



## Submission: IPART Methodology for Assessment of Council Fit for the Future Proposals

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### Summary

Mosman Council thanks IPART for the opportunity to comment on the criteria to be used to determine whether councils are “fit for the future”. The criteria proposed by the Office of Local Government (OLG) were not discussed with councils and we respectfully submit that some significant issues need to be considered.

This submission responds to questions 1, 3 and 4 in the IPART methodology paper (p.11). These questions relate to (1) the proposed scale and capacity criterion, (3) the seven financial criteria for assessing sustainability, infrastructure management and efficiency and (4) other possible factors or criteria for consideration including public consultation.

(Q1) Critically, IPART should clarify whether scale (the population size of a council) and strategic capacity are one criterion or two. This submission contends that scale is not a separate objective or criterion. If scale matters, this must be as a **means** to some important objective. The Independent Local Government Review Panel (ILGRP) contended that scale is necessary for strategic capacity. However, as cited below, the Chair (Mr Sansom) has strongly denied that the Panel believed that there is any relation between scale and financial viability and we show below there is no such relationship. Therefore, if a council has strategic capacity, scale has **no** separate standing as a criterion. **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.**

ILGRP defined strategic capacity by 10 sub-criteria with a focus on councils’ capacity to work with the state government on metropolitan-wide issues. These 10 sub-criteria are ill-defined, lack metrics and cannot be readily validated. While we agree that councils need strategic capacity in one or other way, equally or more importantly a council needs to be able to provide desired local public services to its local community (see Q4 below). It is inappropriate to elevate weakly defined strategic capacity over other equally or more important objectives and capacities.

(Q3) This submission supports the forward-looking way that IPART proposes to use the financial criteria for assessing sustainability, infrastructure management and efficiency as described in the body of the text (pp.26-33). We note that these criteria have been redefined significantly from the Office of Local Government (OLG) criteria cited in summary Tables 1.1 and 3.1. This could be made clearer. However we note some important remaining caveats,

notably with respect to the impacts of rate pegging and the use of non-uniform and unaudited concepts, which we believe should be considered. We also note that professional work has shown that the key driver of financial capacity is income level and not council size.

(Q4) This submission strongly supports IPART's recognition that other possible factors, such as customer service, sense of identity (community), public opinion and consultation may be important. Local councils provide numerous local public services. In our view, customer service and community satisfaction are of prime importance. The most critical issues in the world today are not technological; they are social. These factors were largely ignored by the ILGRP and OLG. **We submit that a key criterion for fitness should be a council's ability to provide desired local public services.** This ability is independent of strategic capacity and is arguably related inversely to scale. **Councils' customer satisfaction surveys and related data can provide useful evidence on these issues. In our view, they are of primary importance.**

In this submission we discuss these three issues in turn. We believe that these are significant issues and we request IPART to give them careful consideration.

### Question 1: The proposed scale and capacity criterion

IPART (p.1) notes that local councils must have the "scale and capacity to engage effectively across community, industry and government". In a public session at the NSW Local Government Association conference in Coffs Harbour in October 2014, Cr. Peter Abelson 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 in the IPART paper (2015).

In our view, 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. We do not believe this to be so. But importantly, if strategic capacity is the objective and is shown to be satisfied, then scale is not important and is not a separate criterion.

It should be noted here that Mr Sansom (Chair of the ILGPR) has in several places strongly denied 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.

Turning to strategic capacity, the ILGRP has defined this in terms of 10 sub-criteria (see IPART Box 3.1) with a focus on councils' capacity to work with the state government on metropolitan-wide issues. Examples are: "knowledge, creativity and innovation", "effective regional collaboration", "credibility for more effective advocacy, and high quality political and

managerial leadership. These criteria are ill-defined, lack metrics and cannot be readily validated.

Importantly, while we agree councils should have strategic capacity in one or other way, for example through regional collaboration, this is only part of the capacity that a council needs in order to serve its local community. It is inappropriate to elevate weakly defined “strategic capacity” over other equally or more important capacities to serve the local population (see discussion below).

### **Question 3: The applicability of the seven financial criteria for assessing sustainability, infrastructure management and efficiency**

#### ***Sustainability***

To show sustainability, IPART (pp.29-30, Table 3.3) expects councils to be able to meet the operating performance ratio and own source revenue benchmarks **within five years** and as a minimum to show improvement in the building and infrastructure renewal measure. We assume that this is the intention although this is not consistent with the OLG definitions given in summary Tables 1.1 and 3.1. Given this forward-looking perspective we agree that these benchmarks are reasonable measures of sustainability. However, the changes to these benchmarks should be clarified.

