

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

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## Submission to the Parliamentary Inquiry into Local Government in NSW

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I thank the Legislative Council for the opportunity to make a submission to this Inquiry. The issues raised by the Council, and by the council mergers proposed by the Independent Local Government Review Panel (ILGRP), are extensive. I will keep my responses as concise as possible. They relate to local councils in the Sydney metropolitan area, not necessarily to other areas.

### *a) The New South Wales Government's 'Fit for the Future' reform agenda,*

Reform must start with recognising the services that local government provides and identifying the problems to be addressed. Among other functions, local councils provide and maintain:

- local infrastructure (roads and drainage),
- bushland and urban parks,
- planning and development services,
- traffic and pedestrian safety and parking management
- public health oversight,
- active and passive recreational facilities,
- libraries and other cultural facilities,
- social services for seniors, families and youth.

Neither the ILGRP nor the NSW Office of Local Government (OLG) has identified in what ways these services are provided poorly or why.

Issues do arise related to local councils' role as monopoly supplier of local public services, the lack of service metrics, excessive red tape, an incomplete tax base, cost shifting, and in low income areas a lack of financial capacity.

To respond to these problems, there are many possible reforms. These include:

- Improved service metrics
- Strengthening accountability to the local population
- Use consumer surveys to determine service requirements and satisfaction
- Reform of meeting practices, code of conduct regulations for serious issues
- Reform of the local council tax base
- Stop cost shifting
- Provide financial support where it is needed most
- Encourage regional planning and procurement organisations.

The ILGRP suggested some of these and other possible reforms. However OLG has not entered into substantive discussion with local councils on **any** of these issues.

Instead the "Fit for the Future reform agenda" focuses solely on one irrelevant "solution" — larger councils.

*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,*

The financial sustainability of councils depends fundamentally on the size of the business base, the incomes of rate payers and the density of population (see Abelson, 2015, which is submitted separately). Councils with a sizeable business base, average or above average household incomes and medium or high density are fundamentally sustainable. By contrast councils with a weak business base, low income households and low density may need financial support.

The financial benchmarks proposed by OLG are essentially measures of financial efficiency. However the ability to meet these measures can be viewed as a condition for financial capacity. IPART's requirement that councils must show that they can achieve these benchmarks within five years rather than that they currently do achieve them, as proposed by OLG, is appropriate as these benchmarks are only recently introduced financial disciplines.

However, some caveats are noted.

- As the requirements are based on financial forecasts, they are subject to judgment rather than ready testing.
- Subject to local community support for rate increases, councils must not be constrained by rate pegging from meeting these benchmarks.
- Depreciation rates are not uniform or agreed.
- Both the "infrastructure backlog" and the "asset maintenance ratio" are based on non-uniform and non-audited estimates of satisfactory asset condition and required asset maintenance respectively.

Critically, two or more councils that fail separately to meet these benchmarks are also likely to fail to meet them collectively. Hypothetical paper exercises on economies of scale through forced mergers are no substitute for evidence.

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

Turning to strategic capacity, the ILGRP placed almost exclusive focus on councils' capacity to work with the state government on metropolitan-wide issues. Sansom (2015) states explicitly that "The ILGRP's concerns were with the effectiveness of local government **as an arm of metropolitan governance**". Author's highlighting.

Of course, local councils should have the capacity separately or through regional organisations to assist with metropolitan planning and provision of adequate transport and housing infrastructure. But such metropolitan activities are only part of the functions of local government. The ILGRP largely overlooked the fundamental services provided by local government. **Local Government is the Third Arm of government. It is not part of the Second Arm of Government.**

To measure strategic capacity, the ILGRP proposed 10 sub-criteria. Examples are:

- “knowledge, creativity and innovation”,
- “effective regional collaboration”,
- credibility for more effective advocacy,
- high quality political and managerial leadership.

These and the other six criteria are ill-defined, lack metrics and cannot be readily validated.

It is inappropriate to elevate weakly defined “strategic capacity” over other equally or more important capacities to serve the local population.

#### *d) The scale of local councils in New South Wales,*

Scale (minimum population size) has no intrinsic importance and should not be regarded as a separate objective or criterion. If scale is significant, this must be shown to be a **means** to some important objective. The ILGRP contended that scale is necessary for strategic capacity. But they provided no evidence for this. In any case, if strategic capacity is the objective and is shown to be satisfied, then scale is not important and is not a separate criterion.

In a public session at the NSW Local Government Association conference in Coffs Harbour in October 2014, I asked the Acting Chief Executive of the Office of Local Government, Mr. Orr: “is scale and capacity one criterion or two”? The Acting Chief Executive was unable to answer this question. This critical question remains unresolved in subsequent “Fit for the Future” publications including IPART (2015). See also (e) below.

It should be noted that Mr. Sansom (Chair of the ILGPR) has denied frequently and strongly that the ILGRP intended any relation between scale and financial capacity. Indeed, Mr. Sansom (2015) has described the idea that the ILGRP recommended fewer councils in the Sydney Metropolitan area in order to improve the financial viability of local government in Sydney as “**pure fiction** ... Nowhere did *Future Directions* argue that amalgamations of councils in metropolitan Sydney would improve financial viability”.

In peer reviewed journal articles, Abelson and Joyeux (2015) and Dollery et al (2014) show that there is no relationship between scale and financial capacity.

