

**Submission
No 128**

INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

Organisation: Hunter Hill Council

Date received: 7/07/2015



HUNTER'S HILL COUNCIL

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The Director
General Purpose Standing Committee No. 6
Parliament House
Macquarie Street
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7 July 2015

Dear Ms Foley,

Submission on Inquiry into Local Government

Thank you for the opportunity to make a submission to the current Committee Inquiry into local government and the Fit for the Future Reform process, including the possibility of forced amalgamations. Please find our submission attached. Also included in our submission is a copy of *Compulsion Versus a Collaborative Regional Approach* by Brian Dollery, Michael Kortt and Joseph Drew.

Hunter's Hill Council supports evidence-based local government reform initiatives that lead to improved function and sustainability of councils and lasting economic and social benefits for local communities.

Hunter's Hill Council expresses concern that Fit for the Future while promising much, has disappointingly concentrated on whole-scale structural change (in the form of mass amalgamations) seemingly based on ideation, rather than on a credible evidence-based approach.

To deliver evidence-based economic and social benefits to our communities, The City of Ryde, Hunters Hill and Lane Cove Councils have proposed to form a Joint Regional Authority as a superior alternative to the mass-amalgamation recommendations of the ILGRP and a separate submission has been lodged with the Committee on behalf of the three Councils.

It contains a substantial and strong evidence based response and is supported by overwhelming independent evidence.

The purpose of our attached individual submission is to register the concerns of our Council and community at the possible loss or diminution of local democracy and decision-making, when there is a substantial lack of evidence to support the level of structural change suggested by the ILGRP, and proposed through the Fit For The Future Process.

This submission has been extensively researched and contains evidence that raises serious questions about the Fit for the Future process, particularly in regard to the recommendations of the ILGRP and some unsubstantiated claims being made by the 'pro-amalgamation' chorus in respect of Metropolitan Sydney.

Should you require any further information please do not hesitate to contact me
On behalf of our Mayor Cllr Richard
Quinn, we would welcome the opportunity to appear before the Committee.

Yours sincerely

Barry Smith (M. Bus., B. Bus., FLGMA)
General Manager

Hunter's Hill Council



**Submission to General
Purpose Standing Committee
No.6 Inquiry into and report on
local government in New
South Wales on behalf of
Hunters Hill Council**



Introduction

This submission deals with each of the various terms of reference as advised by the Committee.

The terms of reference are more than adequately covered in a publication commissioned by our Councils to support our Fit for the Future response and this submission draws upon the evidence contained therein.

The publication is:

'Compulsion Versus a Collaborative Regional Approach. An Empirical Analysis of Forced Amalgamation versus a Regional and Shared Services Approach' (May 2015)

Brian Dollery, Michael Kortt and Joseph Drew on behalf of New England Education and Research Proprietary Limited

Fit for the Future while promising much, has disappointingly followed earlier misguided attempts at reform by concentrating on structural reform rather than initiatives that will bring real and lasting reform and where a reduction in the number of Councils could be a natural outcome of the process.

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

Our Councils, as are most others supportive of local government reform.

The recommendations of the Independent Local Government Review Panel (ILGRP) were largely supported by our Councils when they were released in 2014.

Potential mergers featured in only a handful of the 65 recommendations the Panel report handed down and Joint Organisations (JO's) were suggested as an alternate method for dealing with more complex regional issues.

The Fit for the Future reform program is based on the false premise 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. The work of highly regarded researcher of local government Professor Brian Dollery from the University of New England supports our claims in this regard.

Attached to this submission is a comprehensive analysis of amalgamations and regional shared services entitled *'Compulsion Versus a Collaborative Regional Approach'*, Dollery, Kortt and Drew (May 2015) commissioned by our Councils.

This analysis suggests that there are major policy implications for the current Fit for the Future NSW local government reform agenda as outlined on pages 9-12.

1. Empirical evidence on amalgamation in the literature falls overwhelmingly against forced amalgamation.

Indeed, the bulk of the empirical literature shows that shared services and other kinds of inter-council collaboration best secure the advantages of scale.

