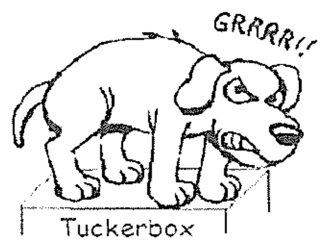


GUNDAGAI COUNCIL IN EXILE INC.

We Want Our Shire Back

Correspondence to:

The Chairperson
Gundagai Council in Exile
PO Box 102
Gundagai NSW 2722

The Hon. Gabrielle Upton,
Minister for Local Government,
52 Martin Place,
Sydney 2000

16 October 2018.

Dear Minister,

Gundagai Council in Exile Inc is an association incorporated under the Associations Incorporation Act. It has been the instigator of a proposal ("the proposal") to alter the boundaries of the Cootamundra Gundagai Regional Council ("CGRC") and to recreate the former Cootamundra and Gundagai Councils with the boundaries applicable as at 11 May 2016.

Although the boundaries are a matter of public record maps depicting the boundaries of the two former Local Government areas are appended.

As at 24 August 2018 CGRC had 8536 enrolled electors. This information was sourced from the NSW Electoral Commission.

A total of 1057 enrolled electors of CGRC have signed the proposal. Those proposal forms are contained in alphabetical order in 3X ring bind folders handed to you herewith. Appended to this letter is a Schedule showing the name and address of each proponent.

Should, as we will expect, you determine to proceed with this proposal and to give the requisite public notice we will be making detailed submissions but to aid you in deciding to proceed with the proposal we provide a non- exclusive summary of those submissions:

- Complete failure to achieve the financial savings predicated prior to the amalgamation with the opposite applying. Since the amalgamation the accumulated loss before grants and capital contributions provided for capital purposes is $14.2 million.

- Projected 40% increase in rates payable after the termination of the moratorium period

- Lack of transparency and accountability in the governance, management and operation of Cootamundra Gundagai Regional Council.

- Lack of Fiscal Responsibility in the failure to realise that each of the grants for specific works will require funding out of rate revenue for recurrent expenditure in their maintenance and repair estimated to be a 28% increase in rates to fund recurrent expenditure on those projects.

- Lack of efficiency in utilisation of staff resources and elimination of the ethos of Council/Staff partnership.

- Removal of 'local' from local government resulting in a lack of representation and a loss of community identity.

In short, the stated benefits of amalgamation have become detriments.

Dr Joseph Drew provided to Gundagai Shire, the Delegate and the Land and Environment Court his report on the likely effects of the then proposed amalgamation. A copy of his report is appended. You might seriously consider engaging Dr Drew to provide to you an independent report on the actual effects of the amalgamation.

We now ask that at your early convenience:

1. You acknowledge receipt of this letter and its appendices
2. You advise whether or not it is your intention to proceed with this proposal and to give public notice of it pursuant to the Act.
3. Whether you would be assisted by representatives of this organisation waiting upon you at a venue and time nominated by you.

Obviously we see this matter as extremely urgent and so we will follow up with your office in 28 days if we have not received your substantive response within that time.

Yours Faithfully,

Dr. Paul Mara AM,

Chair,

Gundagai Council in Exile Inc.

