

**Submission
No 71**

INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

Organisation: Holroyd City Council

Date received: 4/07/2015



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3 July 2015

The Director General
General Purpose Standing Committee No. 6
Parliament House, Macquarie Street
SYDNEY NSW 2000

Dear Sir,

**RESPONSE BY HOLROYD CITY COUNCIL TO THE INQUIRY INTO LOCAL
GOVERNMENT IN NEW SOUTH WALES**

Please find attached Holroyd City Council's submission to the Inquiry Into Local Government In New South Wales.

Any enquiries in relation to this submission should be directed to Council's Director of Corporate and Financial Services,

Yours faithfully

Merv Ismay
GENERAL MANAGER

Inquiry into local government in New South Wales - Legislative Council Terms of Reference

1. That the General Purpose Standing Committee No.6 inquire into and report on local government in New South Wales and in particular:
 - (a) The New South Wales Government's Fit for the Future reform agenda
 - (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.
 - (c) The performance criteria and associated benchmark values used to assess local authorities in New South Wales
 - (d) The Scale of local councils in New South Wales
 - (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
 - (f) The appropriateness of the deadline for 'Fit for the Future' proposals
 - (g) Costs and benefits of amalgamations for local residents and businesses
 - (h) Evidence of the impact of forced mergers on council rates drawing from the recent Queensland experience and other forced amalgamation episodes
 - (i) Evidence of the impact of forced mergers on local infrastructure investment and maintenance
 - (j) Evidence of the impact of forced mergers on municipal employment, including aggregate redundancy costs
 - (k) The known and or likely costs and benefits of amalgamations for local communities
 - (l) The role of cooperative models for local government including the 'Fit for the Futures' own Joint Organisations, Strategic Alliances, Regional Organisations of Councils, and other shared services models, such as the Common Service Model
 - (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
 - (n) Protecting and delivering democracies structures for local government that ensure it remains close to the people it serves
 - (o) The impact of 'Fit for the Future' benchmarks and the subsequent IPART performance criteria on councils' current and future rate increases or levels, and
 - (p) Any other related matter
2. That with the agreement of the committee participating members' travel costs be covered by the committee.
3. That the committee report by Monday 17 August 2015, unless the committee resolves to table at a later date.

HOLROYD CITY COUNCIL SUBMISSION FOR THE INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

INTRODUCTION

Holroyd City Council welcomes the opportunity to make this submission. We have presented our response in line with the terms of reference and in doing so have addressed the key issues and concerns for Holroyd.

As a general comment Council would offer the following observations about the State Government's Fit for the Future Program for Local Government:

- Holroyd Council supports the principle of ongoing reform within the industry to ensure we provide sustainable, efficient and effective works and services to our community that meet their needs.
- The issue of reform within the NSW local government sector was initiated by councils themselves commencing at the ***Destination 2036 Summit*** at Dubbo in 2011. Out of that summit a broad range of improvement initiatives were discussed, one only of which was the physical (i.e size or Scale) structure of Councils.
- The Minister has subsequently placed the focus of reform on that one issue; being the physical size of councils. For nearly 2 years now the discussion has been centred on the size of Councils and mergers and little effort put into other reform initiatives, which are likely to have materially positive impacts for the community on the way the system of local government works.
- The size of a council, or any organisation for that matter, does not determine the quality of products produced, the quality of customer service, or whether they are financially sustainable. The success of any organisation hinges first and foremost on the quality of the way the organisation is run, the culture of the organisation in areas such as customer service; drive for innovation; strategic planning capability; ability to make the difficult decisions; a long term focus; ability to be sustainable, etc. If the culture of the organisation does not positively live, breathe and display these key attributes then the ability to succeed and prosper is unlikely to eventuate. There are many examples of smaller organisations, including Councils, who outperform their larger counterparts – one needs to only look at some of Australia's largest organisations eg: Telstra, Optus, Water Board, RMS, Endeavour Energy; their customer service standards are materially below those of Holroyd Council.
- In this whole reform agenda the Government has placed the size (Scale) of a Council above the community and their needs. When you read the litany of documentation that has come out of the reform agenda over the last two years, it says a lot about the need for bigger and better and for amalgamations or mergers, but little commentary on what matters, which is the people who make up our communities and their needs.

KEY ISSUES

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

Holroyd City Council supports the New South Wales Government's Fit for the Future reform agenda in so far as it relates to the continued delivery of efficient, effective and sustainable services to our communities and to be a supportive partner of the State Government.

