Report for Boundaries Commission

Executive Summary

A de-amalgamation of Cootamundra-Gundagai Regional Council will cost under $1.75 million, which will have a payback period of just over eight years. From the tenth year onwards, a de-amalgamation should save at least $451,000 per annum. It should be noted that the aforementioned figures are worse-case scenarios based on very detailed examination of cost structures which do not include any items which can't be assured. The figures quoted are therefore completely reliable and stand in stark contrast to the guesswork used for projections of supposed amalgamation savings. In all likelihood, a well-managed de-amalgamation will cost less upfront and will reap greater savings.

De-amalgamation will not immediately fix all of the problems that currently afflict the local government area. There will still likely be a need for increases to rates and charges to mitigate the financial problems that the community now faces, and it would be critical for any new local governments that might emerge to practice strict cost control for the foreseeable future. However, it seems that by removing substantial diseconomies of scale, political uncertainty, and righting the strong sense of injustice that pervades much of the community that we might better lay the foundations for a more promising future.

It would not be reasonable to lay *any* of the blame for the current circumstances with the existing cohort of Councillors and executive management at Cootamundra-Gundagai Regional Council. As will be shown in the remainder of this report, there were gross failures by KPMG and the (then) Boundaries Commission Delegate back in 2016 that have contributed strongly to the circumstances now faced. In addition, some of the previous Administrators and executives did not perform as well as one might have expected. The current leadership team, by way of contrast, have done an extraordinary job of trying to address the problems caused by others and should be congratulated for their fine efforts on behalf of the community.

It is also important to be mindful that the decisions made back in 2016 were made under a different Minister for Local Government and a different Premier. Moreover, the poor advice that was received came from agents who are not involved in this present process. Indeed, the current Minister and Boundaries Commission have acted with great integrity and wisdom thus far, and the community therefore have reason to feel confident that this process in 2020 will be handled fairly and be based on robust evidence.

In sum, this Boundaries Commission and the current Minister are provided with a unique opportunity to right past injustices, remove the burden of otherwise unavoidable diseconomies of scale, and set the people of the local government area on a course to better financial sustainability outcomes and I commend this expert report to their attention.

About the Author:

Joseph Drew is Associate Professor of Public Policy and Local Government in the Institute for Public Policy & Governance at the University of Technology Sydney and adjunct Professor at the Department of Business Administration, Tokyo Metropolitan University. His research interests focus on public finance, performance measurement, local government structural reform, natural law philosophy and corporate governance. Previously he worked in executive positions in the retail banking sector. His work has been recognised in the 2004 Australian College of Educators awards and he is the recipient of the University Medal (Griffith University, 2003) and the D H Drummond award (University of New England, 2014). Recent publications have appeared in *Public Administration, Local Government Studies, Public Administration Quarterly, Publius: The Journal of Federalism, the Australian Journal of Public Administration, Australian Journal of Political Science,* and *Policy & Politics*. He has consulted with numerous Victorian, Tasmanian, South Australian and New South Wales councils on accounting, finance and economic matters. Joseph has also been called as an expert witness for multiple Australian State and Federal Government Upper House inquiries into local public finance, as well as working on a number of projects of national significance abroad. His Co-authored book *Local Government in Australia: History, Theory and Public Policy* has recently been published by Springer Palgrave and he is contracted for a new book titled *Reforming Local Government*, for delivery in 2020. Joseph serves on the Editorial Board of Australia's highest ranked public administration journal – the *Australian Journal of Public Administration*.

Introduction

The Cootamundra-Regional Council was formed by Governor's proclamation on the 12 May 2016 from a forced amalgamation of the former Cootamundra and Gundagai councils respectively. This amalgamation was the culmination of a lengthy, and at times unpredictable, process stretching back to a 2011 inquiry into the financial sustainability of local government in New South Wales. During the course of this process the Independent Local Government Review Panel (ILGRP, 2013) suggested that Gundagai be amalgamated with Tumut and Cootamundra with Junee. Moreover, IPART (2015) provided its endorsement of both a voluntary proposal for Cootamundra to amalgamate with Harden and the suggestion for Gundagai to amalgamate with Tumut. It therefore came as something of a surprise when the (then) Minister of Local Government released his proposal to amalgamate Cootamundra with Gundagai in January 2016.

The Minister's proposal was based heavily on the work of KPMG which has been widely discredited in the media and scholarly literature (see, for example, Drew and Grant, 2017; Dollery and Drew, 2016). KPMG's 'analysis' was largely based on assumptions without any empirical evidence. By way of contrast, the former Gundagai council engaged a *bona fide* expert who conducted rigorous empirical analysis based on scholarly theory and concluded that the proposed amalgamation would result in diseconomies of scale and thus reduce the financial sustainability of the local government community (Drew, 2016). In his deliberations, the Boundaries Commission Delegate chose to place full reliance on the work of KPMG and disregarded the body of scholarship to which his attention had been drawn (Turner, 2016).

Three full financial years have passed, and we are now in a good position to test the assumptions made by KPMG (2016). It is important to do so, because the analysis can clarify the likely outcomes should a decision be made to reverse the earlier amalgamation. Indeed, s263(3) of the Local Government Act (NSW 1993) lists the financial advantages or disadvantages (including economies or diseconomies of scale) as the first of a series of matters that a Boundaries Commission must examine. Notably, the legislation does *not* list the correction of past injustices as a valid consideration for the Boundaries Commission. However, the Minister will no doubt wish to include these matters in her considerations, and I therefore detail some of the perceived injustices in the material that follows.