2. Empirical analysis of the 2000/2004 NSW council amalgamations shows no difference in the performance of merged and unmerged councils using *Fit for the Future* criteria. In an analogous vein, empirical analysis of the 2008 Queensland amalgamations shows that most amalgamated councils now operate under diseconomies of scale. Taken together, this provides convincing empirical case against proceeding with a further round of municipal mergers in NSW in 2015.
3. Critical assessment of the *Fit for the Future* process found it severely flawed in numerous respects: its arbitrary use of financial sustainability ratios (FSRs) and associated benchmark values; its problematic 'scale and capacity' approach; unreliable data employed in sustainability assessments; and an incorrect measure employed to assess the operational efficiency of councils. The NSW Office of Local Government should thus to halt the *Fit for the Future* process and solve these problems before proceeding with the reform program.
4. IPART's (2015) *Methodology for Assessment of Council Fit for the Future Proposals* – only released on 27 April 2015 – add a further twist to a convoluted reform process. IPART will replace the Panel of Experts promised in *Fit for the Future* as the assessor of council submissions and its new assessment methodology introduces significant changes to the process. In particular, 'non-rural', 'rural' and 'merged' councils in IPART (2015) replace the 'one size fits all' approach in *Fit for the Future*. Performance benchmarks also now diverge widely between IPART (2015) and *Fit for the Future*. However, the Report demonstrates that the IPART approach is badly flawed and does not correct the problems identified in *Fit for the Future*.
5. By 'changing the rules of the game' IPART has rendered much hard work already done by local councils obsolete. Thus Hunters Hill, Lane Cove and Ryde, which have cooperated fully with the *Fit for the Future* process, undergone self-assessment using the requisite OLG (2014) templates, and engaged in extensive and *bona fide* community consultation, now find that much of this effort has been in vain.
6. An empirical investigation of the proposed Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby council mergers in the Report found numerous problems: challenges posed by significant current disparities in rates, fees and charges, and capacities to pay across the six councils; problems determining democratic representation post-merger; apportioning the burden of liabilities inherited by a newly merged council; complications derived from the dismemberment of the City of Ryde; Commonwealth financial assistance grants post-merger, information disclosure to local residents, and the critical fact that almost all of the North Shore group of councils would be less financially sustainable under the *Fit for the Future* criteria than they had been pre-merger.
7. The Report conducted two modelling exercises to investigate the outcomes of the proposed Sydney mergers: (a) multiple regression analysis showed that the Independent Panel's claims about scale economies proved false and (b) DEA analysis also demonstrated most proposed Sydney amalgamations would yield over-scaled councils too large to efficiently provide local services. Taken

together, this shows that there is no empirical justification for the proposed merger of the Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby councils.

8. The Report presented a detailed analysis of the socio-economic characteristics of the Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby councils. This demonstrated that no common 'community of interest' existed.
9. The Report found that shared services represent a superior alternative to forced amalgamation to improve the performance of the Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby councils. Moreover, the best method of delivering shared services lay in a variant of the successful Hunter Councils model.
10. The Report thoroughly examined the community engagement programs conducted by Hunters Hill, Lane Cove and Ryde and found that they easily met the community engagement assessment criteria stipulated by IPART (2015) in its *Methodology for Assessment of Council Fit for the Future Proposals*.

The proposed reform program treats Councils unfairly with only those who voluntarily amalgamate having access to many of the reforms the Panel recommended. It could be suggested that the State Government has used the Panel's final report and its recommendations to incentivise amalgamations.

The subjectivity now surrounding the criteria being used to determine Council's 'fit for the future' and the timeframe in which Councils need to respond is extremely disappointing.

Significantly the criteria being used fail to recognise the importance of environmental and social impacts and outcomes. This is exemplified by the fact that there is no assessment of 'communities of interest' or community feedback.

Councils have only received notice of IPART's revised guidelines for proposals around mid-June. 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 have been expected to submit a comprehensive and compelling case to the NSW Government in 2-3 weeks. That is simply unacceptable.

A more telling indictment of this process is that the Chairman of the ILGRP has on many recent occasions stated that he was surprised with the NSW Government's preoccupation with amalgamation.

'Amalgamation proposals must be based on rigorous empirical analysis rather than preconceived ideological presumptions concerning council size and council performance'. Brian Dollery (*p75 Collaboration v Compulsion*)

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

'A critical assessment of the Fit for the Future process found that it is flawed in a number of respects: (i) its arbitrary use of financial sustainability ratios; (ii) its problematic 'scale and capacity' approach; (iii) unreliable data employed in sustainability assessments; and (iv) an incorrect measure employed to assess the operational efficiency of councils.' Brian Dollery (p77 Collaboration v Compulsion)

The State Government reports on its performance through *the NSW 2021 Performance Report 2014-15 Budget Related Paper No 1 (June 2014)*. (Presumably a new version of this report will be published in conjunction with the next State Budget).