That said, Council does not agree that the 'bigger is better' philosophy or larger size (Scale) of a council provides for the best delivery of services to our communities. Holroyd City Council achieves these objectives at its current size (Scale) and is proof that a council of a size smaller than what is advocated by the Independent Local Government Review Panel (ILGRP), can be a superior option to the merger option proposed for this area. This position is independently supported by consultants Morrison Low, *Holroyd City Council Merger v 'Stand Alone' Business Case 2015*,. (refer to **Attachment 1** pages 4 and 48).

Of concern is that the whole reform process and push for mergers has not been supported by solid research or evidence, to justify the 'bigger is better' stance. The reform process has lacked, as a starting point, an evidence based review of the literature and examples that are available, to determine if a 'bigger is better' approach should be the focus of the reform agenda. To this day, the 'bigger is better' stance of the State Government has been unsupported by a balanced review of the research and evidence available to prove such a stance will result in a positive benefit for the people of New South Wales or their local Council.

For the last two years Holroyd City Council has attempted to extract information around the Fit for the Future reforms from the State Government in order to appreciate purpose and/or future benefit. Despite these efforts, Council has not been offered the empirical evidence they (and many others) have sought. Holroyd Council offers this submission in the hope that The General Purpose Standing Committee No.6 will be able to source these answers and offer the people of Holroyd a clear justification for the methods used by the State Government, in regards to local government reform.

(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 reasoning used by the Minister across all mediums said that "Councils in New South Wales are losing over a million dollars everyday". This statement was misleading in the extreme and led the listener to believe that New South Wales Councils are collectively losing \$1 million dollars every day in cash.

This ongoing statement is factually incorrect. It ignores fundamental reasons, like why councils will sometimes have an operating deficit for valid reasons which in no way reflect on their long term financial sustainability. Councils budget to breakeven; regularly stick to that balanced budget throughout the year; and generally increase their cash holdings from year to year all whilst continuing works and services for their communities at their desired standards and they have been doing so for decades. If councils were losing a million dollars a day they would have been out of business a long time ago and their assets and services would have ceased to be provided, also a long time ago.

The point here is that the 'Operating Result' for any Council needs to be interpreted before it can be used as a reliable indicator that a Council is unsustainable – and the Minister knows this, yet chooses not to acknowledge this when making public statements.

The Minister should also review a Council's cash holdings. Cash holdings provide a strong measure, to determine the financial performance of an organisation.

Holroyd City Council's own finance team used publicly available information to research this. Please view **Attachment 2** – "*NSW 152 Councils Surplus Cash generation 2014 2013 (25 06 15).xlsx*". This spreadsheet confirms a \$3.2M a day Operating Surplus for NSW Councils for the 2014 year (refer to cell F164).

The spreadsheet also shows that NSW Councils for the 2013 year generated \$1.78M a day in cash and for the 2014 year \$0.9M (round to \$1.0M), a day in cash growth (see cells X and Y164), being cash bank accounts and cash term deposits held by NSW Councils at the end of 2014 or 2013 financial year ending 30 June.

All 152 NSW Councils combined hold \$7.8Billion (see cell X158) in Cash & Term Deposits at 30 June 2014 (\$7.4Billion; cell Y158, in 2013 year).

Further, the Minister's statement selectively included those councils who had deficit results and ignored those that had surplus results, which would materially reduce the \$1 million figure.

As can be seen, the Minister's statement that councils are losing \$1 million a day runs at odds to the fact that cash holdings are increasing. Again this supports the need for financial information to be adequately interpreted by experts, before making public statements about that information.

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

The performance criteria by which local government is being measured under the Fit for the Future program are a reasonable indicator of how a council is performing. Holroyd does not have a problem with these indicators as a measure, however notes that they do not encompass the collective purpose of local government; that is to say, they represent only part of what local government does. It would be beneficial to also have non-financial indicators included in the assessment of local councils in order to supply a more holistic report on council performance. Quality; efficiency and effectiveness of services; and customer satisfaction have not been included within the measures for the Fit for the Future reforms, yet these outcomes are why local government exist – to provide works and services to our local communities.

(d) The Scale of local councils in New South Wales

In terms of financial scale Holroyd has and continues to maintain a balanced budget, all the while providing for, and meeting the needs of, its community. In its recent submission to IPART Holroyd City Council was proudly able to state and demonstrate that it meets all seven of the Performance Benchmarks set and accordingly is in a strong and sustainable financial and asset management position, a position that is supported by independent reviews undertaken by TCorp, Morrison Low and PricewaterhouseCoopers (See **Attachment 1, Holroyd City Council Merger v 'Stand Alone' Business Case 2015 pages 15 and 16 AND Attachment 3 - Holroyd City Council Financial Assessment and Sustainability Report 16 01 15, pages 4 and 5**)

The size (Scale) of a council does not dictate how well a council performs in delivering the outcomes desired by its community. The major determinant of how well a council performs is the quality of the way the organisation is run.