De-amalgamation is not a novel concept in the context of Australian local government. Delatite Shire in Victoria was de-amalgamated in October 2002, and four Queensland councils (Cairns, Rockhampton, Sunshine Coast, and Tablelands) were de-amalgamated in 2013 (Drew and Dollery, 2014b; 2015a). Moreover, two of these de-amalgamations have been studied in detail by scholars, and we thus have a good body of knowledge to draw on should a decision be made to de-amalgamate Cootamundra-Gundagai. Inevitably, de-amalgamation will involve extra work and some stress for staff. However, a recent survey of staff suggests that the far majority (around 73%) are in favour of de-amalgamation (a further 12.5% are undecided) largely because they believe it will result in significant benefits for the community over the medium term. These views should be given some serious consideration, given that it is the staff who work in the Council who are most likely to understand the full implications of a de-amalgamation. Moreover, the work and stress associated with de-amalgamation needs to be set against the substantial work that is still outstanding with respect to the 2016 amalgamation (harmonisation of rates and many fees and charges), as well as the stress engendered by constant uncertainty. Notably, the state political opposition has publicly declared, on a number of occasions, that they will allow de-amalgamation should they gain office and many people therefore consider de-amalgamation to be an inevitability given the strength of feeling in the community. Clearly if de-amalgamation is inevitable (as believed by many) then it is better that this occurs early on before more damage is inflicted on the community. Earlier intervention will also allow the current government to better protect its legacy (Drew, 2018).

In the next section I briefly outline the projections made by KPMG in the Ministers' Proposal of January 2016. I also provide a brief account of the TCorp assessments of financial sustainability for both councils prior to amalgamation, a review of the expert evidence tendered by the former Gundagai Shire, as well as an evaluation of the performance of the Delegate in executing his duties. Following this I review the financial performance of the local government area prior to and since amalgamation, in addition to reviewing the relevant financial performance ratios over the same period. I then analyse the relative technical efficiency of the local government area prior to and following amalgamation which is particularly important given that the relevant legislation places great emphasis on efficiency and associated concepts (such as economies and diseconomies of scale). Thereafter, I outline both the one-off costs of de-amalgamation as well as the ongoing savings that might be reasonably expected to arise from a boundary change. In the penultimate section I comment on the remainder of the criteria set out for the Boundaries Commission in Section 263 of the Act (1993). I conclude the report with some observations regarding the benefits of de-amalgamation for the citizens of Cootamundra-Gundagai.

Financial Sustainability, Amalgamation Projections and Boundaries Commission

The New South Wales (NSW) Treasury Corporation (TCorp) undertook financial sustainability reviews for the (then) Division of Local Government, following appointment in 2012. The reviews were based largely on ten financial sustainability ratios as well as some desktop analysis of financial statements. The ratios and benchmarks were the subject of some serious scholarly criticism in the peer review literature, as was the lack of transparency in arriving at an overall rating (see, for example, Drew and Dollery, 2014a; 2016). However, the sub-optimal assessments are the best evidence we have regarding the sustainability of these councils prior to amalgamation and are also important because the ILGRP and IPART both made later reliance on this work.

The TCorp completed its financial sustainability review of Cootamundra Council in March 2013 and concluded 'Council to be in a satisfactory[1] financial position' (TCorp, 2013a, p. 31). Moreover, it noted that 'both past performance and the financial forecasts support our findings that Council has sufficient financial capacity to service the additional borrowings proposed' (TCorp, 2013a, p. 31).

TCorp conducted a similar inquiry into the financial sustainability of Gundagai Council in April 2013. It concluded 'Council to be moderately sustainable in the short term with Council finding it increasingly difficult to fund infrastructure renewals in the medium to long term' (TCorp, 2013b, p. 28). The report expressed a concern that 'Council will not be able to maintain its assets at the current service level in the long term' (TCorp, 2013b, p.28).

To understand the conclusions reached by TCorp one must know the definitions of the terms 'sound' and 'moderate', as well as the distribution of councils. I reproduce the definitions from TCorp (2013c, p. 69) below:

> **Sound:** · A local government with an adequate capacity to meet its financial commitments in the short, medium and long term. While it is likely that it may have a record of minor to moderate operating deficits, the local government is expected to regularly report operating surpluses. It is likely able to address its operating deficits, manage major unforeseen financial shocks and any adverse changes in its business with minor or moderate revenue and/or expense adjustments. The expense adjustments are likely to result in some changes to the range of and/or quality of services offered. Its capacity to manage core business risks is sound.
>
> **Moderate** · A local government with an adequate capacity to meet its financial commitments in the short to medium term and an acceptable capacity in the long term. While it has some record of reporting minor to moderate operating deficits the local government may also have

[1] Curiously TCorp did not use the words later employed for the financial sustainability rankings in the case of Cootamundra. I have concluded that the word 'satisfactory' was used in a manner consistent with the later term 'sound' give the context of its use.

recently reported a significant operating deficit. It is likely able to address its operating deficits, manage unforeseen financial shocks and any adverse changes in its business, with moderate revenue and/or expense adjustments. The expense adjustments are likely to result in a number of changes to the range of and/or quality of services offered. Its capacity to manage core business risks is moderate.