#### *e) The IPART role in reviewing the future of local government in New South Wales, assisted by a South Australian commercial consultant,*

IPART appears to be highly constrained by its Terms of Reference. In the Mosman Council submission to IPART we wrote explicitly: **If IPART considers that scale should be a separate criterion, we request that IPART define the scale and explicitly provide the reasons and evidence for this and the relative importance, if any, of scale as a stand-alone criterion.** IPART has declined to answer this question on the basis that it does not have the power to change the Terms of Reference given to it.

It is hard to see how IPART will be able to reconcile professional standards of analysis with some arbitrary and indefensible requirement for “scale”.

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

No comment

*g) Costs and benefits of amalgamations for local residents and businesses,*

There is **no** evidence that merged councils would collectively produce economic savings. Indeed, as noted this was **not** claimed by ILGRP and there is no evidence that larger councils produce economies. Hypothetical paper studies are no substitute for well-researched evidence.

It has to be stressed that the corporate business world is not an appropriate model for local councils. As noted, local councils are monopoly service providers; they are not competitive businesses. It is fairly safe to say, and it is certainly the writer's experience that the larger a bureaucratic monopoly the greater is the potential for waste. Conversely the smaller the bureaucracy, the more closely is expenditure observed. The cost of large councils is evident in the various studies by Dollery et al (2012).

On the other hand, as numerous submissions argue and public consultations indicate, there will almost certainly be a decline in service levels in larger bureaucracies.

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

No further comment

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

No comment

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

No comment

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

See (g) above.

*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,*

The Northern Beaches regional organisation comprising Pittwater, Warringah, Manly and Mosman and known as SHOROC, has a strong record over some 15 years for effective collaboration, cost savings, and regional planning and advocacy. The SHOROC region covers an area of 288 sq km in north eastern Sydney, being home to approximately 280,000 residents.

SHOROC has a strong history of achievement in regional advocacy and intergovernmental relations, in strategic planning and coordinating joint projects, procurement and services. It is widely regarded as a leader in local government regional coordination. This is achieved with a small four-person central administrative unit.

Achievements in recent years include over \$1 billion in NSW Government regional investment for roads, public transport and hospitals. They also include:

- Developing a regional strategic plan "*Shaping our Future*" to deliver on the State Government's Metropolitan Strategy. This plan brought together major directions for housing and employment growth, together with major regional infrastructure priorities for transport and health
- Representing member Councils, including Mosman, on high-level NSW Government project committees
- Preparing joint submissions on major NSW Government reviews and reforms including the Metropolitan Strategy, Transport Masterplan, Northern Beaches Regional Action Plan, NSW Infrastructure Strategy, NSW Planning System Reforms, the Independent Local Government Review and Review of the Building Professionals Act
- Coordinating Council involvement in region-wide transport planning, including regional RMS transport forums for strategic and operational transport issues
- Undertaking a strategic procurement role for tendering and contract management
- Developing a regional waste avoidance and resource recovery strategy
- Coordinating the introduction of a common waste collection system across the local government areas managed by member Councils

In November 2014 SHOROC received the highest honour for excellence in NSW planning, receiving the 'President's Award' from the Planning Institute of Australia.

The relationships developed between the SHOROC Councils have also resulted in other major collaborations such as the 24/7 Film Festival - an annual short film festival for young people - and joint marketing campaigns on issues of common interest. Most recently these joint campaigns have been undertaken in relation to issues such as illegal dumping and no-stopping zones, with an earlier, externally-focussed joint marketing campaign on e-waste also being successful.

*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

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

This is a critical issue. In a paper titled "Some Benefits of Small Local Government Areas", published in the peer-reviewed American Journal *Publius*, Abelson (1981) showed that communications between voters and (then) aldermen across the Sydney metropolitan area fell proportionately with the decline in elected representation per head of population in larger council areas. This is exactly as one would expect and is almost certainly the case today.

*o) The impact of the 'Fit for the Future' benchmarks and the subsequent Independent Pricing and Regulatory Tribunal performance criteria on councils' current and future rate increases or levels,*

No further comment

*p) Any other related matter.*

The key criterion for a council's fitness should be a council's ability to provide desired local public services. This depends on:

- (i) the capacity to understand local needs,
- (ii) the incentives to meet local needs (local democracy and accountability),
- (iii) clearly defined tasks for council officers along with clear delegations and
- (iv) financial capacity.

All these factors are met equally as well, if not better, in small council areas.

Customer service, sense of identity (community), public opinion and consultation are critically important to local services and democracy.

Councils' customer satisfaction surveys and related data are of primary important evidence on these issues.

The most critical issues in the world today are social, not technological. There have been major increases in elderly single people living alone, divorce rates, domestic violence, women at work and mental health problems in all parts of society.

In his recent book, *The Art of Belonging*, one of our leading social analysts, Hugh Mackay (2014), writes: "We rely on communities to support and sustain us and, if those communities are to survive and prosper we must engage with them and nurture them". Indeed.

## References

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Abelson, P. and R. Joyeux, 2015, "Smoke and Mirrors — fallacies in the New South Wales government's views on local government financial capacity", *Public Money and Management*, vol. 35, 4, July. A slightly fuller version of the paper is attached. See also <http://mosman.nsw.gov.au/news/2014/09/24/local-government-reform>

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