Cootamundra Local Environmental Plan 2013

Land Application Map - Sheet LAP_001

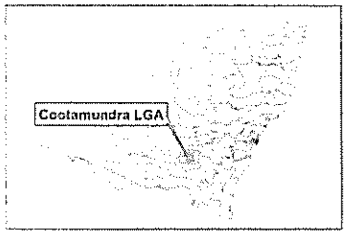
LGA Boundary

LEP Land Application

Included

Cadastre

Cadastre 4/4/2011 © Cootamundra Shire Council



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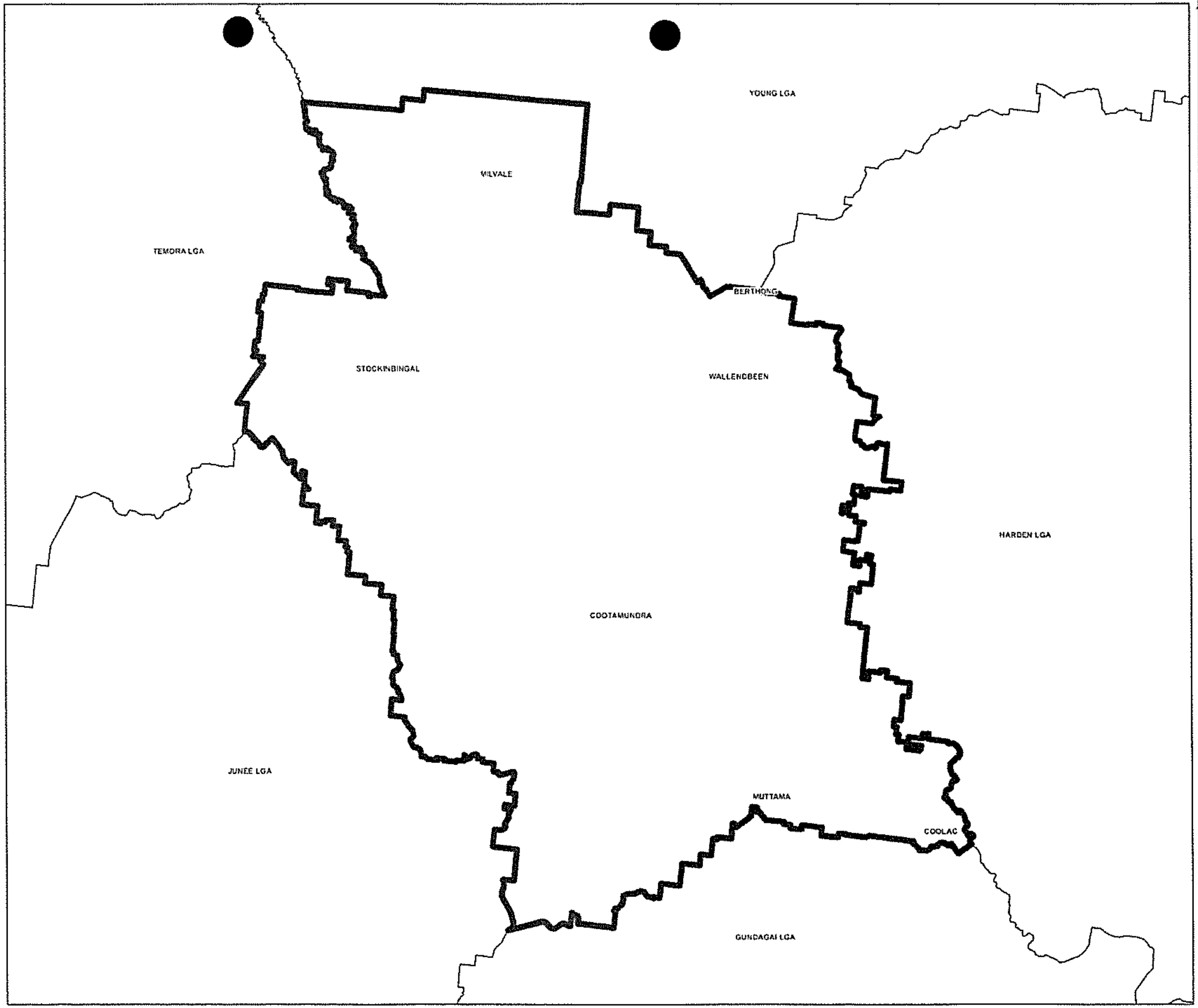
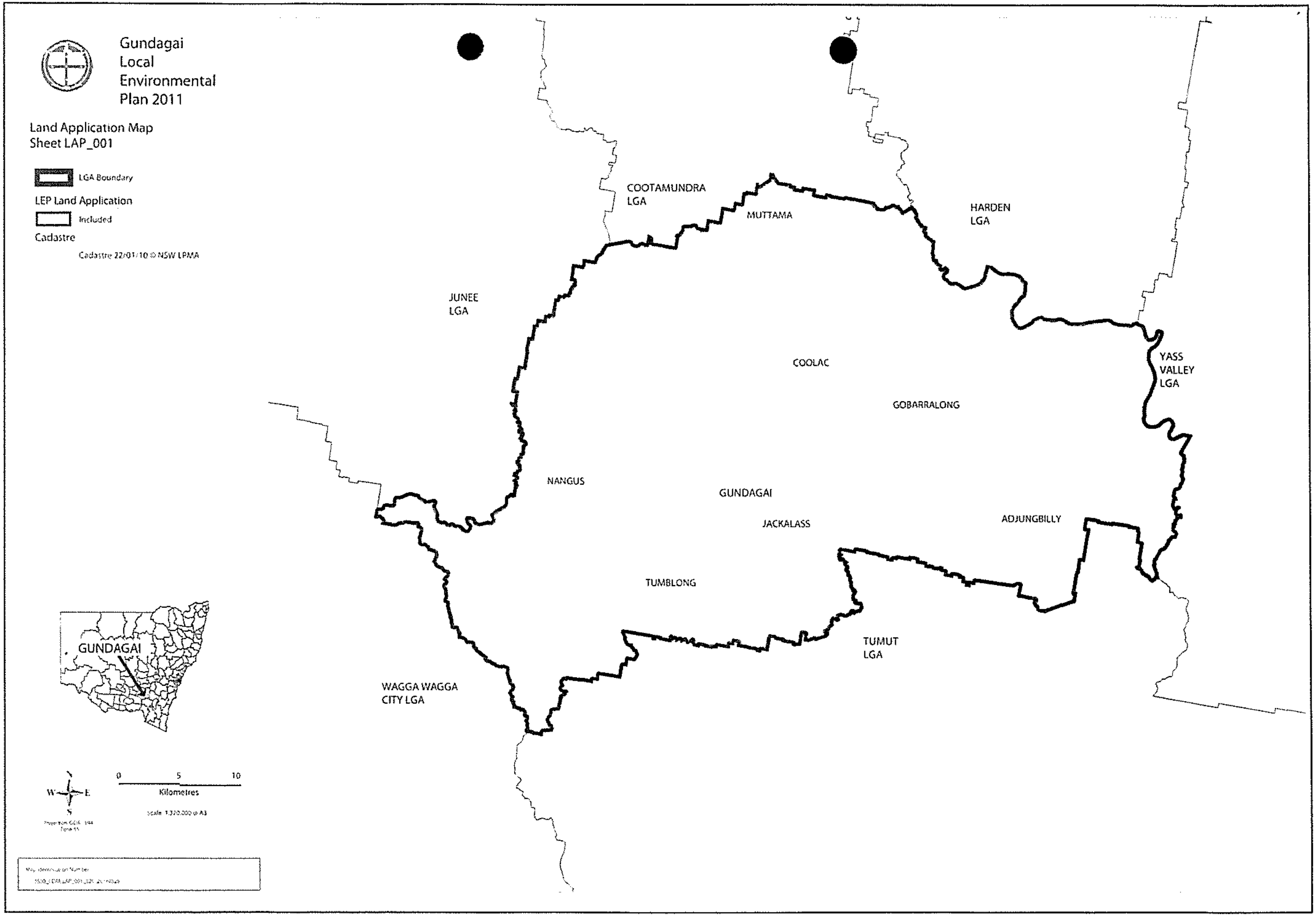
Scale 1:240,000 @ A3

Projection: GDA 1994 MGA Zone 55

Map identification number: 2200_COM_LAP_001_240_20130814




Gundagai
Local
Environmental
Plan 2011
Land Application Map
Sheet LAP_001
LGA Boundary
LEP Land Application
Included
Cadastre
Cadastre 22/01/10 © NSW LPMA
JUNEE
LGA
COOTAMUNDRA
LGA
MUTTAMA
HARDEN
LGA
COOLAC
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VALLEY
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GOBARRALONG
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PROPOSAL TO REINSTATE THE FORMER GUNDAGAI AND COOTAMUNDRA SHIRE COUNCIL BOUNDARIES

I am an enrolled elector of the Cootamundra Gundagai Regional Council Local Government Area. I support the proposal under Sections 215 and 218E (2) of the Local Government Act 199 to alter the boundaries of the Cootamundra Gundagai Regional Council and to recreate the former Cootamundra and Gundagai Shire Councils with the boundaries applicable as at 11 May 2016.

SAMPLE PETITION

I support this proposal to the NSW Local Government Minister because:

- The forced amalgamation of Gundagai and Cootamundra Councils was undemocratic and deeply unwanted by the local communities
- Each former Council provided essential local representation as well as environmental protections for its residents
- The social, geographic and commercial history of the two constituent Councils makes an inappropriate fit in the regional council.
- Gundagai Shire Council was financially robust and very capable of managing its own financial affairs, and
- The residents of the Cootamundra District were accepting of the proposed merger with Harden. An overwhelming majority of the residents of the Gundagai District preferred to retain a stand alone Council. Neither District residents wanted nor now want the merger that has been forced on them.

FULL NAME: ……………………………………………………………………

RESIDENTIAL ADDRESS: ……………………………………………………………

……………………………………………………………………

SIGNATURE: ……………………………………………………………………

DATE: ……

Response to KPMG Assumptions

There are two matters of great concern clearly evident in the KPMG *Outline of Financial Modelling Assumptions for Local Government Merger Proposals Technical Paper*, prepared for the NSW Department of Premier and Cabinet 19th January 2016. The first, and most serious matter, relates to the absence of credible evidence (in fact generally, there is no evidence offered) to support assumptions regarding proposed savings arising from amalgamations. In most cases savings are simply stated with no effort made to justify why these numbers have been chosen. Without evidence that similar savings have been achieved in other relevant municipal amalgamations the assumptions are no more than guesses. If evidence does exist to support the 'assumptions' then I urge KPMG to make same publicly available. In the absence of any credible evidence that similar savings have been achieved in previous mergers there is no reason for the public to have any confidence in the modelling presented.

The second major problem relates to the many errors and inconsistencies contained in the KPMG report. These problems include grammatical errors, inconsistencies with previous KPMG reports, inconsistencies with official reports (such as the Local Government Remuneration Tribunal report), errors of logic, gross oversimplifications and errors in selection of appropriate functional unit. Of particular concern is the fact that assumptions have been applied to the very broad categories of 'metropolitan' and 'regional' councils. This is a problem for two reasons: (i) research by Drew and Dollery (2014a) has comprehensively demonstrated that categorisation on the basis of subjective judgements on urbanity is deeply flawed and (ii) it implies that KPMG believes that councils within the categories face comparable environmental constraints and input costs (this assumption appears to be at odds with the scholarly literature, the Office of Local Government time series data which employs 11 categories, the NSW Local Government Grant Commission which applies an isolation allowance specific to *each* non-metropolitan council, and the NSW Local Government Remuneration Tribunal which employs nine different categories).