The distribution of financial sustainability ratings is reproduced from page 10 of TCorp (2013c):

Table 1 - FSR Distribution

Rating	Count	Percentage
Very Strong	0	0.0%
Strong	2	1.3%
Sound	32	21.1%
Moderate	79	52.0%
Weak	34	22.4%
Very Weak	5	3.3%
Distressed	0	0.0%
Total	**152**	**100.0%**

Thus, it can be seen that TCorp considered Cootamundra to be somewhere in the top 20% of sustainable NSW councils, and Gundagai somewhere in the third quartile. Moreover, consistent with both of the definitions reproduced above, TCorp clearly believed both councils to have *at least* 'adequate capacity to meet its financial commitments in the short to medium term and an acceptable capacity in the long term' (TCorp, 2013c, p. 69).

Otherwise stated, the NSW Treasury Corporation believed both councils to be financially sustainable at the time of their review.

Some readers will be aware that a Fit for the Future ratio analysis was then completed by IPART (with contributions by Ernst & Young and Mr John Comrie a local government 'expert' from South Australia). To the dismay of many, this analysis of fitness for the future was even more unsatisfactory (in terms of methodology) than the earlier extremely synecdochical effort of TCorp (2013c). Now, the community was asked to believe that the financial sustainability of complex local governments could be somehow guessed at by the use of just seven ratios, one of which (the so-called efficiency ratio) didn't even measure what it purported to report on (IPART, 2015). Benchmarks were changed (for example, the Operating Ratio which previously had a benchmark of -4% was now assigned a higher benchmark of 0%), data known to be inaccurate was employed (see Drew and Dollery, 2015b; Drew and Grant, 2017), and implausible and inappropriate analytical techniques (linear regression for data which was clearly not linear) were used by IPART (2015) and collaborators. An over-arching criteria was introduced (a subjective judgement on adequate scale and capacity which essentially boiled down to whether the council had previously been identified by the Independent Local Government Review Panel, on the basis of no empirical evidence whatsoever, to be a suitable subject for amalgamation) with the effect that if a Council failed on this judgement then it was deemed to be *not* fit for the future. Clearly this work (ridiculed in the media and scholarly literature) can only be described as ‘amateurish’ by even the most well-disposed person and is thus not worthy of any consideration at all by anyone, given its obvious flaws.

Sometime towards the end of 2015 the Minister engaged the services of KPMG to ‘model’ the benefits of an amalgamation between Cootamundra and Gundagai Shires which formed the basis of the January 2016 Minister’s proposal. Modelling is a generous term for what actually took place –KPMG made some assumptions (based on no evidence whatsoever, which means they were truly ‘guestimates’), put the numbers into a spreadsheet to do some rudimentary arithmetic, made some more assumptions about future inflation rates to put the questionable arithmetic into nett present value terms (which made it sound far more sophisticated than it was), added in some substantial state government grants to make matters look more convincing, and declared a ‘benefit by up to $18 million from a merged council’ (NSW Government, 2016, p. 3).

When one reads into the report it becomes clear that the headline figure of $18 million included ‘NSW government funding of $15 million’ – which was a political decision to reward communities for submitting to amalgamations (there is no reason in principle why this $15 million could not have been given to non-amalgamated councils, in which case not amalgamating would have had a benefit of up to $15 million) (NSW Government, 2016, p. 3). So truly the projected benefit was really just up to ‘$3 million in net financial savings over 20 years’ (NSW Government, 2016, p. 3).The KPMG (NSW Government, 2016, p. 8) work proposed that the savings would occur in the following areas of expenditure:

- ‘streamlining senior management roles ($4 million);
- The redeployment of back office and administrative functions ($3 million); and
- Efficiencies generated through increased purchasing power of materials and contracts ($500,000)’

Otherwise stated KPMG predicted that there would be savings in the order of $7 million in employee costs, and savings of $500,000 in materials and contracts (both are specific line items in the audited financial statements). Both of these figures were apparently arrived at by guessing a percentage saving that might occur following amalgamation and multiplying the income statement line items through by the said percentage (see, KPMG, 2016). Moreover, the Ministers’ merger proposal informs us that we might ‘also expect to generate, on average, around $400,000 in savings every year from 2020 onwards’ (NSW Government, 2016, p. 8). Furthermore we were informed that merger savings could be reinvested to ‘improve infrastructure…enhance service delivery….reduce rate pressures’. This was the essence of the Ministers’ Proposal that the ‘suitably qualified’ Boundaries Commission Delegate – Mr John Turner – was asked to assess (NSW Government, 2015, p. 2).

Mr Turner was required under Part 3 of the Local Government Act (1993) to assess the Minister's proposal against eleven specific criteria. It is not possible to comment on all of his report, due to a need for brevity, but the assessment of certain criteria do rate a mention given that the conclusions drawn by the Delegate seem unreasonable for anyone who had received a high school education, and provides additional weight for the community claims of a misapprehension of bias[2].