Within this report (pages 1-2) is contained the following:

Local communities set priorities

As each local community in NSW has its own set of priorities, the Government has localised NSW 2021 through 19 Regional Action Plans. Government Ministers and local Members of Parliament consulted with more than 3,500 community members at over 25 meetings across NSW and input was also gathered through online forums and written submissions.

The Regional Action Plans were released in December 2012 and focus on the most important actions the NSW Government will take to align resources with locally identified priorities in each locality.

There is no data or performance report contained in the document relating to the Regional Action Plans.

Most significantly there is no resemblance between the benchmarks contained in the State Report and any of the criteria or benchmarks being applied to local government under the Fit for the Future agenda.

It would be reasonable to assume that Federal government reporting would be even further removed from local government.

It is obvious that 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.

There is an acknowledged concern at the current lack of consistency when it comes to reporting depreciation. This inconsistency can substantially influence a council in terms of satisfying some of the asset management indicators. National asset management standards need to be mandated and audited.

Submission to General Purpose Standing Committee No. 6 inquiry into and report on local government in New South Wales on behalf of Hunters Hill Council.

Given their intimate knowledge of local government, the input and opinions of external auditors 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 New South Wales

As indicated earlier our Councils commissioned a comprehensive analysis of amalgamations and regional shared services entitled 'Compulsion Versus a Collaborative Regional Approach', Dollery, Kortt and Drew (May 2015).

Chapter 4 specifically addresses the criteria and the following is taken from pages 102-104.

The OLG (2014b; 2014c; 2014d) Fit for the Future documentation creates the distinct impression that the program has been rushed in the aftermath of a shock change of Premier in early 2014 and subsequent Cabinet reshuffle in order that the new Premier be well placed to implement structural reform plans after the March 2015 election. If this assumption is correct, then the NSW Government is intent on following the oft-trod path of previous state governments in NSW, Victoria, Western Australia and Queensland in which forced mergers have been implemented early in the respective term of office. It seems this is done to abate political damage by putting as much time as possible between unpopular structural reform and subsequent state polls. However, in the present case in NSW, in its rush to get a structural reform framework out in time, the NSW Government has blundered badly in its Fit for the Future program, as we have demonstrated in Chapter 4.

We have identified a number of errors which seem to derive from the harsh time constraints imposed on the OLG by the NSW Government. For instance, the efficiency measure hastily employed does not measure efficiency. Moreover, the method for indexing nominal data is clearly flawed and the approach taken to establishing the direction of the trend over time is ridiculous. The haste made in responding to the ILGRP (2013b) inquiry has also meant that no empirical evidence has been tendered to substantiate the Panel's assertion that substantial scale economies exist in NSW local government service provision, much less its claim that current municipal size is 'under-scale'. Likewise, the rush to articulate the criteria adopted in Fit for the Future has meant little time or appetite to investigate recent developments in the scholarly literature which clearly demonstrate that population size is not a suitable proxy for local government output.

Had this been done thoroughly, then it would have become evident that the population data which forms the foundation of both the OLG (2014b) scale and capacity criteria and efficiency measurement is not sufficiently reliable for public policy making purposes (particularly in inter-censal years) in NSW local government. It would also have uncovered the pernicious effects of unreliable accounting accruals on the financial sustainability ratios employed by the OLG.

Submission to General Purpose Standing Committee No. 6 inquiry into and report on local government in New South Wales on behalf of Hunters Hill Council.

Finally, had sufficient time been available, remedial action might have been taken on Schedule 7 and 8 data which TCorp (2013) had already identified as problematic.

The rush to press forward with structural reform of local government also means that decisions will be taken without knowing the outcome of 'unfinished business'. This relates principally to reviews of local government rating and grant allocation practices which will result in significant changes to the revenue streams of NSW local authorities. It is hard to understand how a council's Fitness for the Future can be assessed without reference to significant changes to revenue policies.