I now provide specific comments on each assumption contained within the KPMG report.

Assumption	Comment
Savings from Materials and Contracts Expenditure	
Applies to 80% of the Materials and Contracts Expenditure and is 'phased in' over 3 years.	There is no evidence provided to support the 'assumptions'. Implicitly assumes that councils have not entered into long term contracts for the receipt of materials and services. There is no justification for the linear implementation of savings from materials and contract expenditure
Value of efficiency saving assumed to be 3% for metropolitan councils and 2% for regional councils.	There is no evidence provided in support of the assumption. Curiously, KPMG in its *Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council*

	Merger Business Case dated 1 May 2015 stated: 'a 1.5 per cent saving on Materials and Contract expenses has been applied' (KPMG, 2015, p.21). Clearly KPMG needs to explain why the present estimate differs from the estimate provided by it just eight months earlier.
Savings from Councillor Expenditure	
'the number of councillors for a new merged entity mirror the highest number of councillors that currently exist in any one of the councils participating in the merger' (KPMG 2016, p. 2)	This statement does not reflect the maximum number of councillors allowable under the Local Government Act (1993). Thus KPMG are asserting that there will be a reduction in the level of democratic representation for merged councils. Moreover, this procedure for determining the number of councillors will inevitably lead to very disparate levels of democratic representation between merged and unmerged councils.
'this figure is grown at a standard wage growth rate of 2.3 per cent over the period' (KPMG, 2016, p. 3)	This is inconsistent with the 2015 Local Government Remuneration Tribunal determination: 'the Tribunal has reviewed the key economic indicators, including the Consumer Price Index and Wage Price Index, and finds that the full increase of 2.5 per cent available to it is warranted' (NSW Remuneration Tribunal, 2015, p. 14).
'this [*sic*] savings are offset by the assumption that all newly elected councillors (metro and regional) will receive a fee of $30,000 per annum' (KPMG, 2016, p. 3)	The most recent determination for councillor and mayoral fees includes nine different rates (depending on the categorisation of the council). For instance, 'county councils other' councillor fees are set at a minimum of $1,660 and a maximum of $5,490. The county council other mayoral fees range from a minimum of $3,550 through to a maximum of $10,020. By way of contrast, councillor fees for 'principal city' range from $25,040 through to $36,720 whilst mayoral fees for the same category range from $153,200 through to $201,580. It should thus be clear that an assumption of $30,000 for every council is deeply flawed. Moreover, KPMG has not attempted to differentiate between savings relating to mayors as opposed to councillors.
Savings from Reduced Salary and Wage Expenditure	
'Staffing reductions are assumed to occur gradually with a modest level of voluntary attrition in the first three years of amalgamation' (KPMG, 2016, p. 3)	No evidence is provided to support this assertion. In fact, total staff expenditure for the amalgamated cohort of councils in Queensland *rose* for each of the three full financial years following the 2008 amalgamations[1]. Moreover, the average annualised rate of growth in staff expenditure for the amalgamated cohort in Qld (7.795%

[1] Evidence obtained from audited financial statements of each of the affected councils in addition to the Department of Infrastructure and Planning Queensland Local Government Comparative Information 2008-2009.

	p.a.) was far higher than that of the non-amalgamated cohort (6.031% p.a.) in nominal terms for the first three full financial years.
'Overall staffing efficiencies were estimated at 7.4 per cent for metropolitan mergers…[and] 3.7 to 5 per cent' for regional councils' (KPMG, 2016, p. 3)	No evidence has been provided to support this critical assertion. The efficiency estimate for regional councils (3.7 to 5 per cent) by KPMG in January 2016 differs markedly from the estimate provided by KPMG to Snowy River, Bombala and Cooma-Monaro 'estimated to be approximately 6 per cent on a FTE basis' (p. 21). KPMG should explain why this estimate has changed so greatly in the last eight months. Actual evidence based on the entire cohort of Queensland councils suggests that little or no efficiencies relating to employee costs can be reasonably expected. Based on seven full financial years of data following the Queensland amalgamations the average annualised rate of growth in employee expense is far higher for the amalgamated cohort (4.997% p.a.) than the non-amalgamated cohort (3.724% p.a.)[2].
Merger Cost Components	
ICT costs	Evidence for these assumptions is cited as a 'select number of industry representatives consulted by DPC' and 'analysis undertaken by KPMG based on advisory services to Queensland local councils involved in de-amalgamations' (KPMG, 2016, p. 5). Details of the industry experts consulted and the estimates which they advised should be disclosed for full transparency. The reference to KPMG analysis for the de-amalgamations is rather curious given that the figures cited in the modelling assumptions (ranging from $2.26m through to $3.35m) are completely at odds with estimates cited by the Qld Treasury Corporation which had 'engaged KPMG to estimate the information and communication technology costs of de-amalgamation' (QTC, 2012, p. 16). The QTC (2012) estimate for the de-amalgamation of Sunshine Coast Regional Council was $1,176,000 (QTC, 2012, p. 16).

[2] We have not made any assertions about initial savings made as a result of terminating senior appointments. Our data relates to the rate of change in employee expense for the full financial years following amalgamation. Qld also had a moratorium on forced redundancies for a period of three years.

'Transition costs are estimated to be 2 per cent of a merged entity operating expenditure in the first year of operation' (KPMG, 2016, p. 6)	No evidence is provided to support this 'assumption'. 'The Queensland Treasury Corporation (QTC) *Review of Local Government Amalgamation Costs Funding Submission: Final Summary Report* (QTC, 2009) gathered information from councils forcibly merged in Queensland in August 2007. Reported 'first-round' costs were $9.3 million (mean) for metropolitan councils and $7.994 million (mean) for regional/rural councils' (Drew and Dollery, 2015b, p. 3). There is no evidence of an association between amalgamation costs and operating expenditure as hypothesised by KPMG (2016).
Costs from redundancies	
Redundancies	This is predicated on the assumption that: (i) there will be redundancies after the three year moratorium, and (ii) that senior staff contracts include redundancy clauses. Moreover, the assumption appears to ignore the constraints imposed on redundancies for rural centres outlined in s218CA(2) of the Local Government Act (1993). The evidence from the Queensland amalgamations calls into question assumptions regarding redundancies (see, *Savings from Reduced Salary and Wage Expenditure* above).
'Based on established practices and the average tenure for the sector, the redundancy payment would be provided for sixteen (16) weeks' (KPMG, 2016, p. 7). Reference is then made to the 'Fair Work Ombudsman (2014), Redundancy pay and entitlements schedule' (KPMG, 2016, p. 7)	Local Government general staff in NSW are covered by the Local Government (State) Award, 2014 not a federal award as 'assumed' by KPMG. Employees are entitled to up to 34 weeks of pay (for employees of 10 years standing or higher) on a scale associated with the number of years of service. Clearly an assumption of 16 weeks (equivalent to the entitlement of an employee with 4 to 5 years of service) is a gross oversimplification of matters. It is likely that the assumption, apparently based on the wrong industrial relations document, under-estimates the costs of redundancies.
Grant allocations	Financial Assistance Grants (FAGs) are only subject to constraints imposed as a result of the 7 February 2006 proclamation under subsection 6(4) of the federal legislation for a period of four years. The KPMG modelling does not appear to respond to the Local Government (Financial Assistance) Act (1995)(CTH) in any way. This is rather surprising given that FAGs account for around a fifth of municipal revenue. Clearly failure to model changes to FAGs risks over-estimating revenue and thus over-estimating the savings arising from the amalgamations.

