

## **Response to IPART's Assessment of Mosman Council's Fit for the Future Submission**

Mosman Council submits that the assessment of Mosman Council's Fit for the Future submission by the Independent Pricing and Regulatory Panel (IPART) is critically deficient in four key respects: the arbitrary use of scale as a threshold concept; the erroneous assumptions used in the financial analysis; the failure to consider Council's demonstrated strategic capacity; and the failure to consider the research and information of local community views provided by Council.

These major deficiencies, outlined below, have resulted in a flawed and inadequate assessment of Mosman Council's future 'fitness'. The IPART assessment does not appropriately recognise Mosman Council's capacity to continue delivering high quality services to its community in a financially responsible and sustainable way.

### **1. The criteria of 'scale and capacity' was arbitrary and not evidence-based**

The IPART assessment of 'fitness' for Mosman (and all other councils in NSW) was fundamentally flawed by using 'scale' as a threshold criteria and by reliance on the recommendations of the Independent Local Government Review Panel (ILGRP) as the basis for appropriate 'scale and capacity'.

There is no demonstrated evidence of any positive relationship between the population of an area and its strategic and financial capacity or its quality of services. Indeed service quality may be inversely related to the size of a government entity. Nor was there any evidentiary basis to the groupings of councils recommended for amalgamation by the ILGRP at the time its final report released in 2013, and no such evidence has been produced at any time since. Given that IPART's terms of reference were based on a totally arbitrary rationale, the IPART assessment of 'scale and capacity' was itself flawed, unreasonable and inadequate.

### **2. Contrary to the IPART Report, there is no evidence that amalgamated councils will produce savings**

Based on the work of Ernst and Young, the IPART report simply assumed that council 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.

The evidence is quite contrary to this. Dollery, Bligh and Koort (2013)<sup>1</sup> 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 amalgamation as an efficacious instrument for improving the financial sustainability of local government".

In their 2014 article *Smoke and Mirrors: Fallacies in the NSW Government's Views on Local Government Financial Capacity*, Mosman Mayor Dr Peter Abelson and Prof. Dr Roselyne Joyeux show that financial capacity is fundamentally a function of the income of the local community, not of scale. This paper, which has been published by the international refereed

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<sup>1</sup> 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.

journal *Public Money and Management*, mirrored earlier similar findings by the Productivity Commission.

Ernst and Young themselves 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.”

Financial analysis based on such hypothetical and unrealistic assumptions has little if any value.

### **3. The IPART assessment report did not demonstrate appropriate consideration of Council's response to the elements of strategic capacity**

By arbitrarily basing the assessment of scale and capacity on the unfounded recommendations of the ILGRP, the IPART process unreasonably discounted any other proposals and did not give appropriate consideration to the elements of strategic capacity identified by the Independent Local Government Review Panel.

In its Fit for the Future submission to the IPART, Mosman Council detailed in some length its response to the 10 elements of strategic capacity, providing strong evidence of its ability to deliver high quality services that are well regarded by its community, as well as its proven capacity to work collaboratively for local and regional outcomes. Council's submission also reflected its willingness to continue exploring and developing future opportunities for partnership and collaboration.

The assessment report provided no indication at all that any consideration had been given to strategic capacity beyond the arbitrary definition of scale and capacity, which in turn was tied to the ILGRP recommendations.

### **4. The IPART assessment report did not demonstrate appropriate consideration of research and information provided by Council on local community views**

Both the universal poll in the 2012 election and several surveys and extensive community consultation undertaken in the first half of 2015 showed strong community support for Council services and extremely strong opposition to any amalgamation, especially to large amalgamations. IPART's assessment of this part of the submission is cursory, presumptive and unbalanced.

The Council's submission appears to have been almost wholly overlooked. Quite extraordinarily, one submission from a well-known local supporter of amalgamation received special attention. Prima facie this is clear evidence of bias. Given that Council is required to obtain the approval of the Electoral Commission to materials circulated in conjunction with a council poll, the reference to possibly unbalanced information at the 2012 poll is incorrect and highly surprising.

To close, Mosman Council continues to assert that it has proven itself to be fit for the future. The IPART has recognised that this Council has met all financial criteria, with its 'unfit' overall assessment based solely on arbitrary criteria with no basis in fact.