

**Submission
No 59**

INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

Organisation: Marrickville Council

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

Marrickville Council Submission to Parliamentary Inquiry

Thank you for the opportunity to provide a submission to the Inquiry into the 'Fit for the Future' reform agenda.

This Inquiry is a timely opportunity to raise legitimate concerns about the entire Fit for the Future Program being run by the NSW State Government.

Marrickville Council endorsed the contents of this submission at its meeting of 9 June 2015.

Please find below a summary of Council's response to the Terms of Reference.

a. The NSW Government's 'Fit for the Future' reform agenda.

Council is supportive of local government reform. The recommendations of the Independent Local Government Review Panel (the Panel) were largely supported by Council when they were released in 2014. Potential amalgamations featured in only a handful of the 65 recommendations the Panel handed down.

What has transpired since is a fixation on amalgamation, largely at the expense of all other recommendations. Only those who voluntarily amalgamate will have access to many of the reforms the Panel recommended. Some might argue that the State Government has used the Panel's final report and its recommendations to incentivise amalgamations. The Panel, itself, has stated it was surprised with the NSW Government's preoccupation with amalgamation.

The criteria being used to determine Councils' 'fit for the future' and the timeframe in which Councils need to respond is extremely disappointing. The criteria are far too narrow and fail to recognise the importance of environmental and social outcomes. In addition, the fact there is no assessment of 'communities of interest' or community feedback is alarming.

Councils received notice of IPART's Portal (and guidelines) for all proposals in early June 2015. Submissions were due 30 June 2015. This is arguably the most significant submission Councils will have made in the past 20-30 years and yet we are expected to submit a comprehensive and compelling case to the NSW Government in 3 weeks. That is simply unacceptable.

b. The financial sustainability of the local government sector in NSW, including the measures used to benchmark local government as against the measures used to benchmark State and Federal Government in Australia.

Council cannot comment on the benchmarks being used to measure State and Federal Governments, but it can comment on the measures it is being asked to benchmark itself against.

As outlined above, there is an unreasonable preoccupation with financial sustainability when it comes to 'Fit for the Future' proposals. This preoccupation is at the expense of equally important aspects such as environmental and social sustainability measures, as well as community satisfaction measures.

The financial sustainability measures themselves are limited. There should be other financial indicators that measure debtor management, liquidity and available working capital. The other major concern is the current lack of consistency when it comes to reporting depreciation.

This inconsistency can 'make or break' a council in terms of satisfying some of the asset management indicators. National asset management standards need to be mandated and audited. Given their intimate knowledge of local government, the input and opinions of external auditors, such as Price Waterhouse Coopers, should have been taken into consideration when determining the most appropriate financial sustainability indicators.

NSW Treasury Corporation (TCorp) has been working with the Office of Local Government and the industry on the development of meaningful indicators to guide councils on a path of continuous improvement. TCorp has been highly critical of the indicators adopted by Government in their recent submission to IPART.

c. The performance criteria and associated benchmark values used to assess local authorities in NSW

As outlined above, the performance criteria and associated benchmarks used to measure the success or otherwise of Councils are disturbingly narrow and disregard the fact that local communities want much more from local councils than just long term financial sustainability. It is perfectly reasonable and acceptable for local communities to expect that their local councils might have a much broader focus (i.e. environmental and/or social) and that this focus may indeed vary over time.

Local Councils exist to satisfy the needs of their local communities. They do not exist to satisfy an arbitrary scale and capacity test or a narrow set of financial and asset management indicators.

Interestingly, the Government's criteria completely ignore the views of local communities. People have no place in the NSW Government's vision for local government. They want local government large enough for them to deal with easily and too large for their communities to be able to meaningfully engage.

d. The scale of local councils in NSW

The importance of scale (and capacity) has been overly emphasised in the proposed assessment of whether Councils are fit for the future. There is an underlying presumption that "bigger is better" without any empirical evidence to support that notion. In Blacktown City Council's Draft Improvement Proposal, which was recently publicly exhibited, it is stated that they have sufficient scale and capacity but only currently meet 1 of the 7 key financial indicators and acknowledge they may never meet all 7 indicators. That is not a great advertisement for the NSW Government's proposition that 'bigger is better'.