It is critical that KPMG and the NSW Government release the specific modelling used to inform each of the merger proposals. It is simply unacceptable that this modelling, according to the most recent advice, will not be available until after the Public Inquiry. It is difficult to understand why this might be the case given that precise estimates of savings 'supported by independent analysis and modelling by KPMG' were provided on the Council Boundary Review website on the 18th December. Presumably the modelling has therefore existed since at least the 18th December.

The modelling applied for the state estimates of savings appears to be implausible, lacks evidential foundation and appears to have been sloppily applied. It is not unreasonable to expect that the NSW Government might have obtained more accurate data upon which to execute what Mr Toole stated 'is the most significant investment the State has ever made in the local government sector' (Toole, 2014).

In summary, it is my professional opinion, that there is no reason why the public of NSW should have any confidence in the modelling cited by the NSW Government to support the programme of forced amalgamation.

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Report on the NSW Government Merger Proposal: Cootamundra Shire Council and Gundagai Shire Council

The following report presents data and research pursuant to the *Merger Proposal: Cootamundra Shire Council and Gundagai Shire Council January 2016*. The report should be read in conjunction with our earlier report: *Response to KPMG Assumptions*. Unfortunately, at the time of writing, the Department of Premier & Cabinet has failed to provide the specific modelling conducted by KPMG to support the claimed total financial benefit over 20 years for Cootamundra-Gundagai which first appeared on the NSW Council Boundary Review website on the 18th December 2015. It is difficult to understand why this extraordinary delay has occurred. Needless to say, it is impossible to assess the claims made in the *Merger Proposal* without seeing the modelling. Failure to provide modelling in a timely manner has obvious implications for transparent democratic process and makes it difficult for residents to have any confidence in the claims made.

Financial Benefits of Proposed Merger

The *Merger Proposal* states that an amalgamation[1] between Cootamundra and Gundagai will result in 'a total financial benefit of $18 million over a 20-year period' (NSW Government, 2016, p. 2). However, it appears that the great majority of the financial benefit is attributable to 'NSW Government funding of $15 million' (NSW Government, 2016, p. 2). This conclusion is supported by the later disclosure that 'the merger is expected to lead to more than $3 million in net financial savings over 20 years' (NSW Government, 2016, p. 3). We note that there is nothing preventing the NSW Government from providing *pro rata* Stronger Community Funding for infrastructure in the absence of an amalgamation. This is a political decision of the NSW Government to reward communities for proceeding with amalgamation. That is, the benefit of $10 million is only a financial benefit for the amalgamation because the NSW Government has chosen to link funding for Stronger Communities to amalgamation. The remaining portion of the NSW Government funding is associated with compensation towards the cost of amalgamation: it is not a financial benefit. Thus, a prudent analysis of the *Merger Proposal* would only look at the savings which occur as a direct consequence of the new council structure (not compensation or politically motivated incentives).

There is every indication that the compensation for amalgamation costs will fall well short of the actual costs incurred. For instance, the average costs claimed by Queensland rural and regional councils was $7.994 million (QTC, 2009). The Parliamentary Budget Office (PBO) (2015) assessed the costs of a Gundagai-Tumut-Tumbarumba amalgamation at $10.8 million. Since this time the NSW Government has altered its amalgamation proposal but there does not appear to be an extant estimate of the cost of amalgamating Gundagai and Cootamundra. However, we note that the proposed Cootamundra-Junee amalgamation was estimated to cost $5.4 million, so it appears that the compensation set aside for a Gundagai-Cootamundra amalgamation is short of what is required. Moreover, we note that the PBO (2015) stated that 'net costs for any particular merger will vary depending on a number of factors [including].... how willing the councils are to merge; a greater willingness to merge is likely to result in greater net savings and lower upfront costs'. We note that there is no willingness to amalgamate between Gundagai and Cootamundra so we might surmise from the PBO reckoning that amalgamation costs will be exceeded and that the proposed KPMG benefits may fail to materialise. In addition we concur with the Ernest and Young (2015, p. 5) report appended to the IPART assessments which states that: 'there is a view that costs associated with amalgamation are large and often under-estimated, particularly costs associated with new systems, cultures and operating structures'.

Without access to the precise modelling for the Cootamundra-Gundagai amalgamation it is a little difficult to understand the context and reasoning for the assumed savings. For instance, page 8 of the proposal restates 'the potential to generate a net financial saving of $3 million

[1] 'Amalgamation' rather than 'merger' is used throughout this document as the proposal made by the Minister is not a 'merger' in the true sense of the word. 'Merger' implies a voluntary partnership of equal powers. By way of contrast the forced amalgamation of Cootamundra and Gundagai will result in unequal power relationships and is proposed against the wishes of both communities.

to the new council over 20 years' (NSW Government, 2016). However, the document then details 'gross savings over 20 years ....modelled to be due to:

- Streamlining senior management roles ($4 million);
- Redeployment of back office and administrative functions ($3 million); and
- Efficiencies generated through increased purchasing power of materials and contracts ($500,000)' (NSW Government, 2016, p. 8).

We are provided with a footnote which refers to 'NSW Government (2015), Local Government Reform: Merger Impacts and Analysis, December' but are not given any details of the assumptions underlying the savings claims. Nor are we provided any information as to expenses which might reconcile the nett savings with the gross savings. Nor are we even told whether the sums cited are nett present value or nominal. In short, it is impossible from reading the *Merger Proposal* to understand 'the financial advantages or disadvantages' required under s 263(3)(a) of the Local Government Act (1993).

We can, however, glean that the majority of the savings assumed under the *Merger Proposal* are attributable to reduction in employee expenditure. Before examining the likelihood of the assumed savings coming to pass we should briefly consider the relatively insignificant savings attributed to 'efficiencies generated through increase purchasing power of materials and contracts'. It may be possible to generate savings of this sort however, there does not appear to be any evidence to support the assumption. Moreover, there is some cause for uncertainty regarding the quantum of savings from materials and contracts. This arises because KPMG themselves have produced varying estimates of the assumed savings in this category (3% for metropolitan councils and 2% for regional councils in the 19th January 2016 *Outline of Financial Modelling Assumptions for Local Government Merger Proposals: Technical Paper*, but 1.5% in the KPMG *Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council Merger Business Case* 1 May 2105 and 2% in the KPMG merger analysis of Pittwater and Manly councils). Moreover, other consultants such as MorrisonLow have also produced disparate estimates (ranging from 1% to 5%) of assumed savings (Ernest & Young, 2015). Yet other consultants have imposed strict confidentiality on the assumptions underpinning their modelling: which makes it very difficult to ascertain the validity of same. Little evidence has been provided to support the assumptions[2]. Assumptions without evidential foundation might be more accurately referred to as 'guesses'.

