

**Submission
No 29**

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

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Key issues

The key issues on the Fit for the Future Reform are that Forced Amalgamations will have the following detrimental effects;

1. Services to the local community will be reduced
2. The local community will lose its sense of identity
3. Councillors will not be able to represent or address the concerns of residents
4. Council rates will increase to cover the cost of forced amalgamations
5. The new merged council wont meet all the benchmarks set by the Fit for the Future reform
6. The financial burden for the merged council will have significant impacts for the next 10 years
7. Instability for councils in the lead up to the 2016 Local Government Election

In addition the process for reform has not addressed these key points:-

1. There is no evidence that bigger councils are more efficient
2. The Office of Local Government were previously developing Key Performance Indicators for all NSW Councils that covered Financial Performance, Service Delivery, Governance and Asset Management.
3. The determination by IPART of whether a council is Fit for the Future is being rushed through
4. The performance criteria should be developed in consultation with local communities and not by the State Government
5. The creation of super councils causes a logistical nightmare and huge financial cost for the merging of systems, equipment, buildings, staff, websites, email and letterhead.

Evidence

The proposed super councils recommended by the Independent Review Panel will mean some council areas go from 50,000 to 500,000 residents. This is a ten fold increase in population with little thought to the different demographic issues in each council area, the culture of each area, the issues that are important to each area and the different services that each council provides. The super councils are expected to provide for 10 times as many residents but achieve cost savings at the same time. The experience of other amalgamation of councils in Victoria and Queensland show that the cost savings estimated by the State Government are over inflated, services are reduced and council rates are increased to reduce the deficit the new super council faces.

Amalgamated Councils don't Perform Better

The Sydney Morning Herald published an article on 8 June 2015 that three academics had looked into comparisons between metropolitan Sydney councils and Brisbane City Council and the Sydney councils outperformed Brisbane on 3 of the 4 selected measures and they concluded that "*council amalgamations have repeatedly failed to meet expectations*".

The article is shown below in full:-

An analysis by academics from three universities comparing the financial performance of Australia's biggest council, Brisbane, with comparable councils shows that "bigger" or "biggest" is not always best.

The authors question the claim that council mergers such as those proposed in the NSW government's Fit for the Future reforms lead to significant cost savings, lower residential rates and better service delivery without adversely affecting a community's local voice.

The analysis by Dr Elisabeth Sinnewe (Queensland University of Technology), Dr Michael Kortt (Southern Cross University) and Professor Brian Dollery (University of New England) was published in the peer-reviewed Australian Journal of Public Administration.

The study compared Brisbane to Sydney City Council, six south-east Queensland councils and the average of 10 metropolitan NSW councils using four key performance indicators: financial flexibility, liquidity, debt service capacity and asset management. It found that Brisbane was outperformed by the other councils in the first three indicators over the period from 2008 to 2011.

"Council amalgamations are always controversial and can bitterly split local communities," the authors said. "The empirical evidence suggests that council amalgamations have repeatedly failed to meet expectations.

Dr Brain Dollery of the University of New England was commissioned by Pittwater Council to review the proposed merger of Pittwater, Manly and Warringah Councils in 2014 and he concludes:-

"This Report examines the theoretical and empirical evidence on local government amalgamation in the academic literature and official reports. This corpus of research demonstrates that there is an overwhelming weight of conceptual and empirical evidence against local government amalgamation as a means of improving the efficiency of local government and its financial viability. With respect to the proposed merger of Manly, Pittwater and Warringah, the comprehensive statistical analysis contained in this Report indicates that:

- Such a merger **will not** improve financial sustainability;*
- Given the **absence** of economies of scale, cost reductions **will not** occur as a consequence of a merger; and*
- Given the diverse socio-economic profiles, there is **no evidence** of a strong joint 'community of interest', which is an essential prerequisite for successful mergers.*

*Thus based on the analysis presented in this Report there is **no evidence** to suggest that the proposed merger of Manly, Pittwater and Warringah – as advocated by the Independent Local Government Review Panel – will result in improve efficiency and financial viability".*

Negative Impacts of Amalgamations

The community will suffer a loss of representation in local government matters as it will be much harder for the community to effectively engage with councillors. Each new councillor will, because of the very large population, be representing the equivalent of almost 25,000 people - compared to less than 5,000 currently for many Councillors.

There is a lack of international and national evidence cited by either the Independent Review Panel or the NSW Government supporting the claims that local government amalgamations result in cost savings to the community or are more financially sustainable than stand-alone councils.

In the publication "Historical Evolution of Local Government Amalgamation in Victoria, Tasmania and South Australia, March 2010, Ian Tiley and Brian Dollery Centre for Local Government, UNE concluded that councils lose their sense of identity, there was a negative impact on services to the community, the cost savings estimated by the Victorian Government were over inflated and staff were directed into areas where they had little expertise. Extracts from this working paper demonstrating these points are shown below :-

"Real savings from Victorian council mergers have been assessed at about eight to nine per cent (Marshall, 2008, p.19). The Kennett government regularly stated that huge savings from amalgamations of up to \$400 million had been achieved. Yet Australian Bureau of Statistics figures comparing Victorian local government operational expenditure between 1991-92 and 1996-97 in real terms suggested that operating costs had increased so that strong grounds existed to argue that local communities had not made any substantial economic gains (Kiss, 1999, p.119). Other factors associated with the reform process had additional cost implications and distracted staff away from their normal duties into areas in which they had little training and experience, complicating the establishment of new service levels and increasing the burden on already diminished council resources (Savery, 1997, p.164)."

