

MM/15: **Mayoral Minute: IPART's Assessment of Cost Savings of Councils' Fit for the Future Proposals: Let's Assume that we have a Can Opener (MM)**

MAYOR: **Cr Peter Abelson**

MOSPLAN REF: **Leadership and Engagement (Strategy Two)**

RECOMMENDATION

That the Mayoral Minute be noted.

MAYORAL MINUTE

The core claim of both the State Government's rhetoric and IPART's assessment of Councils' Fit for the Future Proposals is that amalgamation of councils will reduce costs and rates. This is not supported by the evidence.¹

The State Government's extravagant advertizing blitz in the media at tax payer expense states that there are twice as many councils in NSW as in Victoria and Queensland and that if we amalgamate our councils to a smaller number, rates will be cut and services improved. The figures on councils are misleading as they are not adjusted for population. More importantly the State Government seems unaware of the actual comparative local taxes and expenditures in the three states. The following are the taxation and total revenue figures (a proxy for expenditure) per capita in the last year for which the data are available (2012/13).

State	Tax revenue per capita	Total revenue per capita
NSW	\$499	\$1477
Victoria	\$692	\$1502
Queensland	\$684	\$2456

Source: Commonwealth Department of Infrastructure and Regional Development, *Local Government National Report 2012/13*, Table 1.3.

Some savings!!!

Turning to the evidence about the effects of amalgamating councils, Dollery, Bligh and Koort (2013)² is the most authoritative and comprehensive analysis of the effects of amalgamation in Australia. They conclude: "It is thus clear that the weight of evidence derived from these (eight) public inquiries strongly supports the bulk of the academic literature in its skepticism (sic) over local government as an efficacious instrument for improving the financial sustainability of local government".

¹ This note discusses briefly the core financial issue. Other critical issues including IPART's reliance on the arbitrary scale threshold and its failure to take into account community views and the quality of local services will be addressed in our fuller response to the NSW State Government.

² Dollery, B., Grant, B. and M. Koort, 2013, 'An Evaluation of Amalgamation and Financial Viability in Australian Local Government', *Public Finance and Management*, 13, 3, 215-238.

My own peer-reviewed published work (2015)³ indicates that there are no expenditure savings (economies of scale) within Sydney councils.

Turning to the IPART's *Assessment of Councils' Fit for the Future Proposals (October 2015)*, the report's findings were based on a financial analysis provided by Ernst and Young (EY). EY acknowledged that "the available empirical evidence on the extent to which local council amalgamations will yield net savings in costs is mixed and tends to vary with activity. Econometric analysis does not provide strong support."

Notwithstanding this, EY simply assumed that mergers would result in 15% savings in total operating costs of the amalgamated councils (excluding the costs of the largest council) less some initial costs of the amalgamation. Of course, if you make that kind of assumption you will get hypothetical savings!!

EY based this projection on the financial targets of competitive corporates engaged in takeovers. But companies select their takeover targets based on assessed synergies. And it is well documented that many takeovers do not achieve their targets. As Bain and Company⁴ has shown, "the open secret about M & A is that most deals fail to achieve the synergies that companies expect... Most merging companies don't have a clear understanding of the level of synergies they can expect through increased scale".

In our case, adding uncompetitive bureaucracies together does not necessarily save costs. I recently asked a senior member of our staff how his / her work differed from the very large council that he/she had come from. He/she replied that the major difference was his/her productivity. "At X, only 20% of my time was productive; at Mosman, 80% of my time is productive".

There is a well-known story in economics: "A physicist, a chemist and an economist are stranded on an island with nothing to eat. A can of soup washed ashore. The physicist says: "Let's smash the can open with a rock". The chemist says: "Let's build a fire and heat the can first". The economist says: "Let's assume that we have a can opener"!

The phrase "the can opener" is used to describe research that employs particularly unrealistic assumptions to reach conclusions. Regrettably this is an apt description of the financial analysis in IPART's *Assessment of Councils' Fit for the Future Proposals*.

³ Abelson, P. and R. Joyeux, 2015, "Smoke and Mirrors: Fallacies of the NSW Government Views on Local Government Financial Capacity", *Public Money and Management*, July, 315-20. The paper can be found at www.mosman.nsw.gov.au.

⁴ Bain & Company (2014), (<http://www.bain.com/publications/articles/why-some-merging-companies-become-synergy-overachievers.aspx>)