Chapter 11 was prepared in response to the proposed changes in the IPART assessment methodology in summary states in part on page 238 that:

- In this chapter we demonstrate that not only do these changes fail to address the difficulties in the *Fit for the Future* performance criteria and benchmarks, but they also contain additional flaws.

d) The scale of local councils in New South Wales

'...considerable doubt has been created as to whether population size is a suitable proxy for local government output in Australia (Drew and Dollery 2014c). The number of households aligns far better with the unit of actual service provision and it is less volatile and more accurate in inter-censal periods. Thus the OLG may well be conducting its structural reform agenda on an entirely fallacious unit of scale and capacity (Drew and Dollery 2014c).' (Compulsion v Collaboration p 89)

The importance of scale (and capacity) has been overly emphasised in the proposed assessment of whether Councils are fit for the future. As stated in section (a) there is an underlying fixation with the premise that "bigger is better" without any empirical evidence to support that notion.

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 and a small minority of various self-interested groups.

One might be drawn to conclude that the State Government is primarily focused on reducing the number of councils to make it easier for both themselves and these self-interest groups to deal with, notwithstanding the clear evidence that amalgamations do not serve the interests of local communities.

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

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.

Submission to General Purpose Standing Committee No. 6 inquiry into and report on local government in New South Wales on behalf of Hunters Hill Council.

The NSW Government has now appointed IPART to assess Fit for the Future proposals.

It may be arguable whether the role they have been given is within their statutory capacity to perform. However, what is very clear is that the role IPART has been given is inconsistent with the role they normally perform.

IPART will not make a binding determination. They can only make a determination of 'Fit' 'Unfit' or 'Deemed Unfit' (if a council failed to make a submission). The State Government will then determine what happens to the councils assessed.

There are also concerns surrounding the transparency that has underpinned the confidence in IPART's role to date. While individual submissions will be published, IPART will not publicly disclose its assessment of those submissions.

Under the process chosen by Government, those assessments may never be made public. If IPART's selection was made public then there may be confidence about the process, the Government's Terms of Reference have completely undermined the transparency needed to provide such confidence.

While IPART has a good record of dealing with SRV's, their capacity to make a comprehensive assessment of the 152 Councils throughout NSW in the timeframe set by Government with criteria that seems to suggest size is above capacity is simply unrealistic. IPART itself has publicly stated the timeframes set are 'challenging'.

The threshold test of Scale and Capacity is a 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 was extremely disappointing.

The whole process appears to have been rushed and decisions made in isolation. 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 unrealistic 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 a comprehensive assessment.

There is great concern that given the unrealistic timeframe for assessment and determination, IPART simply will not have the time to properly assess each proposal.

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 \$120m (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.

Submission to General Purpose Standing Committee No. 6 inquiry into and report on local government in New South Wales on behalf of Hunters Hill Council.

(Review of ILGRP recommendations relating to a proposed merger of the whole of Hunters Hill, Lane Cove, Mosman, North Sydney, Willoughby and two thirds of Ryde Council. Morrison Low June 2015 page 9)

Benefits are assessed at \$59m over ten years (*M & L page 9*) for the merged entity, which in the case of Hunters Hill equates to significantly less than \$1.0 million per year if all efficiencies are gained. If efficiencies are not realised this would result in a cost to Council.

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 this 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.

We have pondered (a) the difficulties posed by the existence of significant current disparities in rates, fees and charges, and capacities to pay across the six councils which were ignored in the OLG in the merger recommendations; (b) the many difficult decisions to be made regarding changes in democratic representation post-merger; (c) the total liabilities likely to be inherited by any proposed new amalgamated municipality and its impact on local residents; (d) the complications derived from the dismemberment of the City of Ryde; (e) Commonwealth financial assistance grants post-merger; (f) the need for full information disclosure to local residents; and most importantly (g) whether merged combinations of the North Shore group of councils would be more financially sustainable under the *Fit for the Future* criteria than they had been pre-merger.

It is dismayed that neither the Panel nor the OLG had even considered most of these problems.

The issue of rates is covered in more detail in the next section.

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

The most comprehensive review of Queensland amalgamations and recent NSW Amalgamations has been undertaken by Drew, Kortt and Dollery (2015a) for the Snowy River Shire Council entitled:

Lessons from the Past - An Empirical Evaluation of the 2000-2004 NSW Mergers and the 2008 Queensland Amalgamation Program (April 2015). (On behalf of New England Education and Research Proprietary Limited for the Snowy River Shire Council).

For Queensland the report noted the following outcomes three years on from the mergers:

- An increase in real operating expenditure (excluding the effects of inflation) in the order of 4.7% p.a.
- An increase in real council rates (excluding inflation) of 3.1% p.a.
- An increase in council wages of 4.9% p.a. (excluding inflation).