Financial Impacts

Mr Turner took note of the TCorp financial sustainability ratings (without defining what they meant), detailed the projected benefits of KPMG (noting that they 'have come under sustained questioning and criticism' (Turner, 2016, page 3)), and referred to the 'Drew Report' on an incidental matter (which confirms that he read it), but nevertheless concluded that 'there is strong evidence that there will be significant financial benefits to all residents and ratepayers as a result of the merger' (Turner, 2016, p. 19). This is an extraordinary conclusion for anyone of his education and experience to have arrived at – especially given the contents of the report by Dr Drew (then of UNE) that Mr Turner referred to, which provided robust empirical evidence from previous amalgamations, as well as sophisticated data envelopment modelling to conclude that:

(i) 'There is no reason to expect a significant and enduring reduction in staff expenditure' (based on a table of employee expenditure data from the Queensland amalgamations which demonstrated staff expenditure had indeed risen at a higher rate for amalgamated councils than their non-amalgamated peers following the 2008 Queensland amalgamations (Drew, 2016, p. 5)). I have reproduced this evidence on employee cost outcomes following amalgamation in the appendix.

(ii) Efficiency of the amalgamated cohort in Queensland had significantly under-performed relative to their peer group following amalgamations (Drew, 2016, p. 6) – therefore suggesting that hopes of realising economies of scale from amalgamation could well prove illusory.

(iii) An amalgamation of Cootamundra and Gundagai shires would result in 'decreasing returns to scale' in the order of 'just over $700,000' per annum, even in the unlikely event that the KPMG projections of savings 'of around $150,000 p.a.' did indeed come to pass. The diseconomies of scale were projected to be just over 8 percent.

In sum, Mr Turner was asked to weigh the arithmetic based on guestimates employed by KPMG (for which no evidence had been produced), against a widely published and respected scholar who had provided evidence based on the most recent Australian amalgamation program in addition to sophisticated modelling based on actual data drawn from the audited financial statements. I will let the reader of this report decide if a reasonable person with Mr Turner's education and

[2] Owing to his former position as Deputy Leader of the Nationals, and the Nationals' member of Parliament for Myall Lakes.

experience could have been expected to place such absolute faith in the KPMG work given the material set before him.

Resident and Ratepayer Attitudes

Mr Turner (2016, p. 31) states that he was presented with an 'IRS Research phone survey of 403 LGA residents aged over 18 commissioned by the Council and conducted at around the same time as the Public Inquiry recorded that around 90 per cent of those surveyed in every category disagreed with the proposal to merge Gundagai Shire with Cootamundra Shire'. On the basis of this evidence, numbers (which are hotly contested) of attendees at a public meeting (on Thursday February 4, 2016 between the working hours of 2pm to 5pm), and 'impressions' garnered from written submissions he concluded that:

> 'the majority of the population did not have a strong attitude one way or the other concerning the merger proposal'.

I will leave it to the readers of this report to decide whether it was reasonable for an educated person well acquainted with survey methods (such as those employed by political pollsters which he would have observed closely during his political career) to have ignored statistical evidence in favour of mere impressions formed from reading written submissions (in the full knowledge that the community had not been informed by him that the number of written submissions would be the deciding factor in his assessment of community attitudes).

Service Delivery and Access

In response to submissions made regarding the substantial distance between Cootamundra and Gundagai (in the order of 58 km which can only be traversed by a secondary local road), Mr Turner (2016, p. 36) stated:

'Given the distance covered under the proposed LGA it would be reasonable to retain the full-service offices in both towns to minimise any disadvantage to residents'.

Mr Turner goes on to note that 'Cootamundra Shire notes in its submission to the inquiry that the likely time and distance separation means that the new council will need to run operationally as two distinct halves, north and south, working in parallel'. He comments approvingly that 'this is a practice undertaken by many councils who are responsible for covering large areas' (Turner, 2016, p. 36). Later in the report he repeats the observation 'that the distance and time taken to travel between the two town centres means it is most likely that two completely separate and almost fully staffed offices will need to be maintained in order to ensure the effective and equitable delivery of services' (Turner, 2016, p. 39).

These various statements suggest that Mr Turner was: (i) well aware that the amalgamated entity would have to maintain essentially two separate sets of staff and assets (presumably with an additional layer of management to co-ordinate the two offices), and (ii) was cognisant of the time and cost required to travel between the two centres. The question arises whether it was reasonable to believe the projections of savings in employee costs in the order of $7 million (over 20 years) given the concession that the two existing organisational structures would largely have to continue unchanged. It must also be asked whether it was reasonable for a Boundaries Commission Delegate who noted the time and cost of travel between the two centres to not question why this time and cost of travel (which is substantial and in the order of $150,000 p.a.[3] in direct costs alone (see my breakdown of de-amalgamation costs and benefits, below)) had clearly not been included in the KPMG modelling which formed the basis of the Ministers' Proposal (NSW government, 2016).

Concluding Comment on the Amalgamation Process

Clearly the consultants engaged by the (then) Minister failed to provide him with a satisfactory level of advice. Moreover, it is equally clear that the Boundaries Commission Delegate failed to perform his duties diligently at the level that might have been reasonably expected of someone with his education and political experience. The Minister and the government were thus badly let down and mislead by the various parties that were engaged by them. However, it needs to be noted that none of the Boundaries Commission criteria in S263 of the Act (1993) direct it to consider changes on the basis of righting injustices or grievous errors of judgement committed by previous Boundaries Commissions or agents of previous Ministers. Notably, the current Minister and Premier are not constrained by the legislative vacuum and will no doubt be keen to ensure that natural justice is ultimately observed. Critical to their decision-making calculus must be the magnitude of the fiscal damage inflicted on the Cootamundra-Gundagai communities as a result of poor advice and decision-making conducted on behalf of the NSW government back in 2016. It is to this matter that I now turn my attention.