"The reform strategies altered the nature of Victorian local government and its relationship with citizens. Council powers to develop business enterprises and invest in the local government area were effectively handed over to the market and local government was constrained in terms of direct provision of some services on behalf of community (Williamson, 2000, p.36). Citizens were deprived the opportunity to share in collective ownership of public assets and were increasingly defined as customers of contracted services rather than people with citizenship rights and obligations. Legislative and constitutional changes that accompanied the local government reforms helped to entrench the erosion of civil and political rights of Victorians. The reforms also meant a closer alignment of local government practices with the market-based policies of the State government (Williamson, 2000, p.60)."

"The Victorian local government reforms decreased opportunities for citizens and community to deliberate on the issues that impacted on their lives".

"The Victorian amalgamations underpin the complexity involved in boundary changes and organisational mergers and the political will of a state government

determined to institute a state-wide program of privatisation and rationalisation of services based on the 'economies of scale' argument. Such experience also indicates that poorly planned, hastily executed amalgamations not involving intense consultation with elected councillors, staff and communities of amalgamating councils can result in long-term organisational problems and negative effects on service delivery (Vince, 1997, p.159-60). The Victorian local government reforms focused on resource management and competitive service delivery systems, reinforcing an economic view of local government primarily as an efficient provider of resources to communities and representing a shift away from the traditional political view of local government and local democracy with its values of representativeness, responsiveness and participation (Aulich, 1997, p.208).

"By 1996, there was increasing research to suggest the reforms of the era did have negative impacts on at least some local government services. It was questioned, for example, whether in fact youth services had needed reform or had benefited from amalgamations, closures and the change to economic rationalism and managerial policies (Bessant & Emslie, 1996, p.43). Amalgamation was not deemed a catalyst, for instance, to improving the efficiency and effectiveness of local government youth services given that after amalgamation less resources were applied to youth services and there were fewer youth worker positions in the Victorian local government sector (Bessant & Emslie, 1997, p.17)".

Financial Impact on Councils

The Sydney Morning Herald published an article on March 25, 2015 which stated:-

Drastically reducing the number of NSW councils would carry an upfront cost of \$445 million, the NSW parliamentary budget office has estimated. However, the cost of cutting back the state's 152 councils to just 38 would be "significantly higher" if the mergers were forced, the briefing note said.

"It is assumed the council mergers would be voluntary, not forced, therefore any costs arising from legal challenges to or disputes about the merger have not been included," it said.

The costing, which was sought by Labor, assumes almost every merger put forward in 2013 by the Independent Local Government Review Panel was to go ahead instead of other options also detailed in the panel's report, like joint organisations. The proposal to merge Botany Bay, the City of Sydney, Waverley, Randwick and Woollahra carried the highest upfront cost, at \$37.6 million.

This figure was followed by \$31.5 million to merge the inner-west councils of Marrickville, Ashfield, Burwood, Canada Bay, Leichhardt and Strathfield.

"IT and communications systems expenditure" was identified as the biggest cost, at 45 per cent, with employment transition costs put at about 20 per cent.

Under the current Fit for the Future Reform package councils have been offered \$10 Million if they voluntary merge. If this funding was to continue under forced amalgamations then the merged council would be faced with a huge deficit. The excessive costs would be borne by the ratepayer of any amalgamation

without a commensurate increase in service levels. Independent research undertaken by industry experts Morrison Low found that the costs of amalgamation will be 5 to 6 times more than the NSW Government is offering and the shortfall is estimated at upwards of \$70 million/super council – these costs will have to be passed on to ratepayers in any merged council.

Many current councils have had financial modelling undertaken to determine at what point a merged council would make cost savings once staff redundancies is accounted for and the modelling suggests it would take over 10 years to provide any financial benefit. A copy of the Inner West Modelling is shown here;

<http://www.leichhardt.nsw.gov.au/ArticleDocuments/1266/morrison-low--fit-for-the-future-2015-report.pdf.aspx>

Community Consultation

In recent months most Sydney metropolitan councils have surveyed their communities to ascertain their views on amalgamations. While there isn't a combined figure of all Sydney metropolitan councils, many individual councils have published the results of their surveys and many communities are strongly in favour of standing alone. The views of the community should be considered as a performance criteria in the Fit for the Future process. An example of the statistics released by councils show their community are in favour of standing alone;

North Sydney 87%
Leichhardt 83%
Woollahra 81%
Strathfield 81%
Bankstown 77%
Manly 57%

These results mirror what occurred in Western Australia earlier this year where communities voted against amalgamations and the State Government pulled the pin on amalgamating 30 council areas into 16.