The report draws the conclusion that

“...far from the earlier claims of leaner more efficient local authorities, the Queensland forced mergers actually produced more expensive local government funded in part by higher municipal rates and fees. It is thus impossible to argue that this episode of municipal amalgamation was a success. This is particularly troubling given the similarities between the Queensland amalgamations and the proposed Fit for the Future mergers”.

While this question asks about impacts in Queensland it would be remiss to not consider the impacts in Victoria where this whole ‘*bigger is better*’ economic theory was first tested in Australia.

The following extract is from the Melbourne Herald Sun in March 2014, highlighting the huge increase in rates over the past 10 years.

COUNCILS have stung Victorians with rates rises totalling \$2 billion above the rate of inflation in the past 10 years.

Ratepayers are being charged an average of \$425 more than if rates had risen in line with inflation in that time, an analysis by accountants Moore Stephens for the Herald Sun shows.

Its study discovered rates rises over the decade of up to 109 per cent in metropolitan Melbourne and up to 187 per cent in regional Victoria. The - increases have prompted calls for rates rises to be capped at inflation.

The analysis of rates rises since 2003-04 revealed bills soared by an average of 87 per cent, from \$735 a year to \$1373. But if they had kept in line with inflation, the average rate would be \$948.

Separate figures show that councils’ total take across Victoria has jumped from \$1.8 billion in 2002-03 to a staggering \$4.3 billion in 2012-13.

If the rates increases had been limited to inflation, the total bill last year would have been just \$2.32 billion.

Nillumbik Council had the highest average rates rise in metropolitan Melbourne, while Golden Plains and Ararat councils had the biggest increases in regional Victoria.

Submission to General Purpose Standing Committee No. 6 inquiry into and report on local government in New South Wales on behalf of Hunters Hill Council.

COUNCIL RATES	2003-04	2013-14	Per cent increase
ALPINE	795	1384	74
ARARAT	588	1580	168
BANYULE	742	1263	70
BAW BAW	740	1523	105
BAYSIDE	900	1568	74
BOROONDARA	1061	1814	70
CAMPASPE	721	1356	88
CARDINIA	564	1363	141
CASEY	674	1396	107
CENTRAL GOLDFIELDS	729	1372	88
COLAC-OTWAY	681	1350	98
CORANGAMITE	656	1153	75
DAREBIN	718	1242	72

GLEN EIRA	779	1227	57
GLENELG	502	1061	111
GOLDEN PLAINS	528	1517	187
GREATER DANDENONG	599	1028	71
GREATER GEELONG	747	1176	57
HEPBURN	738	1461	97
HINDMARSH	423	918	117
HOBSON'S BAY	727	1391	91
HORSHAM	780	1586	103
HUME	689	1288	86
INDIGO	739	1487	101
KINGSTON	769	1450	88
KNOX	671	1229	83
LODDON	448	986	120
MACEDON RANGES	917	1691	84
MANNINGHAM	997	1661	66
MANSFIELD	718	1307	82

Submission to General Purpose Standing Committee No. 6 inquiry into and report on local government in New South Wales on behalf of Hunters Hill Council.

MARIBYRNONG	900	1677	86
MAROONDAH	749	1362	81
MELBOURNE	727	863	18
MELTON	818	1413	72
MILDURA	888	2045	130
MITCHELL	706	1566	121
MONASH	625	1123	79
MOONEE VALLEY	856	1663	94
MORELAND	813	1424	75
MORNINGTON PENINSULA	534	1014	89
MOUNT ALEXANDER	728	1688	131
MURRINDINDI	834	1407	68
NILLUMBIK	978	2041	108
NORTHERN GRAMPIANS	715	1405	96
PORT PHILLIP	954	1076	12
PYRENEES	531	1000	88
QUEENSCLIFFE	939	1678	78
SOUTH GIPPSLAND	644	1500	132
STONNINGTON	651	1020	56

STRATHBOGIE	808	1795	122
SURF COAST	929	1753	88
TOWONG	568	1119	97
WELLINGTON	570	1360	138
WEST WIMMERA	509	628	23
WHITEHORSE	625	1177	88
WHITTLESEA	712	1214	70
WODONGA	1035	1663	60
WYNDHAM	831	1462	75
YARRA	921	1391	51
YARRA RANGES	833	1556	86
YARRIAMBIACK	585	840	43

Source: MAV

One must ask if this is in fact the impact of Councils having to catch up on revenue lost when the Kennett Government forced Councils to in fact reduce rates as part of the original amalgamation process and to meet an election commitment that amalgamation would not see rates increase.