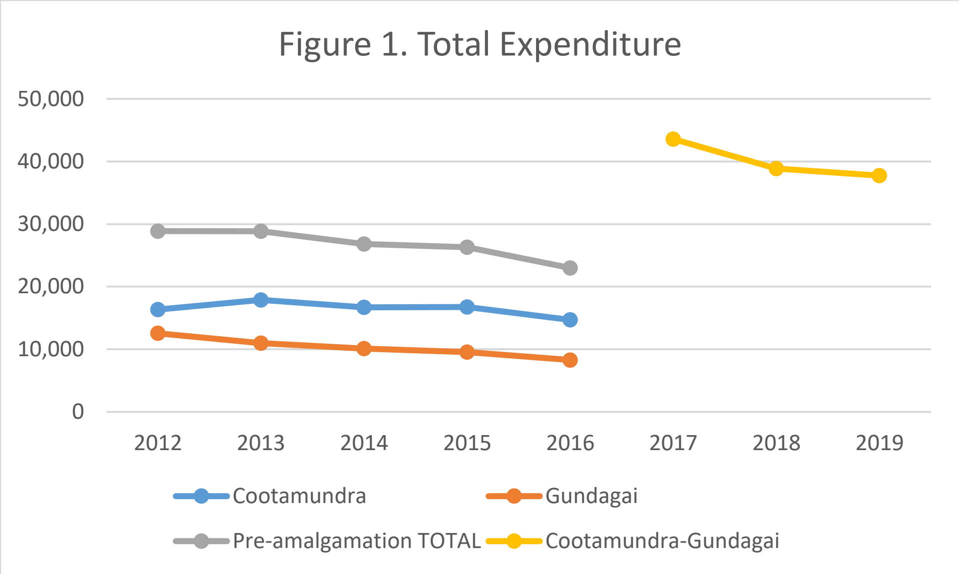
[3] Coincidentally this is the precise amount that Mr Turner (2016, p. 9) acknowledges was projected to be saved by KPMG – suggesting that the entire savings might have been eliminated had Mr Turner made reasonable inquiries regarding the obviously missing expenses from the 'modelling'.

Financial Performance of Cootamundra, Gundagai, and Cootamundra-Gundagai

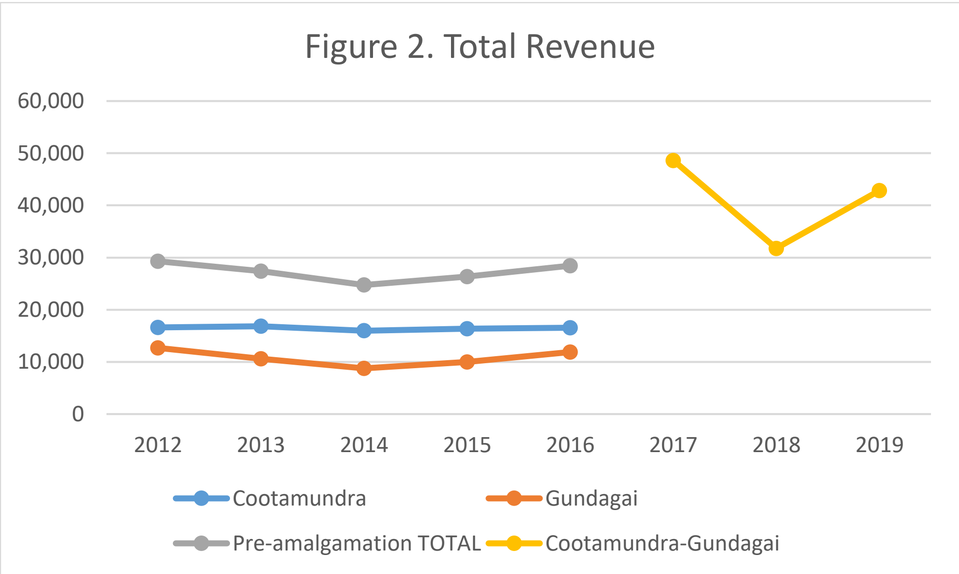
Three full financial years have now been completed since the amalgamation took place and we are thus in a good position to assess the accuracy of the KPMG projections upon which the (then) Minister, as well as the Boundaries Commission Delegate, placed so much reliance. Moreover, a review of the financial position of Cootamundra-Gundagai also provides us with an indication of the likely financial sustainability outcomes under the current boundary arrangements, and points to some of the benefits associated with the proposed de-amalgamation.

When examining the graphs that follow it is important to be mindful of a few matters. First, the 2016 financial year was cut short by a month-and-a-half, and the 2017 financial year was extended by the same time. Consequently, it is reasonable to expect a decrease in expenditure in 2016, and a concomitant increase in 2017. Accordingly, it might be prudent to emphasise comparisons between standard financial years – that is, the 2014 and 2015 financial years, compared to the 2018 and 2019 financial years. Second, to facilitate fair comparisons I have generated a pre-amalgamation total (coloured grey in the following graphs) which is simply the sum of the expenditure and other items of the two constituent councils for the period prior to amalgamation – this is completely reasonable and a common practice in the scholarly literature (see, for example, Drew and Dollery, 2014a). Third, the charts presented are in thousands of dollars, consistent with presentation of financial statements by NSW local governments. Fourth, 2019 figures were obtained from the most up-to-date version of the financial statements, which were in the process of being audited at the time that I wrote this report (significant changes to the draft numbers are not expected).