Scale (or lack of) is not an issue the general community has with local councils. It appears only to be an issue with the State Government. One might conclude that the State Government is primarily focused on reducing the number of councils to make it easier for them to deal with notwithstanding the clear evidence that amalgamations do not serve the interests of local communities.

e. The role of IPART in reviewing the future of local government in NSW, assisted by a South Australian commercial consultant.

IPART was initially formed to determine pricing submissions within regulated industries. Their role, in recent years, has expanded to include the assessment of Special Rate Variations for local government. In both cases they receive empirical evidence, undertake financial analyses and economic modelling in order to make a determination that is binding on the parties whose applications they are assessing. IPART is an organisation with an impeccable record for professionalism and independence from Government.

The NSW Government has now appointed IPART to assess Fit for the Future proposals. It is arguable whether they were appointed lawfully by the Minister and whether the role they were given is within their statutory capacity to perform.

Putting that aside, what is very clear is that the role IPART has been given is totally inconsistent with the role they normally perform. IPART has not been trusted by Government to make a binding determination.

They can only make a determination of 'Fit' 'Unfit' or 'Deemed Unfit' (if a council failed to make a submission). Government then determines what happens to the councils assessed.

Indeed, the transparency that has underpinned the confidence in IPART's role to date has been abandoned. IPART will not publicly disclose its assessment of individual councils. Under the process chosen by Government, those assessments may never be made public. If IPART's selection was made to provide the public with confidence about the process, the Government's Terms of Reference have completely undermined the transparency needed to provide that confidence.

While IPART has an exemplary record, their capacity to make a proper assessment of the 152 Councils throughout NSW in the timeframe set by Government with criteria that aim to select size above capacity is questionable. IPART itself has publicly stated the timeframes set are 'challenging'.

IPART has a reputation it needs to uphold. It has been handed an enormous task, one that is arguably beyond its scope, and will have an incredibly acute time in which to form objective views and make recommendations to the State Government. The Scale and Capacity test is a particularly subjective test. In the absence of knowing what a fictitious amalgamated entity might look like and how it might function/operate, it is unclear as to how IPART are going to objectively assess alternate propositions such as stand-alone proposals or joint organisations.

f. The appropriateness of the deadline for 'fit for the future' proposals

For a proposal as significant as this is, a 30 June 2015 submission deadline is extremely disappointing. As previously mentioned, this is arguably the biggest single issue that has confronted the NSW local government sector in the past 20-30 years. The templates and guidance materials are not prescriptive, nor are they instructive. The whole experience appears to have been rushed and decisions made 'on the fly'. The IPART workshop session recently held in Sydney raised more questions than it answered.

The deadline date for IPART to have finalised its recommendations by mid October 2015 is an unreasonable expectation. It is envisaged that the vast majority of proposals submitted by Councils will be comprehensive documents that have been thoroughly researched and reflect the broader views of their communities. Those proposals demand the attention of the reader. It is feared that given the unrealistic timeframe for assessment and determination, IPART simply will not have the time to properly assess each proposal. The current word limitation on critical aspects of the proposal is, frankly, offensive.

g. Costs and benefits of amalgamations for local residents and businesses

Based on modelling carried out by consultants, Morrison Low, the cost of amalgamating in the short term (1-3 years) is estimated to be upwards of \$80m (including transitioning costs, ICT costs and redundancy costs). There are medium to long term financial benefits but the initial financial impost would not be recouped for many years.

Longer term benefits such as economies of scale and rationalisation of assets/services are assumed but there are risks associated with quantifying the extent to which they will be realised. Much will depend on 'how' the amalgamated entity is managed. Experience has shown in New Zealand and other Australian states that service levels rise to the highest level available across the

merged entities which often make savings forecasts largely illusory. There is an abundance of independent research to support that contention.