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

Undertaking a review of the ILGRP recommendations as a starting point reveals that:

There are however some significant differences in other ratios under the scenarios:

- Under the efficiencies not realised scenario the merged council fails to meet the operating performance ratio at any time during the period modelled and the debt service ratio remains higher throughout
- Under the surplus to infrastructure scenario the asset maintenance ratio can be met from 2021 onwards but there is a corresponding decrease in the operating performance ratio as a result of the increased operational expenditure.

(Review of ILGRP recommendations relating to a proposed merger of the whole of Hunters Hill, Lane Cove, Mosman, North Sydney, Willoughby and two thirds of Ryde Council. Morrison Low June 2015 page 46)

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

A substantial weakness in the process is that there appears to have been no empirical study on the employment impacts of forced mergers other than the costs of redundancies.

In December 2012 the ILGRP published a paper entitled '*Barriers & incentives to voluntary boundary change*', (OLG website)

The paper specifically identifies the following on page 13:

Staffing issues

It is not unusual for staff to feel disenfranchised and concerned for their future when they know that boundary changes are on the agenda. Concerns about increased workloads, particularly in the short term, and reduced staffing numbers can result in low staff morale which can often be a major barrier to change.

Staffing and industrial issues can include:

- ▶ *Demoralised workforce as a result of employment uncertainty – this can lead to staff departures and lower productivity, making it difficult to maintain service levels during or after boundary change*
- ▶ *Displaced employees – who may be difficult to place*
- ▶ *Relocation costs – It can be costly to transfer staff to new council areas*
- ▶ *Budget and organisational structure – problems agreeing to budgets and organisational structures can result in delays in appointing staff to a newly formed council*

Submission to General Purpose Standing Committee No. 6 inquiry into and report on local government in New South Wales on behalf of Hunters Hill Council.

- ▶ *Loss of CEOs and experienced staff – resulting in a loss of experience, corporate history and local knowledge*
- ▶ *Industrial relations requirements - non-senior staff terminations are not permitted for a period of 3 years after the date of amalgamation, making it difficult to make short term efficiency savings as a result of boundary change*

However, there is no evidence, no study or attempt to quantify the costs to Councils caused by what are potentially a series of major costs arising from dislocation and potential industrial disputation.

While the ILGRP did undertake a review of the 2004 amalgamations it omitted to review the creation of Tamworth Regional Council (a multi-council amalgamation) which may have provided more useful information and insights on staffing matters.

The Morrison Low review commented that:

‘We note however that under the scenario which performs best financially the efficiencies are largely achieved through reducing staff numbers. This will reduce the merged council’s capacity and is likely to lead to a loss of institutional knowledge that will need to be managed and addressed.’ (Morrison Low page 65)

‘Redundancy and transitional costs are estimated at over \$86 million dollars over the first four years of the merged entity.’
(Morrison Low page 35)

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

In responding to the Fit for the Future requirements Northern Sydney Councils commissioned a review of the ILGRP recommendations.

Review of ILGRP recommendations relating to a proposed merger of the whole of Hunters Hill, Lane Cove, Mosman, North Sydney, Willoughby and two thirds of Ryde Council. Morrison Low (June 2015)

The review is an attachment to the joint submission by Hunters Hill, Lane Cove and Ryde City Councils to IPART and responds in detail to this question.

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

Hunters Hill, Lane Cove and The City of Ryde Councils have resolved to form a Joint Regional Authority as a superior alternative to the recommendations of the ILGRP.

A separate submission has been lodged with the Committee on behalf of the three Councils. It contains a substantial and strong evidence based response to this question supported by overwhelming independent evidence.

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

While this question may not seem relevant to Metropolitan Councils the Committee should be aware that there is a significant amount of literature available that shows the clear differentiation between Metropolitan and Regional/Rural Councils to the extent that **it is crystal clear that 'a one size fits all' solution is simply not applicable or workable.**

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

In responding to this question it is important to understand Hunters Hill, but in doing so recognising that there are many, many communities in Metropolitan Sydney and Regional/Rural NSW who feel this same way.

The following information is an extract from our template 2 response to Fit for the Future.

Our history, heritage and built environment

Hunter's Hill Council was founded in 1861. It is one of the oldest local government areas in Australia and has retained its current boundaries since inception. The area's cultural and natural heritage significance of both pre and post European settlement has been recognised by the National Trust, the Heritage Council of NSW and the Australian Heritage Commission and has resulted in 75% of the Municipality being listed as a Conservation Area.