The OECD research tells us that the average population of councils at a global scale is 27,224. Holroyd has an estimated population of 111,100 (ERP 2014) which is well above the global average and also above the Sydney average of 104,493. Globally population scale is not seen as a compelling indicator of efficiency.

The State Government cited economies of scale as one of the 'benefits' of the mergers it proposes but has so far produced little to no empirical evidence to prove this, nor has it compared the limited evidence it has considered against the volumes of empirical literature that is available. Professor Brian Dollery has enormous knowledge on this subject and should be referred to in this regard.

Academics such as Dollery, and Sancton, have offered evidence based data proving that due to the array of services offered by different councils and the varying service delivery methods, we cannot apply a 'one size fits all' approach, as larger councils may result in diseconomies of scale where most services are concerned. In Holroyd's case it is estimated the proposed merged entity would be over scaled by 14%. (See **Attachment 4 – 'Evidence to support the assumptions by Holroyd City Council'** by Professor Brian Dollery)

Dollery and Crase offer further evidence that bigger councils are not better in their paper titled "*Is bigger local government better? An evaluation of the economic case for Australian municipal amalgamation programs No. 2004-4*" (see **Attachment 5 – Is Bigger Local Government Better page 22**) They state: "...in South Australia the authorities promised savings of 17.4 per cent, but only achieved a mere 2.3 per cent (Allan 2003, p.75)! Moreover it should be emphasised that these net cost savings do not take into account the indirect costs of forced amalgamation, such as increased unemployment, lower economic activity, and loss of services, which often threaten the very existence of small communities".

This point reinforced the need to look beyond financial indicators only and review the quality and level of services provided.

(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

Holroyd welcomed the appointment of IPART as the agency to perform the initial review and assess if councils were "Fit" or "Not Fit". Council found IPART followed a structured and fair process when it assessed Council's Special Rate Variation in 2014.

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

Whilst Council had done a lot of the work required to support its submission leading up to the 30 June deadline, having the final assessment methodology only approved on the 5 June left insufficient time to be able to amend Council's proposed submission if the final methodology varied materially from that advertised and in fact there were some crucial differences. For example, the final document 'left the door open' for councils to propose any option as long as it was superior to the ILGRP merger proposal. This has in effect provided an opportunity for metropolitan councils to consider a Joint Organisation/ Regional Alliance arrangement or the like.

Holroyd Council would have been keen to investigate the benefits of a Joint Organisation arrangement but that was clearly not an option until 5 June 2015.

We note that Holroyd City Council is not alone in voicing its concerns around the timing between the methodology document release on 5 June 2015 and the final 'Fit for the Future' submission due date of 30 June 2015.

(g) Costs and benefits of amalgamations for local residents and businesses

Holroyd was able to clearly identify the costs and benefits of Holroyd as a 'Stand Alone' Council scenario vs the proposed ILGRP merger scenario, which clearly showed Holroyd as a 'Stand Alone' Council is a superior option to the merger option. What is of paramount concern is that the size (Scale) of a council was set as the dominant objective (hurdle) for councils to achieve, over the actual performance of council in delivering works and services to its community. The Holroyd community expressed their strong opposition to their needs playing second fiddle to the State Government's size (Scale) ideology. (Please refer to **Attachment 6 Morrison Low Merger v Stand Alone Addendum Scenarios.pdf**)

It is essential to note that the State Government did not consider all the available research and empirical evidence to emphatically show why the push for mergers is the best way forward for the people of New South Wales.

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

See section (j) below

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

See section (j) below

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

Holroyd City Council is able to offer evidence and research in response to all three of the above points (h), (i), and (j), (refer to Attachments **4, 5** and **Attachment 7 – Assessment of 2008 Queensland Council Mergers**). Council received valuable data from Professor Brian Dollery, sourced from Australia and around the world, which discusses the impacts of forced mergers on a number of elements of Council's operations including rates and representation.

At a local level in the assessment of the 2008 Queensland Council mergers (see **Attachment 7, page 2**) where 157 councils were amalgamated into just 73, Professor Dollery cites that by the 2009/2010 year almost 25% (13 councils) were already showcasing diseconomies of scale and represented "the proportion of Queensland residents in councils operating with diseconomies of scale to be 84%".