Further, three caveats are noted. First, and critically, councils must not be constrained by rate pegging from meeting these benchmarks. Second, in the absence of agreed uniform depreciation rates, councils adopt widely varying depreciation rates which casts doubt on the reliability of the building and infrastructure renewal measure. Third, two or more councils that fail separately to meet these benchmarks are also likely to fail to meet them collectively. Dollery et al. (2012) provided detailed and extensive evidence in Australia and internationally that forced amalgamations have not produced financial sustainability or any cost savings.

**Hypothetical paper exercises on economies of scale through forced mergers are no substitute for evidence.**

#### ***Infrastructure and service management***

To show effective infrastructure and service management, IPART proposes (p.31, Table 3.4) that councils will meet the debt service ratio benchmark again within five years and meet or improve on the infrastructure backlog and asset maintenance benchmarks in five years. Again there are inconsistencies between these benchmarks and those given in Tables 1.1 and 3.1. Assuming definitions as per Table 3.4, we agree that these benchmarks are reasonable measures of infrastructure and service management.

However, two caveats are noted. First, 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. IPART does not have in-house technical engineering capacity to validate these estimates. Second, it is not clear why a debt-free council would not be “fit for the future”.

#### ***Efficiency***

IPART proposes (Figure 1.1 and pp 32-3, Table 3.7) that councils should be able to show operational savings net of IPR supported service improvements over five years. We agree

that this is a reasonable objective, but we have major concerns about how this can be properly tested.

Here again, we have two further substantive comments. First, this definition of the criterion is seriously inconsistent with the OLG benchmark stated in Tables 1.1 and 3.1 that councils must reduce real operating expenditure per capita over time. As IPART doubtless fully understands, operating expenditure is a product of the quantum and quality of services and unit costs. Communities have every right to expect improved services. We fully support the revision of the benchmark, but this revision could be made clearer.

Secondly, as noted above, there is **no** evidence that merged councils will collectively produce economic savings. Indeed, as noted this was **not** claimed by ILGRP and there is no evidence that larger councils produce economies. Hypothetical business studies are no substitute for well-researched evidence. The corporate business world is not an appropriate model. Public bureaucracies are monopoly service providers; they are not competitive businesses. And the larger a bureaucratic monopoly the greater is the potential for waste. This is evident in the various studies by Dollery et (2012).

#### **Question 4: Other possible factors for consideration including public consultation**

We welcome IPART's openness to considering other factors than financial and strategic capacity. Form needs to follow function. Sansom (2015) states explicitly that "The ILGRP's concerns were with the effectiveness of local government as an arm of metropolitan governance". We agree that local councils should have the capacity separately or through regional organisations to assist with metropolitan planning and the provision of adequate transport and housing infrastructure. This objective is embodied in the concept of strategic capacity discussed above. But such metropolitan activities are only part of the functions of local government.

The ILGRP wrote that the world is changing, so local government must also change. But the core challenges we face today are not technological, they are social. As Mayor Peter Abelson has observed, the major changes in society over the last 30 years (since he was previously Mayor in the mid-1980s) have been the extraordinary increase in anger and aggression in society. There have also been major increases in elderly single people living alone, divorce rates, domestic violence, women at work and in mental health problems in all parts of society.

Local councils today need to provide not only local infrastructure (roads and drainage), planning and development services, public health oversight, recreational facilities, libraries and cultural facilities but also services for seniors, for families and for youth. Many of these are personal services and are best provided in relatively small communities.

As the quote from the Chair of ILGRP above implies, the provision of these local services appear to have been largely ignored by the ILGRP and OLG. **We submit that a key criterion for 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. Arguably all these factors are met equally as well, if not better, in small council areas.

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.

Accordingly, this submission strongly supports IPART’s recognition that other possible factors, such as customer service, sense of identity (community), public opinion and consultation may be important.

**Councils' customer satisfaction surveys and related data can be useful evidence on these issues. In our view, they are of primary importance. They should not be an afterthought.**

## References

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 (forthcoming). A slightly fuller version of the paper can be found at: <http://mosman.nsw.gov.au/news/2014/09/24/local-government-reform>

Dollery, B., Grant, B. and Korrt, M., 2012, *Councils in Cooperation, Shared Services and Australian Local Government*, Federation Press, Sydney

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