



David Shoebridge MLC
Member of the NSW Legislative Council

Methodology for Assessment of
Council Fit for the Future Proposals
Greens NSW Submission
25 May 2015

Independent Pricing & Regulatory Tribunal

RE: Methodology for Assessment of Council Fit for the Future Proposals

Greens NSW Submission

Dear IPART,

Thank you for the opportunity to provide a submission to the Methodology for Assessment of Council Fit for the Future Proposals.

The Greens NSW welcome the opportunity to contribute to the future of local government.

Local government is the level of government most closely connected to the community and is best positioned to identify and respond to community needs.

It is an essential component of democracy and any changes to local government in NSW should strengthen, rather than weaken, the bonds and connections between local councils and residents.

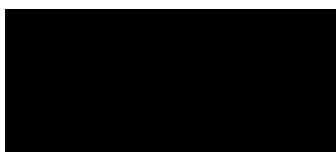
At the heart of local government should be strong vibrant councils, led by elected representatives of their local community, whose prime focus is delivering community leadership, democratic decisions, quality services and long term infrastructure for their local areas.

To that end residents, working closely with their local councillors, must have the right to determine what occurs in their community, especially in terms of planning, development and service delivery.

As a party, the Greens NSW is deeply concerned that unwanted amalgamations producing super-sized local councils will militate against each of the essential features addressed above.

Please do not hesitate to get in touch if you have any questions regarding the position outlined in this submission.

Regards,



David Shoebridge

Greens MP and Local Government spokesperson



A. Terms of reference of the panel

At the outset the Greens NSW note concern with the Terms of Reference that have been delegated to IPART in its role as the Expert Panel in assessing local government Fit for the Future proposals.

The notion that IPART's assessment methodology must "be consistent with the Government's local government reform agenda, as outlined in the Fit for the Future documentation" is in contravention of IPART's role as an impartial and balanced assessor. It indicates the government (not IPART) has a pre-determined outcome in mind.

In keeping with its role as an independent statutory authority IPART must retain a genuinely independent and impartial role in developing the methodology for Fit for the Future proposals and the subsequent assessment council's proposals.

It is the understanding of the Greens NSW that the lack of particularity in the "Government's local government reform agenda, as outlined in the Fit for the Future documentation" is such that it allows IPART a significant degree of flexibility in formulating its methodology.

In this regard we do not accept that there should be any pre-determined thresholds, nor status quo merger proposals as the starting point for this important work by IPART.

Recommendation 1: Arbitrary population thresholds for the assessment of scale and capacity should not be included in the final IPART methodology.

Recommendation 2: Pre-existing merger proposals recommended by prior reports should not form the status quo for consideration of local councils' fitness.

B. Timeline for assessment

The Greens hold concerns about the timeline that IPART has been given to prepare its methodology. The timeline is not respectful of the necessary periods of time for local governments to consult with residents before they publicly formulate their positions.

The timeline for submissions to this review fails to respect the process in local government of reporting by staff, consideration in open and democratic council meetings and adoption by council. It is both impractical and goes against good process.

With submissions closing on the 25 May and the final methodology and criteria due to be published on 1 June, within just seven days, there is concern that this is a woefully inadequate timeframe for all submissions to be thoroughly considered, assessed and responded to. It has all the hallmarks of typical NSW government consultation which is more token than real.



We are nevertheless engaging in this consultation based on our belief that the past work of IPART has shown the body to be genuinely independent of the government of the day.

Recommendation 3: IPART should seek an amended timeline for assessment from the NSW government to provide a credible and realistic timetable for engagement with local government.

C. Fit for the Future proposals based on scale and capacity

The proposed 'scale and capacity' criteria are arbitrary with no compelling business case being made for this to be the key threshold for council's assessment.

There is no persuasive body of evidence that a larger council is more effective, has lower or superior rating structures or provides better services than a smaller council.

Further to this there is no evidence to support the notion that, once a modest minimum threshold is passed, that the scale of a council is linked to its strategic capacity. As such the criteria should not be linked. In this regard we note at the outset that it is the clear position of the Greens NSW that each and every metropolitan council in NSW meets the minimum threshold.