Figure 1 charts the total expenditure prior to and following amalgamation. Clearly there has been a large jump in expenditure (in the order of $12 million) which seems at odds with the projections made by KPMG. One must be mindful that in 2017 the reporting year was longer than usual and that there would have been one-off amalgamation costs in this period (and perhaps some even in the 2018 financial year). However, expenditure levels have only shifted down slightly in the most recent audited financial reports and it would be hard to argue that the 2019 financial year is not representative of the expenditure profile of Council.

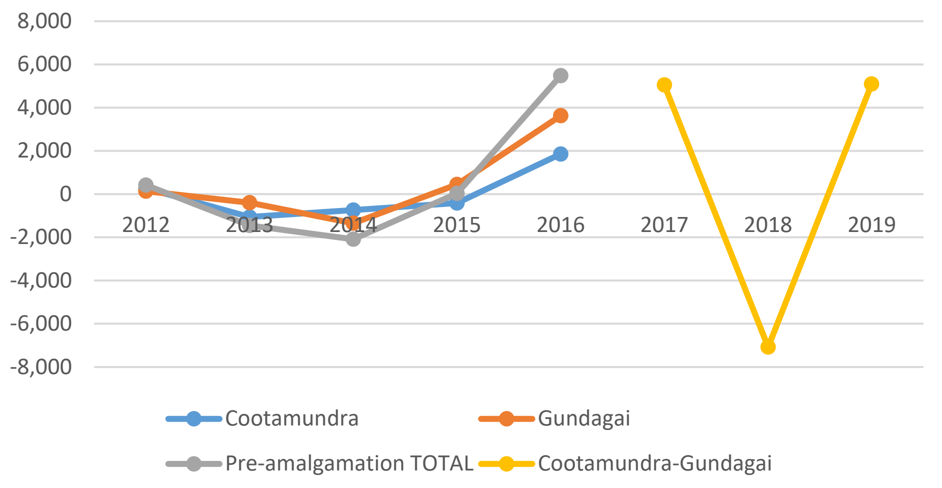


In Figure 2 I have plotted the revenue over time for the local government area. As can be seen from the graph, revenue has fluctuated significantly since amalgamation, principally as a result of extraordinary grant flows in 2017 (Stronger Community Fund $9 million), and 2019 (Stronger Communities Fund $3.4m), but also due to a doubling of fee revenue from the state government RMS in 2019. Thus, the increases in revenue seems to be very dependent on ongoing extraordinary grant income, which probably can't be relied on to continue into future years.

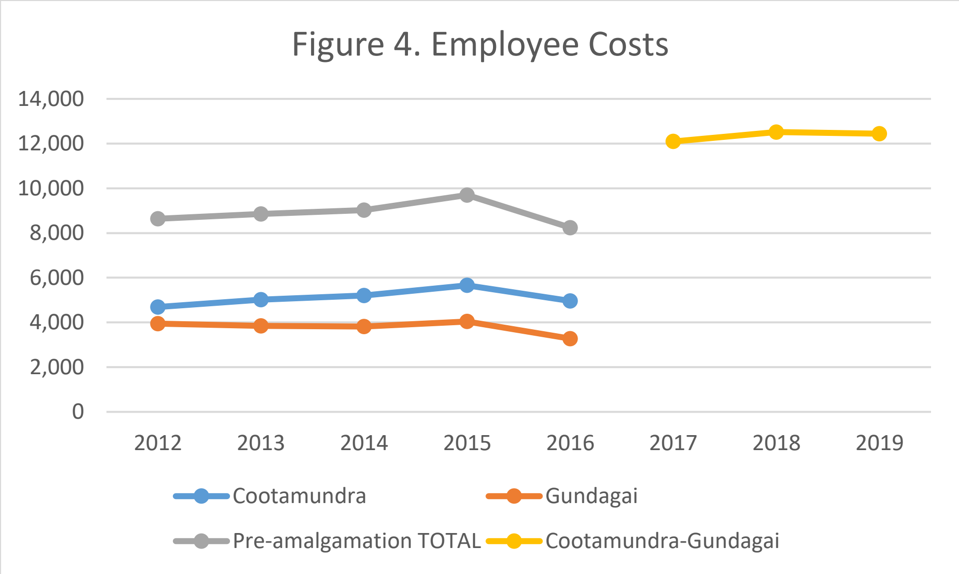


In Figure 3 I chart the nett operating result over time. As can be seen, the upward trend prior to amalgamation has been replaced by a highly fluctuating result since. Notably without the addition of $8.7 million in grant revenue in 2019, Cootamundra-Gundagai would still be well and truly in deficit. Moreover, by the NSW government preferred measure (operating result before grants provided for capital purposes) Council has been in deficit ever since amalgamation, and there is little reason to believe that this situation will change in the short term without considerable increases to fees and charges or local government taxation. One couldn't reasonably conclude on the basis of this data that the Cootamundra-Gundagai Regional Council is financially sustainable in the long-term.