Any council suggesting that rates will fall following amalgamations is likely to have fallen into the trap of assuming the lowest service level on offer will be accepted by their communities. Experience has shown this assumption is rarely, if ever, correct. Rates will rise following amalgamations and the NSW government has made that easier by providing 'Fit' councils a simpler process to achieve rate increases above the rate peg. The latter will provide the NSW Government with the ability to continue to 'cost shift' to local government leaving local ratepayers with the bill.

h. Evidence of the impact of forced mergers on council rates

Based on modelling carried out by consultants, Morrison Low, Council estimates that average residential rates would rise by approximately 8.3% in the case of an amalgamated Inner West Council. This rate increase is necessary for the amalgamated Inner West Council to be considered 'fit for the future' (i.e. satisfy all 7 key financial benchmarks). The financing costs associated with funding the upfront transitional costs associated with an amalgamation have NOT been factored into this rate increase.

By comparison, Marrickville Council satisfies all 7 of the key financial indicators with absolutely no additional rate increase.

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

Based on modelling carried out by consultants, Morrison Low, the cost associated with infrastructure renewal and maintenance for an amalgamated Inner West Council is estimated to be an additional \$24m per annum for the first 5 years and then an additional \$12m from Year 6 onwards. This is a significant impost which equates to an approximate 8.3% rate increase (in perpetuity).

j. Evidence of the impact of forced mergers on local employment, including aggregate redundancy costs

Based on modelling carried out by consultants, Morrison Low, the cost associated with redundancies in the first 12 months could be as high as \$2.8m in senior positions alone. It is estimated that in the first 5 years of an amalgamated Inner West Council, 250 jobs (14%) could be lost.

k. Protecting and delivering democratic structures for local government that ensure it remains close to the people it serves.

Perhaps the single biggest negative impact on the proposed amalgamation of Councils to form an Inner West Council is on representation. In Marrickville's case, the residents per Councillor ratio would increase from 6,800:1 to more than 22,000:1. This is more than a 3 fold increase, making it much more difficult for residents to access their Councillors.

There are legitimate concerns that larger councils will become breeding grounds for the two major political parties. This would have the effect of increasing politics in local government at the expense of 'local representation', and may see the decline of Independents and smaller parties.

Local Government has always been the tier of government closest to the people. It would be a travesty for this to change, more so for the people themselves than anyone else.

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

Council has concerns with the 'Fit for the Future' benchmarks it is being asked to satisfy. As previously mentioned, there is a preoccupation with satisfying financial and infrastructure asset related benchmarks which will come at the expense of achieving environmental and social outcomes. This is not a quadruple bottom line approach, and certainly not what the community has expressed as its aspirations in our Community Strategic Plan.

More specifically, Council would have liked additional criteria to not only be permissible but be assessed in a positive light. The proposed approach to assess the efficiency criterion benchmark of 'A decrease in Real Operating Expenditure per capita over time' should have included 'without loss of services', as Councils may cut services to achieve this benchmark, which would be counter to the Strategic Capacity element 'scope to undertake new functions' and continue existing functions.

Council is also of the view that the range of services offered should have been considered in the approach to efficiency criterion. Services offered are generally a response to the needs of the community. The question begs, if we are not here to service the needs of our community, then why do we exist at all?

CONCLUSION

This Parliamentary Inquiry is welcomed as it will call into question the merits of the current 'fit for the future' program. The entire process does not appear to have been clearly thought through. The criteria used to assess 'fitness' is subjective and flawed and the timeframes surrounding submissions, determinations and announcements do not align with the enormity and complexity of this exercise.

Enclosed is a copy of the submission sent to IPART in relation to their proposed assessment methodology and a copy of the Morrison Low Shared Modelling Report – Inner West Council.

If you would like to discuss the contents of this letter and attachments, please feel free to contact
at your earliest convenience.

Yours Sincerely

Brian Barrett
General Manager