There are strong management-based arguments to oppose ever-larger councils. Not only do large councils create a loss of local identity, felt in democratic representation, but they can also have an adverse impact on resource allocation. It is a basic principle of resource allocation that the size of a government should ideally reflect the area that benefits from the goods it provides to its constituent.

The example of Queensland council amalgamations are often put forward by those supporting amalgamations in NSW Councils. Major reform was undertaken in Queensland in 2010 and super-councils created. The ideological argument of economies-of-scale underpinned these amalgamations yet convincing results were not proven. A number of councils have even begun the expensive process of de-amalgamation, with the Queensland Government bearing the cost of this process.

A comprehensive New Zealand study of the efficiency improvements from their local council amalgamation process found that larger councils tended to produce less efficient results.¹ That comprehensive longitudinal study of the efficiency of road maintenance works by local councils before and after amalgamations found that:

¹ Local government amalgamation policy: A highway maintenance evaluation, Rouse and Putterill, *Management Accounting Research* 16 (2005) 438–463



25 May 2015

“Contrary to expectations, the NDRS/DRS results suggest decreasing returns to scale, especially with an output orientation. ... In fact, the bulk of small to medium TLAs [local councils] appear to have organised their systems as efficient configurations.”²

The NZ experience is that larger councils in fact produce less efficient outcomes:

“In summary, Table 5 suggests that amalgamation may have actually increased scale diseconomies through the creation of larger authorities experiencing decreasing returns to scale.”³

The Greens are firmly opposed to any methodology which seeks to set arbitrary minimum population targets for councils or a target number of councils in metropolitan areas.

The average population size of councils within NSW and the metropolitan area of Sydney is already well above the global standard, with an average of 48,940 people per local government area in NSW and an average of 104,196 people per local government area.

By way of comparison in OECD nations the average population size per local government in metropolitan areas is 27,224 with Finland, Sweden, the Netherlands, Norway, Greece, Canada, Poland, Denmark, the United States, Belgium, Italy, Spain, Korea, Slovenia, Estonia, Germany, Hungary, Portugal, Australia, France, Switzerland, Slovak Republic and the Czech Republic all falling below the average population size of metropolitan councils in Sydney.⁴

Against the global benchmarks in the OECD, NSW councils are well above average in size. It is notable that the two OECD countries with local governments of a size anywhere near the 250,000 level discussed in the Fit for the Future material are Ireland and the United Kingdom. Neither of these countries have a developed federal structure like Australia and therefore do not have the division of roles at a local, state and federal level.

An increase in the size of councils would only result in local communities who feel less represented with a lesser voice because of reduced political representation with the reduction of local government councillors. The Greens believe that local government must be kept genuinely local.

Recommendation 4: Case by case consideration of scale and capacity should be undertaken considering the established body of academic research that addresses the absence of proven efficiency dividends from increased size of local councils.

² Rouse and Putterill – p 454

³ Rouse and Putterill – p 454

⁴ OECD (2013), Average population size per local government in metropolitan areas, 2012, in OECD Regions at a Glance 2013



Recommendation 5: International comparisons with local government sectors in countries with comparable federal constitutional structures must be a part of any credible assessment methodology.

D. Sustainability

The Greens are largely supportive of reform measures aimed at improving the financial sustainability of local councils but do not believe this should be used as a threshold to impose forced amalgamations on financially struggling councils. Merging two (or three) financially struggling councils only makes the problem bigger.

If there was a genuine willingness to provide financial assistance to local councils, a panel would be best placed to examine ways in which the state government currently hinders the ability of local councils to deliver quality services and infrastructure in their local communities. This includes rate capping and cost-shifting on local councils.