Finally, if it is indeed possible to generate savings from materials and contract expenditure predicated on improved purchasing power, then it would be prudent for the NSW State Government to set up a central purchasing authority for the entire state along the lines employed in Queensland. Following the assumption of KPMG through to its logical end would suggest that a state-wide purchasing authority would realise far greater savings than might be expected from any single municipal amalgamation.

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[2] Where 'evidence' is provided it tends to be assertions about the savings arising from the amalgamation of Auckland (see, for example, MorrisonLow) or Toronto (see, for example, KPMG). Curiously, the 'evidence' does not refer to data from audited financial statements. Nor does it refer to the 2008 Queensland amalgamations.

Savings from Employee Expenses

The KPMG *Outline of Financial Modelling Assumptions for Local Government Merger Proposals Technical Paper Prepared for the NSW Department of Premier and Cabinet 19 January 2016* suggests that the major portion of the employee expense savings are assumed to occur 'after the three year employment protection period' (KPMG, 2016, p. 3). Moreover, savings from reduced salary and wage expenditure 'are assumed to be equivalent to between 3.7 to 5 percent' (KPMG, 2016, p. 3). There is no evidence provided for these assumptions.

It is a curious fact that when 'evidence' is tendered it seems to take the form of assertions regarding savings made in Auckland. This is entirely unsatisfactory because Auckland local government operates in a different country under different laws and industrial relations environment and is not part of a federal system like Australia. Moreover, assertions about initial savings are of little relevance if the said assertions are not supported by data from audited financial statements.

In point of fact, the data from the four full financial years following the 2010 Auckland amalgamation shows that the annualised rate of growth in employee expense (in nominal terms) sits at a compound rate of 6.54% p.a. which appears rather high by Australian standards. However, we do not assert that this evidence is directly applicable to the NSW amalgamations: we simply make mention of it in order to clarify some of the misinformation on the public domain. Moreover, since August 2015 the New Zealand Local Government Commission has been assessing an application for the de-amalgamation of Auckland. It is a curious fact that since this time there has been very little appetite for comparing NSW amalgamation proposals to the Auckland case.

The most relevant evidence for the potential savings arising from NSW amalgamations is the financial data subsequent to the March 2008 Queensland amalgamations. Unfortunately, because the amalgamations occurred part way through a financial year it is not possible to generate reliable and comparable evidence of *initial* savings in employee expense. However, it is possible to track the audited financial data to ascertain: (i) whether it is reasonable to expect large reductions in employee expenses following the three year moratorium on forced amalgamations and (ii) whether initial savings in staff expenditure might have been eroded by subsequent higher rates of growth amongst the amalgamated cohort of councils. It is important to note that Queensland also employed a moratorium on forced redundancies for the first three years.

Table 1 provides details of the mean annualised growth in staff expenditure disaggregated into 'amalgamated' and 'non-amalgamated' cohorts of Queensland councils. The periods cited are the financial years and all rows relate to the average annualised rate of growth since the end of the 2009 financial year. Thus, the last row contains six periods of growth. Growth is presented in nominal terms in order to avoid possible errors in inflating the data.

Table 1. Queensland Employee Expense: Mean Annual Change, 2009 to 2015 (standard deviation in parentheses).

Period	Non-Amalgamated Councils	Amalgamated Councils[3]
2009 to 2010	10.272% (14.406)	12.037% (18.550)
2009 to 2011	6.708% (8.780)	9.000% (8.961)
2009 to 2012	6.031% (5.674)	7.795% (6.331)
2009 to 2013	6.033% (5.088)	6.404% (5.369)
2009 to 2014	5.098% (3.564)	6.140% (4.862)
2009 to 2015	3.724% (2.985)	4.997% (4.280)

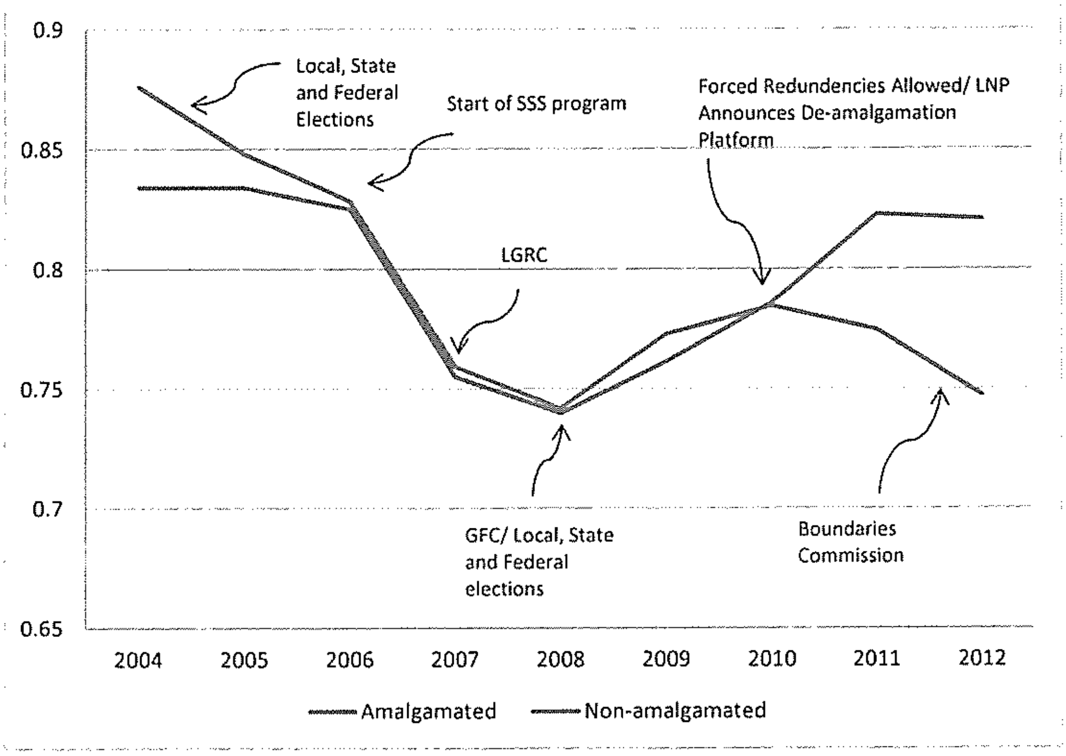
Source: 2009 data from *Queensland Local Government Comparative Information 2008-09*, Department of Infrastructure and Planning 2010, verified to individual financial statements. All other years from audited financial statements.

It is clear that there is no reason to expect a significant and enduring reduction in staff expenditure after the expiration of the moratorium on forced redundancy. Moreover, it is clear that the average annualised rate of growth for the amalgamated cohort has been greater than that of the non-amalgamated cohort for all of the years and this difference shows no sign of dissipating. It is therefore, very unlikely that additional savings assumed in the KPMG model will occur after the moratorium on forced amalgamation. We also note that s218CA(2) of the Local Government Act (1993) seems to impose enduring constraints on staff redundancies in rural centres that make the assumed savings even less likely. In addition, the evidence from the audited financial statements of Queensland councils seems to suggest that initial savings arising from the termination of senior management may well be eroded by faster annualised rates of growth in employee expenditure over the foreseeable future.