Fit for the Future Benchmarks

The man who drew up the blueprint to merge 41 Sydney councils into about 14 has accused the NSW government and the Independent Pricing and Regulatory Authority of effectively dumbing down his report's recommendations and trying to rush council mergers.

Graham Sansom's submission to the regulatory authority, critiquing its methodology, accuses it of overlooking his reform objectives and instead relying too heavily on financial ratios to assess the health of councils and whether they should merge. In a separate submission, the government- owned TCorp, which has regularly done financial analysis of local government, said the "pass/ fail" approach being adopted by the regulatory authority on key financial indicators was too simplistic and inconsistent with the advice T-Corp had been giving councils for years about improving their financial position.

Now Mr Sansom has joined the increasingly volatile debate saying the regulatory authority has confused the goal of building more sustainable units of government with achieving financial ratios. "The Independent Local Government Review Panel" report (ILGRP) has been somewhat overshadowed by the perceived focus on financial ratios and benchmarks," Mr Sansom said.

"Anecdotal evidence suggests that as a result, the need for wide-ranging, longer-term measures to build sustainability and capacity is often being confused with short-medium term 'budget repair', which is not what the ILGRP intended. "

"The latter would represent a much narrower (and almost certainly less fruitful) approach.

"Contrary to the views expressed in some quarters, 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.

" [The regulatory authority] may wish to give some weight to the Panel's broader strategic objectives [creating effective units of government and democratic institutions] when making its assessments."

Mr Sansom also said that his report had seen regional organisations as a genuine alternative to mergers. "For mergers to occur and prove durable, the ILGRP saw a need for a much improved statutory process for identification of options, analysis, consultation and determination." He envisaged that mergers would be referred progressively to the Boundaries Commission.

He warned that the process seemed to be heading toward a " temporary fix" of simply reducing the number of councils. In what appears to be a major bureaucratic rift, TCorp's has also put in a sharp critique of the regulatory authority's pass/fail methodology. In particular, it was highly critical of the authority's approach to council debt levels. Although it noted that the local government sector was generally under-gearred, it said having greater levels of debt was " an aspirational goal," not something that warranted a pass/fail mark.

"Some of the councils that T-Corp assessed as amongst the strongest financially sustainable councils in NSW (for example City of Sydney and The Hills) have no existing or current need for debt," the TCorp submission said.

The modelling undertaken for councils also suggests that if the arbitrary population figure is ignored, current councils meet the remainder Fit for the Future criteria's whereas the proposed super councils do not. This makes no logical sense. The Fit for the Future Reform is focussed on size which as demonstrated above there is no evidence to suggest this makes for a more efficient council. Under the Fit for the Future process all councils must meet the scale and capacity criteria before their financial sustainability is even considered - this leads people to conclude that the State Government have already made the decision before councils submit their proposal to IPART.

Many of the councils who have publicly stated that they wish to standalone have been assessed by the NSW Treasury as sound now and into the future but this is being ignored by the State Government.

During 2013, the Office of Local Government developed a working party with representatives of NSW councils to develop a Key Performance Indicators Framework for all NSW Councils. These indicators covered Financial Performance, Service Delivery, Governance and Asset Management. These performance measures were being developed to provide the community with a method of assessing councils against each other. It is interesting to note that this working party has not met since early 2014 and the Office of Local Government has stopped work on this framework.

The Fit for the Future benchmarks should be determined by the community not the State Government as it is the community who local government serve.

Recommendations

1. That amalgamations only proceed on a voluntary basis and there be no forced amalgamations.
2. That no amalgamations take place without the majority support of all communities involved.
3. That the State Government request the Office of Local Government to recommence the project on Key Performance Indicators Framework for all NSW Councils as a fair comparison tool and involve the community in the process.

Summary

The Fit for the Future reform program is based on the false assumption that bigger is better; that larger councils are more efficient and effective and better service their communities. However, the Independent Review Panel's Final Report cited no evidence to support these claims. In fact, the international and national evidence reveals the exact opposite – smaller councils are more efficient, effective, financial sustainable and better represent their local communities. I refer you to the work of local government expert Professor Brian Dollery from the University of New England¹ to support our claims in this regard.

1 Dollery, B. E., Kortt, M. and Grant, B. *Funding the Future: Financial Sustainability and Infrastructure Finance in Australian Local Government*, Sydney, Federation Press, 2013; Dollery, B. E., Grant, B. and Kortt, M. *Councils in Cooperation: Shared Services and Australian Local Government*, Sydney, Federation Press, 2012; Dollery, B. E. Garcea, J. and LeSage, E. (eds.), *Local Government Reform: A Comparative Analysis of Advanced Anglo-American Countries*, Cheltenham, Edward Elgar, 2008; Dollery, B. E., Marshall, N. A. and Worthington, A. C. (eds.) *Reshaping Australian Local Government: Finance, Governance and Reform*, Beijing, Peking University Press, 2008; and Dollery, B. E. and Robotti, L (eds.), *The Theory and Practice of Local Government Reform*, Edward Elgar, Cheltenham, 2008.