Cost shifting is a significant ongoing imposition on local government that, if addressed, would significantly reduce financial pressures on this essential level of government. As the NSW Local government report "The Impact of Cost Shifting on NSW Local Government: A Survey of Councils - Financial Year 2011/12" found:

According to Local Government NSW (LGNSW)'s cost shifting survey, cost shifting by the Australian and NSW Government on to NSW Local Government in the financial year 2011/12 is estimated to amount to 5.63% of Local Government's total income before capital amounts or \$521 million.¹

This ratio is consistent with ratios established for previous financial years (5.72% for the financial year 2010/11; 5.74% for 2009/10 and 2008/09; 5.92% for 2007/08; 5.95% for 2006/07; and 5.84% for 2005/06). In absolute terms, cost shifting is estimated to have increased significantly from \$380 million in 2005/06 to \$521 million in 2011/12.

Rather than imposing one form of change on unwilling local council IPART should be seriously considering how to allow greater fiscal and regulatory autonomy for local governments.

Removing rate-pegging and reversing cost-shifting must be at the centre of any serious reform for ensuring 'fit' local councils.

Recommendation 6: Councils' "sustainability" should be assessed by IPART only after expressly having regard to the arbitrary and external costs pressures placed on councils by the policies of successive State and Federal governments.



E. Other factors that may inform our assessment of Fit for the Future proposals

It is disappointing that the social and community context of the council is minimised as a secondary assessment consideration, indicating that concerns and wishes of local communities is not a priority.

Any amalgamations undertaken in NSW should only be considered if they are voluntary. Research supports that the most successful amalgamations are locally driven by communities and not forced by the state.⁵ This is supported by many studies based on previous amalgamations⁶ and the history of amalgamations in NSW.⁷

It is certain that the outcome of any amalgamated councils is reduced democratic influence of residents and less accessible councillors who will have much broader electorates to represent.

Consideration of this democratic dilution effect must be a central part of IPART's methodology.

The Greens NSW believe that it is local residents who must have the right to determine what occurs in their local community and that an amalgamation should occur by way of a community referendum.

Recommendation 7: The social and community context of local government must be a principal, not secondary, criteria for the assessment of local council fitness.

Recommendation 8: The negative impact of democratic dilution as a result of non-voluntary mergers must be considered by IPART.

Recommendation 9: A determinative role should be given to local residents in deciding the future of their own councils through a binding referendum on any final recommendation for mergers.

⁵ Working Paper' Series 01-2010 & 03-2010 Local Government Amalgamation in New South Wales, Ian Tiley and Brian Dollery, Centre for Local Government, UNE, April 2010

⁶ 8 Kiss, 2003 in Tiley and Dollery 2010.

⁷ Working Paper' series 01-2010. Historical Evolution Local Government Amalgamation, Tasmania and South Australia. Centre for Local Government UNE, March 2010 , p.35.



F. Templates for Fit for the Future proposals

The Greens NSW note our strong concerns at the guidance that Council's must, as a first priority, consider and respond to the recommendation from the Independent Local Government Review Panel if identified as without scale and capacity or recommended a merger.

The Independent Local Government Review Panel recommended that of the 152 statewide councils (69%) merge and that of the 41 Sydney metropolitan councils 33 (80%) merge.

The notion that local councils automatically bear the burden of providing a compelling argument against amalgamations indicates that rather than engaging in a genuine consultation process, a decision has already been made to impose a top-down model of unwanted amalgamations.

We have addressed this concern in formulating recommendations 1, 2 and 4 above.

G. Conclusion

People are not fools. They know from experience that when they access services from ever larger organisations, whether it is their bank or their government, they get less personal service, higher costs and less of a say. When it comes to local government, these anecdotal concerns are exactly matched by the available evidence.

For the reasons set out above, the Greens NSW has strong reservations about the methodology being proposed by IPART.

Unfortunately rather than look to the existing strengths in local government and then apply the best available evidence to these strengths to produce councils genuinely "Fit for the Future", the methodology appears to have uncritically adopted the "big is better" argument as a state-wide solution.

We therefore present each of the 9 recommendations as a genuine attempt to assist IPART in improving the methodology to obtain the best outcome for local government.

Regards,



David Shoebridge, Greens MP and Local Government Spokesperson