We conclude our examination of relevant and comparable evidence with a consideration of the efficiency outcomes arising from the 2008 Queensland amalgamations. Technical efficiency relates to the conversion of inputs (staff and capital) into outputs (best proxied by the disaggregated number of assessments and length of council roads). Figure 1 is a graph of the mean technical efficiency of the 'amalgamated' and 'non-amalgamated' Queensland councils prior to and following the 2008 amalgamations. Page 7 of the *Merger Proposal* refers to efficiency savings arising from the proposed forced amalgamation. It is likely that the term 'efficiency' has been used loosely in the *Merger Proposal*. However, it does raise the point as to whether efficiency might be expected to improve subsequent to amalgamation. The evidence presented in Figure 1, suggests that it would be incredibly optimistic to expect an improvement in technical efficiency following the amalgamation of Cootamundra and Gundagai shires.

[3] Excludes the four de-amalgamated councils from the 2014 financial year onwards.

Figure 1. Average Technical Efficiency Before and After the Queensland Amalgamations.



CRS Efficiency Analysis, 2014

In order to answer questions regarding whether a merged Cootamundra-Gundagai might be expected to have improved technical efficiency we conducted a data envelopment analysis along the lines proposed by Cooper, Seiford and Tone (2007)[4]. The results are presented in Table 2.

Table 2. Technical Efficiency and Scale of Gundagai Shire, Cootamundra Shire and the Proposed Gundagai-Cootamundra Forced Amalgamation, 2014[5].

Council	CRS Efficiency	Scale	Returns to Scale
Gundagai	0.667739[6]	0.946302	Increasing Returns to Scale (under-scaled)
Cootamundra	0.681195	0.907215	Increasing Returns to Scale
Gundagai-Cootamundra	0.643605	0.918999	Decreasing Returns to Scale (over-scaled)

The table shows that each of the existing stand-alone shires have slightly superior technical efficiency when compared with the technical efficiency of a merged entity predicated on a simple summation of extant inputs and outputs. However, the model does not take account of efficiencies which may result from the amalgamation which, if correct, would be reflected in reduced inputs. Our calculations suggest that in order for the amalgamated entity to attain the same technical efficiency currently exhibited by the stand-alone Gundagai shire, inputs would need to be reduced by just over $700,000. We note that the savings predicted in the *Merger Proposal* over the first 20 years equate to around $150,000 p.a. and that 'the proposed merger is expected to generate on average $400,000 in savings every year from 2020 onwards' (NSW Government, 2016, p. 8). One might therefore conclude that even if the NSW Government projected savings were to materialise the amalgamated entity would still operate with inferior technical efficiency when compared with stand-alone levels.

[4] See, also Coelli et al (2005) for an introduction to data envelopment analysis.
[5] 2014 is the most recent data available for disaggregate number of assessments required for DEA outputs. We also note that the DEA has been bootstrapped for added assurance.
[6] Efficiency ranges from 0 (perfectly inefficient) through to 1 (perfectly efficient).

Equity: Rates and Fee Comparative Data and Service Harmonisation

In many respects efficiency pales into insignificance when compared to matters of equity and democratic voice. After all, if efficiency was the sole concern of citizens then there would be little role for government given that economists have long held that competitive markets are the most efficient vehicles for the allocation of scarce resources (Backhouse, 2010). However, it appears that citizens do value equity and democratic voice above efficiency. Evidence of this might be found in the passionate defence of universal healthcare and the provision of national defence forces. A further example of the importance of matters other than efficiency can be found in the negative association between citizen satisfaction and efficiency in a seven year panel regression of rural Victorian council data (see, Table 3). A comparable study of NSW councils cannot be made due to the absence of reliable citizen satisfaction data.

Table 3. The Association Between Citizen Satisfaction and Efficiency Rural Victorian Councils, 2009-2015.

Regressor	Coefficient (standard error in Parentheses)
Efficiency	-0.0755* (0.0003)
Population Size	-0.0003 (0.0004)
Debt per Assessment	0.0011 (0.0011)
Coefficient of Determination:	0.4092

* significant at the 5% level.

One important measure of equity can be found in a comparison of the existing municipal imposts placed on residents by each of the councils proposed for amalgamation. Table 4 provides details of the typical imposts on residents based on the Office of Local Government 2013-14 time series data. It is acknowledged that the Gundagai Special Rate Variation contained in the June 2014 IPART determination has mostly closed the gap in average residential rates however, very significant disparities continue to exist between the typical rates paid for farm and business assessments in the two jurisdictions. The *Merger Proposal* outlines the 'NSW Government's policy to freeze existing rate paths for four years'[7] (NSW

[7] We note that the Premier (2015) requested IPART to 'provide the legislative and regulatory approach to achieve the Government's policy of freezing existing rate paths for four years for newly merged councils'. Given that the IPART review is not due until December 2016, there can be no certainty that the NSW Government can indeed honour its commitment. Moreover, the Premier (2015) also requested IPART to examine 'the impact of the current rating system on residents and businesses of a merged council and the capacity of the council to establish a new equitable system of rating and transition to it in a fair and timely manner'. Given the timeframe for the IPART response it is incredibly difficult to see how the Boundaries

Government, 2016, p. 2). Presumably this policy has been developed to mitigate public disquiet associated with increases to rates pursuant to rate harmonisation following amalgamation. However, it should be noted that the policy merely delays changes to rates as a result of harmonisation: at some point in time harmonisation will occur and some residents will undoubtable pay more and others may pay less[8]. In the meantime, the policy sets up a serious equity problem. Should the amalgamation occur, residents from the previous two shires will naturally expect to receive the same level and quality of municipal goods and services. Previous research (see, for example, Dur and Staal 2008; Steiner 2003) demonstrates that service quality is invariably increased to the highest level experienced by residents in the constituent councils. This is to be expected; failure to harmonise service levels would mean that the amalgamated entity would really be two quasi-councils merged in name only whilst a decrease in service levels would be politically unpalatable. The equity problem arises because residents in Cootamundra will be expected to pay considerably higher taxes for substantially the same services as those enjoyed by Gundagai residents. Clearly this fails to pass the fairness test.

In addition, it should be noted that the problem of harmonising services – generally at the highest level enjoyed by constituent councils – explains why amalgamations frequently fail to deliver the benefits assumed in the planning phase. It appears that KPMG has entirely neglected to include the increase in cost of municipal services required as a result of municipal service harmonisation, thus considerably over-estimating the likely benefits arising from amalgamation. Some examples of services which will need to be harmonised include:

- Gundagai residents have rubbish collected on a fortnightly basis whilst Cootamundra residents have rubbish collected weekly. Harmonisation of this service would result in a near doubling of rubbish collection costs in Gundagai.
- Gundagai has extensive cycle-ways whilst Cootamundra desires a similar cycle-way network. Significant capital expenditure will be required to harmonise this municipal service.
- Cootamundra has an indoor heated swimming pool. It is only reasonable to expect that the residents in Gundagai would demand a similar level of council services, particularly in view of the large distance between the two centres. Given the capital cost of $2.35 million for the indoor pool it is easy to see how service harmonisation might quickly erode the assumed benefits of amalgamation and indeed result in a nett amalgamation disadvantage for the communities (Cootamundra Shire Council, 2014).

