economies with the loss of Local Councils as significant employers and employers of choice in local areas.

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

This has not been articulated in any review or report.

(l) 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

Given the recent plethora of State Government reviews Local Councils have been subjected to, Councils should now be permitted to establish strategic alliances or Joint Regional Councils based on their own and their neighbouring Councils' needs to deliver services, as appropriate, and as endorsed by their communities.

(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

Regional Councils are significant local employers and often the last of the 'high street' offices remaining in regional areas. Banks, State Government organisations, large local retail stores have all closed down and deserted regional towns. Local Councils remain as the 'leadership team' in many small regional communities and it is important to continue to support these local Councils.

Roberta Ryan in her article *"Communities love Local Councils but not private service delivery"* published June 2015:

"In 60 Regional Local Government areas in Australia, Councils are the single biggest employer."

"Why Local Government Matters" is a major piece of social research on community attitudes to local government by the Australian Centre of Excellence for Local Government (ACELG), undertaken with substantial expertise from staff

of the Centre for Local Government at the University of Technology, Sydney (UTS:CLG). The research aims to better understand how and why the activities of Local Government, and their roles in society, are valued by communities.

<http://acelg.org.au/wlgm>

The research investigates:

- What does place mean to people?
- The role of government
- How do people want their services delivered?
- How do people want to be involved in government?
- What do people think about Local Government?
- How do people's personal characteristics and values impact on their responses?

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

Local communities need to feel a sense of belonging and expect to be included in the activities promoted by their local Councils. In addition to providing infrastructure and social services local Councils are a hub of social as well as volunteering activities, including many groups active in social justice (meal on wheels, library reading group, computer pals etc) and environmental areas (bush regeneration, Council cleanup days etc). These groups are always recognised, appreciated and championed by the elected representatives. The role of elected representative up to this point has largely been voluntary (with a small financial stipend), with the community supporting them, or not, via regular elections.

Removing this democratic outlet for local communities would be a retrograde step. Communities take pride in their local areas and expect their local representative to advocate for and provide leadership in their local area on a wide range of matters. Local communities keep local councils accountable. Local Councils respond by delivering the services communities want and need within their own means. Local Government prioritises infrastructure and other local projects and seeks external funding to deliver these only after Councils and communities have deliberated on what they want or need.

Councils are agile enough to respond to changing local conditions. Local Councillors know their local communities best.

(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

No comment.

(p) any other related matter

A report *"Assessing processes and outcomes of the 2004 Local Government boundary changes in NSW"* was produced for the NSW ILGRP in January 2013.

<http://www.dlg.nsw.gov.au/documents/lgr/Assessing%20processes%20and%20outcomes%20of%20the%202004%20Local%20Government%20boundary%20changes%20in%20NSW%20-%20January%202013.pdf>