The original inhabitants of Hunters Hill were the Wallumedegal clan of the Dharug people.

Archaeological sites remain in pockets of bushland, with axe-grinding grooves, rock engravings, hand stencils and middens a reminder of the area's Indigenous inhabitant.

European settlement dates back to 1795 when land was first farmed. Growth was minimal until the late 1840s when many sandstone mansions were constructed and a monastery was established.

From the time of early development, Hunters Hill was markedly different from the terrace-house suburbs found elsewhere in Sydney.

Restricted early transportation routes linking the peninsula to Sydney created a pattern of land use characterised by detached houses in a garden setting. Even with the opening of Gladesville Bridge in 1871, establishing a road linking the peninsula with Sydney and leading to an increase in population, terrace housing did not flourish.

Hunters Hill was neither an extension of the CBD nor a rural township but its unique location afforded it a village atmosphere ...we actively seek to ensure that new development is sympathetic to the existing environment to maintain this character for present and future generations.

Our identity

The Municipality sits on a peninsula surrounded by the Lane Cove and Parramatta Rivers with three commuter ferry wharfs and examples of our nation's early shipbuilding and maritime industry on display at Woolwich Dock and Clarkes Point Reserve. We enjoy a rich and diverse tree canopy and significant urban reserves, bushland and parks that form part of the Great North Walk.

Our Municipality is a very contained community with a strong identity. The area is predominantly residential with four village centres: Hunters Hill, Boronia Park, Woolwich and a larger commercial area in Gladesville.

We are committed to education and learning and the area boasts four high schools and four primary schools.

Our current population of 14,500 is expected to increase by 26% by 2031. Couples with children are the most common household type and we are home to a slightly higher proportion of people under 17 as well as a larger proportion of people over 60 than the State average. (25.7% were aged 60 years and over, compared with 20.3% in NSW). The Municipality has six large aged accommodation facilities, and has a much larger percentage of over 80 year olds than NSW (8.3% compared to 4.2%) with 26% of residents were born overseas.

Community involvement, engagement and connection is high. Over a quarter of the population participates in voluntary work, and we facilitate a wide variety of community advisory committees and volunteer programs.

We have always supported the many voluntary not for profit organisations in the area and have a policy of fostering and partnering with community managed services rather than directly providing community services. This has resulted in strong independent local organisations that provide children's services, aged services, leisure, home and community care (HACC), environmental and local advocacy

Some unique features

- *515 heritage items*
- *7 heritage conservation areas (70% of the local government area)*
- *The highest population per capita of housing commission accommodation in Northern Sydney.*

The importance of local democracy can be found in the Save Hunters Hill Municipality Coalition (SHHMC) www.savehuntershill.org, which was formed in 2003 in response to the previous Labor Government's call for reform and the threat posed by amalgamations at that time. The organisation has remained intact to this day and in its own submission to this inquiry states the following:

3. LOCAL GOVERNMENT

- It is often said that local communities know their own areas best. They are motivated and inspired by a sense of community, belonging and place. In Sydney many councils have existed for considerable periods of time, as is the case with Hunters Hill (1861). Communities highly value their local governance, the built areas with special character, bushland*

Submission to General Purpose Standing Committee No. 6 inquiry into and report on local government in New South Wales on behalf of Hunters Hill Council.

and open space. They also know the places appropriate for development or improvement. Many community, cultural and sporting groups rely on a commitment to place. All these factors enhance community well-being, health, and encourage service and volunteering. This has become embodied in Hunters Hill's elected Council.

- b) *It is the local in local government that has helped make Sydney one of the world's most liveable cities.*

8. CONCLUSION

- a) *The view of the local community of Hunters Hill and its elected Council and the findings of the experts is at one; there should be no merger on any basis; councils should retain their independence whilst also being a member of a joint regional organisation. Each Council would thereby maintain its local identity, local representation and continue delivering those services best delivered at the local level. At the same time regional and subregional issues and joint services can be effectively considered at the regional level.*
- b) *This is not only the best result for local communities and local government, but clearly for the State Government. It is the most effective way for Government to deal with councils and communities, does not involve huge expenditure and dislocation to communities, and is the best way forward for regional and subregional planning.*

The Joint Regional Authority proposed by Hunters Hill, Lane Cove and The City of Ryde Councils as outlined in a separate submission to this Inquiry is a strongly evidenced based response to meeting community expectations for local democracy, yet recognises the need for reform and that should be supported.