This is just a subset of the many municipal services which will need to be harmonised following an amalgamation.

Commission or the Minister could possibly assess mergers in response to s263(3)(a) of the Local Government Act (1993).

[8] We note that there is little if any evidence to suggest that amalgamations might reduce rates. Some extant evidence is available in relation to the 2004 Clarence Valley Council merger. The compound growth rate for rates and charges of constituent councils in 2002/03 through to Clarence Valley Council in 2013/14 was 6.011% p.a. We note that the average compound growth rate for NSW over the same period was just 5.497% (also in nominal terms). Moreover, the November 2015 IPART SRV determination for Clarence Valley Council approved a total cumulative increase of 37%.

Table 4. Average Municipal Impost

Council	Average Residential Rates	Average Farm Rates	Average Business Rates	Typical Water and Sewer Charge	Average Domestic Waste Charge	Total Assessments
Cootamundra	566.28	2255.68	1706.21	1062	303.01	4103
Gundagai	434.93	1967.81	505.88	1123	283.92	2539

Source: OLG (2013-14)

2015 Financial Year Assessment Data (*estimate* of average in parentheses[9])

Council	Average Residential Rates	Average Farm Rates	Average Business Rates
Cootamundra	1,929,000 (598.88)	1,220,000 (2310.61)	617,000 (1742.94)
Gundagai	574,000 (567.85)	2,024,000 (2,171.67)	99,000 (582.35)

[9] Average imposts are calculated using the number of assessments in 2014 from the Office of Local Government Time Series data.

Assumption of Explicit and Implicit Liabilities

When two or more councils are amalgamated residents assume a portion of the implicit and explicit liabilities. Implicit liabilities include items such as infrastructure backlogs whilst explicit liabilities relate to items such as debt instruments.

Table 5 provides details of the infrastructure burdens at each of the existing councils. It will be noted that Gundagai significantly reduced the quantum of estimated cost to bring assets to a satisfactory standard in 2015 as a result of *inter alia* the execution of the main street redevelopment which was the subject of the Gundagai Special Rate Variation (SRV) and associated debt instrument.

Table 6 presents the 2015 data on implied liabilities in per assessment terms along with the data for explicit liabilities. As can be seen from the last column, the forced amalgamation of the two shires would involve the assumption of a small quantum of additional debt by the residents of Gundagai. However, if we examine the fifth column – nett financial liabilities, which include a consideration of the quantum of current assets – then it is clear that the amalgamation would result in the transfer of nett wealth from the residents of Cootamundra to the residents of Gundagai. In per assessment terms the nett financial liabilities data suggests that Cootamundra will be $156 worse off and Gundagai residents approximately $251 dollars better off. There are thus clear winners and losers implied by the *Merger Proposal*: it will not be an equitable amalgamation.

Table 5. Implicit Liabilities

Special Schedule 7, 2014 $'000

Council	Estimated Cost to Bring to Satisfactory Standard	Required Annual Maintenance	Actual Annual Maintenance	Written Down Value
Cootamundra	6,468	2,335	2,686	113,287
Gundagai	5,179	1,815	1,433	154,323

Special Schedule 7, 2015 $'000

Council	Estimated Cost to Bring to Satisfactory Standard	Required Annual Maintenance	Actual Annual maintenance	Written Down Value
Cootamundra	5,152	2,560	2,560	154,168
Gundagai	60	1,026	1,407	164,069

Table 6. Explicit and Implicit Liabilities 2015 (per assessment in parentheses).

Council	Current Assets	Current Liabilities	Non-Current Liabilities	Nett Financial Liabilities[10]	Implied Liabilities	Total Explicit and Implicit Liabilities
Cootamundra (4103)	17,741 (4.324)	3,398 (0.828)	1,158 (0.282)	-13,185 (-3.214)	5,152 (1.256)	9,708 (2.366)
Gundagai (2539)	12,858 (5.064)	2,713 (1.069)	3,017 (1.188)	-7,128 (-2.807)	60 (0.024)	5,790 (2.280)
Cootamundra-Gundagai (6,642)	30,599 (4.607)	6,111 (0.920)	4,175 (0.629)	-20,313 (-3.058)	5,212 (0.785)	15,498 (2.333)

Source: Cootamundra Shire and Gundagai Shire Audited Financial Statements.

[10] Nett financial liabilities are total liabilities less current assets

Political Representation Comparative Data

It is possible that the *Merger Proposal* was prepared in some haste which would account for many instances where incomplete information has been provided to residents (such as the incomplete information on current levels of rates and fees). One further example of incomplete information is the data presented in the *Merger Proposal* in relation to political representation. Just a single exemplar council is provided by way of comparison for the level of democratic representation subsequent to a forced amalgamation. This is clearly unsatisfactory.

Table 7. Political Representation.

Council	Number of Councillors	Residents per Councillor
Cootamundra	9	861
Gundagai	8	469
Cootamundra-Gundagai	9	1,278
Unaffected Group 9 Councils Average	9.1	355.3
Unaffected Group 10 Councils Average	9.2	771.3
Unaffected Group 11 Councils Average	9.5	1621.9

Source: Office of Local Government Time Series data 2013-14.

As can be seen in Table 7 there are various relevant measures of democratic representation. At present Cootamundra is classified as a DLG 10 council and Gundagai a DLG 9 council. It appears that the proposed amalgamated entity would be classified as DLG 11. Both Gundagai and Cootamundra have slightly lower democratic representation than their relevant peers. Moreover, the level of representation would be diluted substantially if the *Merger Proposal* were to be implemented. It is a curious fact that changing the level of democratic representation for a council (via a change in the number of councillors or wards) requires a constitutional referendum under s 16 of the Local Government Act (1993). Presumably this is to protect the democratic integrity of local government. However, boundary change (including forced amalgamation) does not require a constitutional referendum despite the fact that it has a far greater impact on democratic representation. We note that s 265 of the Local Government Act (1993) allows for the Boundary Commission to conduct a poll should it choose to do so. We also note that Premier Baird in his media release of 18th December promised that 'the community would have the opportunity to have a say on the NSW Government's vision for local government in NSW'. It is thus not unreasonable to expect that Mr Baird and Mr Toole might request the Boundaries Commission to undertake a poll of resident attitudes in response to s265 of the Local Government Act (1993). The only conceivable reason for denying residents a voice on the amalgamation question is that the official result might prove politically unpalatable.

Establishing Cooperation in an Amalgamated Entity

An application of Axelrod's (1984) seminal work on Cooperation Theory would suggest that the proposal to construct a nine member council is likely to result in the extant council with the largest population (Cootamundra) dominating the decision making of the amalgamated entity. Whether wards are created or not will be largely immaterial to the outcome: in rural communities individuals are well aware of an aspiring representative's domicile. Therefore, it seems that the amalgamation will not be a *merger* but rather the *takeover* of political decision making of the smaller community by the larger.

Unfortunately, precious little thought has gone into how to make a post-amalgamated council work and thus avoid the devastation of de-amalgamation activism which has followed recent amalgamations in Queensland and Auckland (see, Drew and Dollery (2014, 2015) for a discussion on the conditions which promote de-amalgamation activism).