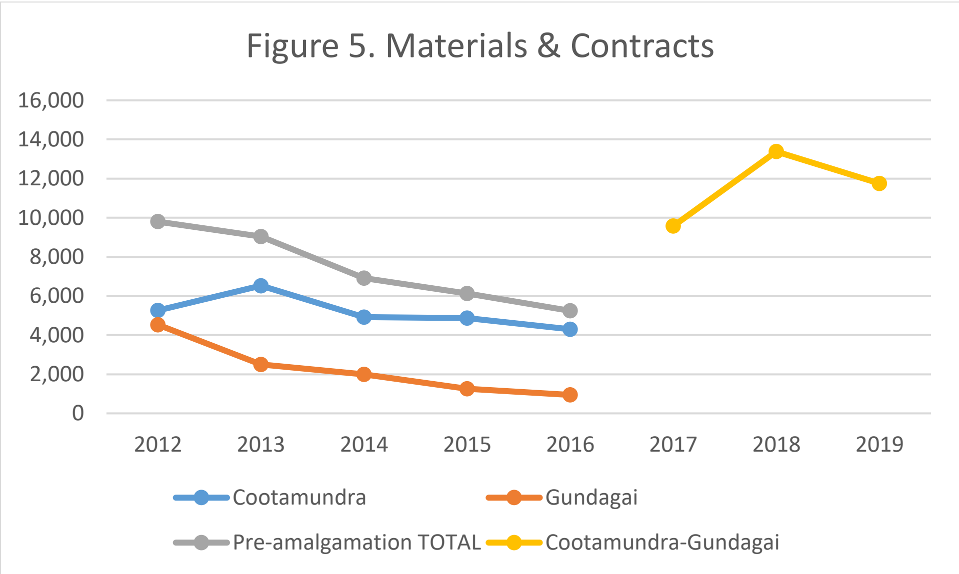
Figure 3. Nett Operating Result



Readers will recall from the previous section that KPMG projected that the majority of the post-amalgamation savings would occur in the area of employee costs ($7 million over 20 years was predicted). Moreover, it will be remembered that Dr Drew (2016) had provided the Boundary Commission Delegate with evidence that suggested staff expenditure was more likely to *increase* following amalgamation (see the appendix for the table provide to Mr Turner). Figure 4 compares the employee cost item from the audited financial statements over time. Comparing full financial years prior to and after amalgamation it is clear that employee costs have risen substantially (in the order of some $2.7 million). Thus, it seems that KPMG's guesswork was badly in error and that the actual outcomes were consistent with the evidence-base placed before the Delegate. This result is hardly surprising, given that the Delegate acknowledged that the new council would have to operate as two separate operations at Cootamundra and Gundagai respectively. The additional management required to co-ordinate two disparate operations, along with higher salaries paid to management commensurate with broader responsibilities, likely accounts for a good deal of the increase to the employee expenditure



It will be recalled that KPMG also projected savings in the order of half a million dollars in materials and contracts. Against this guesswork, the report by Drew modelled *dis*economies of scale of just over 8 percent (that is, higher expenditure than necessary in the order of 8 percent). Figure 5 charts the movement in this item from the audited financial statements over time. Once again, it seems that the KPMG projections were grossly inaccurate.

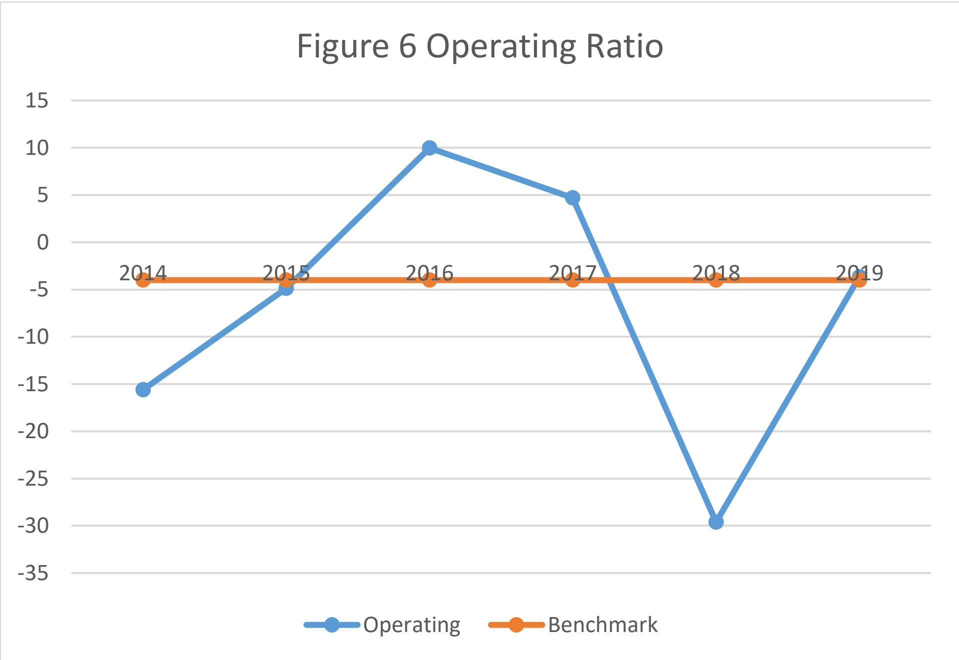


In sum, the analysis of audited financial data confirms that the KPMG projections were completely wrong. The amalgamation – far from reducing expenditure – has instead resulted in substantial increases to expenditure, consistent with the evidence presented to the Boundaries Commission Delegate in 2016. There is little reason to expect that the new higher employee costs will reduce in the future, in the absence of boundary reform, (indeed expenditure will likely increase when key positions such as the Deputy General Manager are filled). However, there is some potential that materials and contracts could be reduced in coming years under very strict budget control. Moreover, it is hard to see how the strong flows of extraordinary grant revenue could be expected to continue into future years. Without this revenue the