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

This particular matter is covered in detail in the following publication appended to the joint submission by Hunters Hill, Lane Cove and The City of Ryde Councils and in particular Chapter 11.

'Compulsion Versus a Collaborative Regional Approach - An Empirical Analysis of Forced Amalgamation versus a Regional and Shared Services Approach' (May 2015) Brian Dollery, Michael Kortt and Joseph Drew on behalf of New England Education and Research Proprietary Limited

p) Any other related matters

Very little, if any attention has been paid to some of the legal implications of amalgamations where Councils undergoing amalgamation are likely to have active contracts for the supply of goods and services at the date of commencement of any new Council.

The rights and liabilities under contracts entered into by the abolished Council will automatically become rights and liabilities of the remaining or newly created Council.

Submission to General Purpose Standing Committee No. 6 inquiry into and report on local government in New South Wales on behalf of Hunters Hill Council.

However, contracts may need to be reviewed to see whether rights and liabilities and / or the operation of any particular contract may be affected by the abolishment of the contracting Council. The reason is that there may be terms in the contract that alter the parties' rights or provide grounds for termination. These rights will be effective and may bind the new Council.

The new Council may well find themselves with duplicated obligations in relation to particular matters. For example the new Council will have multiple contracts with waste disposal providers. There will likely be a need to comprehensively review such multiple contracts with a view to perhaps terminating one contractor while at the same time expanding the operation of another contractor.

Matters to be considered will be the ability of one contractor to perhaps take on further work, any penalties or other consequences in terminating contracts and the cost / benefit analysis of taking any actions under the affected contracts.

This scenario may be even further complicated where two or more Councils take over parts of another Council either by boundary change or the creation of a new Council.

There will be an obligation on all Councils affected by an amalgamation to negotiate as to any adjustment or transfer of contractual rights. If the Councils do not agree on what should happen and they cannot resolve the matter by negotiation then who has the power to resolve those disputes.

Where a Council (A) is not abolished, but loses part of its area to another local Council (B), then rights and liabilities under contracts entered into by (A) prior to the formation of the new Council will still remain with Council (A) after that date.

Care will need to be taken as Council (A) may continue to have a contractual obligation to a contractor to service an area that it has now lost. On the other hand Council (B) will have an obligation to new ratepayers but may have no contractor in place.

In the short term the Councils involved may be able to form interim arrangements with contractors to ensure that services continue. However, the longer or ongoing term will necessarily involve a review of affected services to put in place more permanent or ongoing arrangements.

A note of real concern arises where there are multiple Councils involved, as proposed by the ILGRP for metropolitan Sydney. Councils are unlikely to agree to lower service levels when negotiating revised contracts so **it is inevitable the costs will increase NOT decrease.**

Consideration will need to be given to putting in place some form of legislative arrangements to protect Councils and provide suitable guidance, without incurring **substantial legal costs to that will be inevitable.**

CONCLUSION

The drive for efficiency should not simply be through amalgamations.

Council amalgamation is only one of several different possible models, and it is by no means either the most obvious or most efficient method of enhancing performance.

The introduction of Integrated Planning & Reporting has seen local government transformed from an institution of governance to a reporting arm of the State

Submission to General Purpose Standing Committee No. 6 inquiry into and report on local government in New South Wales on behalf of Hunters Hill Council.

Government; local government is little more than a sophisticated mechanism for selecting and delivering services.

Despite the State Governments attempts to promote local government, political power continues to be centralised.

On the one hand, the State Government emphasises its commitment to local accountability; on the other, it insists on reserving the right to intervene as guardian of the community's interests.

Fit for the Future while promising much, has disappointingly followed earlier misguided attempts at reform by concentrating on structural reform rather than initiatives that will bring real and lasting reform and where a reduction in the number of Councils could be a natural outcome of the process.

REFERENCES

1. *'Compulsion Versus a Collaborative Regional Approach - An Empirical Analysis of Forced Amalgamation versus a Regional and Shared Services Approach'* (May 2015)
Brian Dollery, Michael Kortt and Joseph Drew on behalf of New England Education and Research Proprietary Limited
2. *Review of ILGRP recommendations relating to a proposed merger of the whole of Hunters Hill, Lane Cove, Mosman, North Sydney, Willoughby and two thirds of Ryde Council.* Morrison Low (June 2015)