In February 2015 the Western Australian Premier, Colin Barnett announced that mergers of local councils were officially on hold indefinitely due to strong community opposition.

To date the NSW Fit for the Future Program has not been taken to the people of NSW by the State Government; rather it has been a program between the State Government and local councils. Holroyd advocates that the State Government should take this issue to the people of NSW in the form of a Referendum.

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

The independent analysis undertaken on Council's behalf by Morrison Low consultants showed a number of likely costs and benefits from both Holroyd standing alone and the proposed merger option. See attached excerpts from Morrison Low's merger business case.(refer to **Attachment 1, pages 48 and 61**)

(l) The role of cooperative models for local government including the ‘Fit for the Futures’ own Joint Organisations, Strategic Alliances, Regional Organisations of Councils, and other shared services models, such as the Common Service Model

Council acknowledged that there is a place for co-operative models in local government where they are instigated by and mutually agreed to by councils and support their community objectives.

Holroyd Council already has a number of strategic alliances and collaborative arrangements; these are listed in the attached excerpt from Council’s Fit for the Future submission. **(Attachment 8 from Page 81 Appendix C – Shared Services and Collaborations within Supporting Document - Fit for the Future Proposal - FINAL.pdf)**

Unfortunately these Joint Organisational (JO) arrangements were clearly “off the table” for the Sydney Metropolitan Councils, a point reiterated by the NSW Office of Local Government at several forums over the last year or so, until on 5 June 2015 IPART seemed to ‘open the door’ to JO’s for Sydney Metropolitan Councils, too late for most to consider.

(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

This item does not relate to Holroyd City Council.

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

The bigger the Council, the lesser the Councillor representation will be. For example Holroyd as a ‘Stand Alone’ Council has a Councillor to resident ratio of 1:9,100 compared to the proposed merged entity which has a ratio of 1:29,973. Council believes forced mergers have the effect of taking the ‘local’ out of local government.

Furthermore Holroyd City Council has taken the time to do what the State Government did not do in regards to these reforms. Consult with its community. Holroyd can offer the below community engagement results which formed the basis of the argument for Holroyd to push forward with submitting a Fit for the Future proposal that seeks to allow it to remain a ‘Stand Alone’ entity (see Table 1).

Table 1 – Community Engagement Response Data

Item	Against Merger		For Merger	
	No.	(%)	No.	(%)
Amalgamation – What it means for you Survey	594	98%	12	2%
Petitions	7,764	100%	0	-
Postcard petitions	1,404	99%	7	1%
Flyers	305	99%	3	1%
DL Postcard	1,606	99%	2	1%
Rate Notice Postcard Survey	2,274	96%	95	4%
Online Survey	1,308	100%	0	-
Phone Survey – Conversation Based	286	71%	64	16%
				*somewhat supportive 13%
Phone Survey – Automated	550	66%	193	23%
				*indifferent 10.9%
Local Government Reform – What it Means for You Survey	1,026	87%	131	11%
				*2% indifferent
Total	17,117		507	

(o) The impact of 'Fit for the Future' benchmarks and the subsequent IPART performance criteria on Council's current and future rate increases or levels

As Holroyd Council is already 'Fit for the Future' based on its existing rate structure and meets the performance benchmarks set under the 'Fit for the Future' Program, the Fit for the Future Program has had no detrimental impact on Holroyd's future rates situation.

(p) Any other related matter

The voice of Holroyd not heard by the State:

The majority voice of the Holroyd community and its people has come through loud and clear: "No to mergers", "No to amalgamation" and "if it's not broken, don't fix it".

Further to this, a resounding 81% of Holroyd's community has recently said that it is 'satisfied to very satisfied' with the service it receives from its Council.

Throughout all of the above community engagement exercises, Council staff; Councillors and Mayors; local community leaders, Local Members and Champions of the campaign were actively out in the community seeking people's views on the concept of mergers. Holroyd City Council hosted two public meetings where the Local Members were invited to address their local constituents. The Minister and then Shadow Minister, The Honourable Sophie Cotsis MLC were invited to address the meetings; at which close to 500 Holroyd residents attended. The Honourable Paul Toole did not attend, while Ms Cotsis came along to both meetings.

We have provided transcripts of the Q & A sessions held during these meetings as further evidence for the Committees consideration.(See **Attachments 9 and 10**)

Council Contact Details

Should you wish to discuss the contents of this submission or Holroyd Council's general experience throughout the 'Fit for the Future' Program, please contact Council's Director Corporate and Financial Services,