

## **INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES**

**Organisation:** Lismore City Council

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6 July 2015

The Director  
General Purpose Standing Committee No. 6  
Parliament House  
Macquarie St  
Sydney NSW 2000

Dear Sir Madam,

**Parliamentary Inquiry into Local Government Reform**

Please consider this letter as Lismore City Council's submission to the Parliamentary Inquiry into Local Government Reform.

Local Government in the Lismore LGA is in very good shape. We are a regional hub, a community of highly engaged and active communities. The level of interest in local democracy continues to astound those of us lucky enough to serve in this wonderful place. As a Council we understand and represent our community to a high standard. We are leaders in community engagement and communication and provide highly valued services at a reasonable cost. We make this submission as representatives of our community.

There is much to like about the Fit for the Future Agenda and we support almost every recommendation that was made by the Independent Local Government Review Panel (ILGRP). The one tenet that we do not support is that bigger is better. It is unfortunate therefore that it is this one element of the ILGRP report that the State Government has chosen to focus on. Our submission focuses on this flawed methodology.

Despite an almost unanimous chorus of academic dissent the State Government have made the assertion that an amalgamated council will be able to provide enough economy of scope and scale to offset the cost of amalgamation and the overhead of inefficient bureaucracy that large organisations, both government and non-government, almost inevitably produce.

We would like to bring the attention of the inquiry to the work of Lake Macquarie City Council who have studied 24 NSW councils, including Lismore, both recently amalgamated and not. The study found no correlation in financial performance between amalgamated councils and non-amalgamated councils or any correlation between financial performance and the size of council.

This view that large councils are not more cost effective than smaller ones is echoed over and over in the academic literature. Most notably in the work of Dollery, Kortt and Drew who all consistently conclude that there is no link between size and financial sustainability. In fact these researchers go on to conclude that some of the larger Councils proposed by the ILGRP will actually exhibit "diseconomies of scale" where a large size actually makes service provision more expensive.

Even Graham Sansom the lead author of the ILGRP report has recently said “the ILGRP did not base its case for metropolitan mergers on the need to improve financial sustainability or to achieve increase efficiency and cost saving as the primary objective.”

This is an extract from **A Fresh Look at Municipal Consolidation in Australia** which is the research used by the ILGRP to justify the big is beautiful mantra. This paper concludes that larger Council may provide better capacity but they certainly do not provide more cost effective service provision or more financially sustainable councils.

*“Little credence was given to the view that economies of scale would accrue consistently to amalgamation, as had been predicted from the literature review. Importantly, in the few cases where economies of scale were asserted, the full costs of amalgamation had not been factored into the calculation of net savings. It is clear that amalgamation (and some other forms of consolidation) imposes considerable costs in dislocation and developing new arrangements and new cultures. Almost all respondents recognised that the process of amalgamation itself generated costs that were typically not included in the balance sheet; costs such as disruption, time taken to review service levels and engage communities and compromises which often meant some leakage of cost savings to ensure buy-in from all stakeholders. Usually these costs were borne by the councils themselves - ironic when amalgamation is often proposed to address financial problems.”*

It is doubly ironic that Fit for the Future Benchmarks are solely financial in their focus and that the State Government is proposing amalgamations as a means to promote financial sustainability.

We would also like to raise the questionable timing of the Fit for the Future assessment. The State Government correctly recognise that there is a pressing need for a review of the Local Government Act and the rating structure in NSW. A review of both is due to be completed within the near future. These reviews have the potential to have a significant impact on the financial sustainability of councils without the cost of amalgamation. Why then have the State Government not waited for these reviews to be completed before assessing council's financial sustainability?

Two of the most important aspects of personal wellbeing are a sense of community and the level of personal autonomy. The bigger you make a governmental unit the less autonomy people have. Local Government Areas are central to people's sense of community. The significant costs of amalgamation are both financial and social where the benefits are non-existent in most cases and only marginal in the best.

So in summary the State Government are assessing councils on whether councils should be amalgamated on the basis of financial sustainability despite the fact that it is proven beyond any real doubt amalgamation has absolutely no impact on financial sustainability other than in some cases to actually increase the cost of service provision. This is a deeply flawed methodology.



Should you require any further information, please do not hesitate to contact

Yours faithfully

Gary Murphy  
**General Manager**