The pre-requisite of cooperation is equal power relationships (Axelrod, 1984). Cootamundra has around two-thirds of the population or 62% or the assessments of the proposed amalgamated entity. It follows that 5 or 6 of the representatives of the amalgamated entity will be domiciled in Cootamundra. Given that representatives are beholden to the communities from which they are elected there is an obvious rational choice incentive for Cootamundra representatives to prioritise Cootamundra over Gundagai in decision making (Weingast *et al.* 1981). Altruism is nice, but it doesn't lead to re-election. Moreover, it appears to be a relatively rare commodity in the 21st century. Thus, the voting powers of the 3 or 4 Gundagai representatives will be largely irrelevant in an amalgamated entity with 9 councillors (as outlined in the *Merger Proposal*), as will be the voice of Gundagai residents.

We note that the Minister 'is proposing all councils be comprised of odd numbers of Councillors to prevent voting deadlocks' (ABC, 2015). Presumably this is in response to the circumstances which lead up to the de-amalgamation of Delatite Shire (Drew and Dollery, 2015). However, the establishment of councils with odd numbers of elected representatives still resulted in a number of de-amalgamations and de-amalgamation bids in Queensland. Therefore, extant evidence suggests that the proposal for odd numbers of councillors may be unwise: it is true that even numbered councils *may* not result in the evolution of co-operation, however odd numbers of councillors will *certainly* not lead to cooperation.

In addition, Axelrod (1984) outlines a number of other factors which are critical to the evolution of cooperation such as: frequent voting interactions, enlarging the shadow of the future and avoiding points of initial conflict. It appears that recent innovations by the NSW Government such as reducing the number of council meetings, reports of delayed elections and the Stronger Community Fund are the complete anti-thesis of what is required to promote cooperation and cohesion in forced amalgamated communities. In particular, Stronger Community Funds devoid of conditions relating to how, when and where the money might be spent set up an environment conducive to early conflicts.

If the Government proceeds with its various plans which seem to promote uncooperative behaviour it is reasonable to expect that a large portion of residents may, rightly or wrongly, feel that they have lost all political voice and agitate for de-amalgamation. De-amalgamation must be considered a real and present danger for any forcibly amalgamated entity given the high frequency of de-amalgamations in Australia (Victoria and Queensland) and abroad (Quebec and the petition to de-amalgamate Auckland). It thus would have been prudent to create conditions conducive to co-operation.

Finally, we note that the *Merger Proposal* acknowledges the success of the Riverina Eastern Regional Organisation of Councils (REROC). IPART (2015, p.177) also noted that 'REROC demonstrates its success in increasing the scale and capacity of its member organisations on a range of measures and plans to become the pilot JO for the region'. It is thus rather surprising that the *Merger Proposal* states that 'a new council will be better placed to deliver these services and projects into the future, without relying on voluntary collaboration' (NSW Government, 2016, p. 15). REROC is a long-standing voluntary collaboration which has operated for over two decades. Therefore there appears to be very little risk of the voluntary arrangement breaking down. Moreover, as we have seen, a merger still relies on co-operation: a fact sadly overlooked in the various forced merger proposals. In addition, the forced amalgamation of Cootamundra and Gundagai actually reduces the voice of the community on REROC by half, given that the collaboration operates on the basis of one vote per council (i.e. equal power relationships).

Local Economy

Section 263 of the Local Government Act (1993) requires the Boundaries Commission to give weight to matters relating to the community of interest that might exist under a proposed amalgamation. To this end the Minister's proposal contains details of: number of businesses, number of local jobs, largest sector, Australian Bureau of Statistics (ABS) Socio-Economic Index For Area (SEIFA) raw scores and data on dwelling types. We have augmented this scant data from the *Merger Proposal* with relevant data for the communities obtained from the Australian Bureau of Statistics (2015).

Some of the data suggests that the communities might be similar (for instance, average wage, education and language). However, most of the data paints a picture of completely disparate communities. In particular the state and national Socio Economic Index rankings compiled by the ABS suggests that there are very large differences between the communities (although it should be noted that Harden (which has a SEIFA state ranking of 35) is very similar to Cootamundra). It is unfortunate that the *Merger Proposal* plots this data on a poorly constructed graph rather than citing the actual index rankings. Moreover, the proportion of people identifying as Aboriginal or Torres Strait Islander is far lower for Gundagai: suggesting a significant diminution of First People's political voice in an amalgamated entity. The largest industry employer data (also cited on the OLG time series data) suggests very different economies. Moreover, the highest occupation category data suggests that most Cootamundra residents are employed as labourers (15.6%) whilst most Gundagai residents occupy management roles (22.7%). Finally, the number of new business entries as a proportion of existing businesses suggests that economic growth is far greater in Gundagai (7.97%) than Cootamundra (6.52%).

This data suggests *prima facie* evidence of great differences between the two communities. Moreover, even a brief visit to Cootamundra and Gundagai confirms the significant disparities indicated by the ABS (2015) data. Thus, there is every reason to believe that an amalgamated entity would lack a sense of common identity critical for the forging of a single community. When considered in association with the proposed political structure there is every reason to believe that an amalgamated entity will be subject to strong de-amalgamation activism in its first decade of operation.

Table 8. Data on Local Economy.

Council	Socio-Economic Rating (State Ranking)	SEIFA (National Ranking)	Aboriginal and Torres Strait Islanders (%)	Largest Industry Employer
Cootamundra	32 (3rd decile)	129 (3rd decile)	3.9	Retail Trade
Gundagai	64 (5th decile)	213 (4th decile)	2.5	Agriculture, forestry & fishing

Council	Average Wage	Non-English Speaking	Median Age	One Parent Families with Dependents
Cootamundra	41,391 (2011 data)	1.4%	47.6	10.59%
Gundagai	39,773 (2011 data)	1.5%	42.6	8.45%

Council	Persons with Post School Qualifications	Highest Occupation Category
Cootamundra (raw score 928)	48.7%	Labourers 15.6%
Gundagai (raw score 945)	45.6%	Managers 22.7%

Source: Australian Bureau of Statistics, 2015

Concluding Remarks

Our brief critique of the Minister's *Merger Proposal* demonstrates that a Cootamundra-Gundagai amalgamation fails to fulfil the conditions of s 263 of the Local Government Act (1993). Indeed, there is every indication that an amalgamation might actually result in a financial disadvantage for the two communities. Moreover, even a cursory examination of demographic data - or the briefest of visits to the shires - indicates that there is little if any 'community of interest'.

If the forced amalgamation is allowed to proceed it is very likely that there will be significant de-amalgamation activism. A single cohesive community is extremely unlikely to develop. Financial benefits will not be realised. Efficiency will be reduced. Political structures will mean that the voice of Gundagai residents will no longer be relevant in local decision making. There is a high probability that de-amalgamation will result and that this will have significant deleterious implications for the financial sustainability of the two communities. Academics will follow this and other amalgamations closely. Post-amalgamation assessments will be made and published against the lofty promises of the *Merger Proposal*. The legacy of the incumbent NSW Government may thus be tarnished by poorly constructed forced amalgamation proposals such as this.

Our recommendation is that the Minister withdraws this inadvisable *Merger Proposal* and focusses instead on voluntary amalgamations (such as the amalgamation proposed by Cootamundra and Harden) where a clear benefit for the communities involved is much more likely to be the outcome.

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