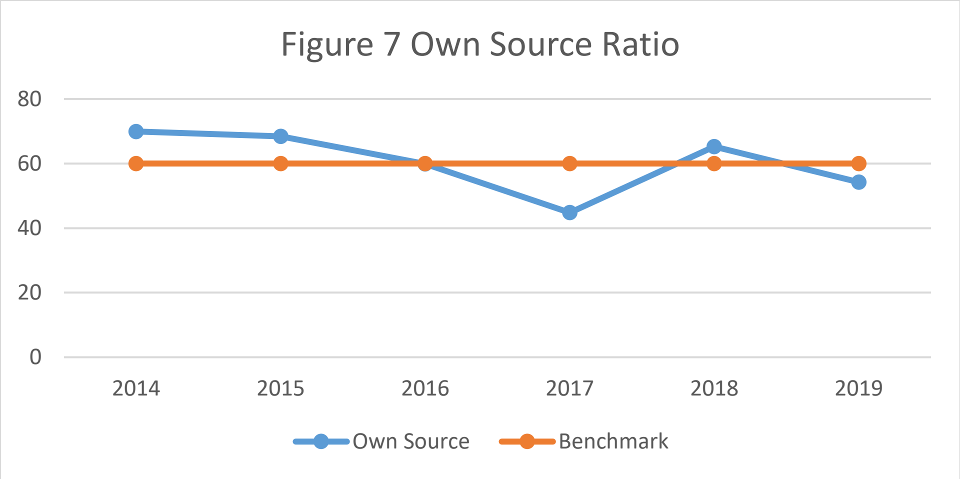
Cootamundra-Gundagai Regional Council will need to increase fees and rates substantially, in order to maintain a semblance of financial sustainability, in the absence of a de-amalgamation.

Readers will also recall that financial ratios were used by TCorp and IPART to measure the financial sustainability of local governments, and that performance against these (generally arbitrary) ratio benchmarks was used to determine which councils should be subject to amalgamation. If we follow the logic of this thinking through to its end, it is reasonable to expect that the ratios should be showing some sign of improvement after three full years since amalgamation. I have therefore charted the ratios for the period prior to and following the amalgamations. For the period prior to amalgamation I calculated a combined ratio which was the sum of individual ratio components of the constituent councils. This practice is consistent with the scholarly literature (see, Drew and Dollery, 2014a).

Figure 6 charts the operating ratio over time and I think it is pretty clear that the ratio fails to meet the benchmark for both of the standard financial years since amalgamation. Notably I have used the TCorp benchmark of -4%, were I to use the later IPART benchmark of 0, then matters would appear even less edifying.



A lot of emphasis was placed on the Own Source ratio during the amalgamation debates. Unfortunately, the ratio was poorly conceived and demonstrates a fundamental misconception of horizontal fiscal equalisation grants, as well as fiscal federalism. Nevertheless, the own source ratio has been below the NSW government benchmark since amalgamation, and by this measure suggests that the boundary change was not as successful as might have been hoped.



The unrestricted current ratio is a measure of liquidity – that is the ability of council to meet its financial obligations when they fall due. As can be seen from the graph liquidity has been reducing quickly since the spike in 2017 – however, it is at a satisfactory level and isn't a matter for immediate concern.

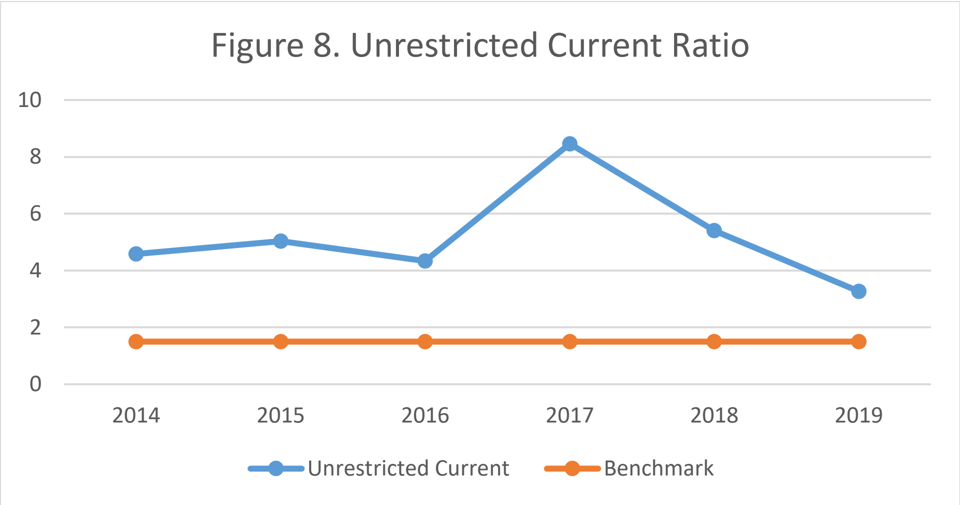
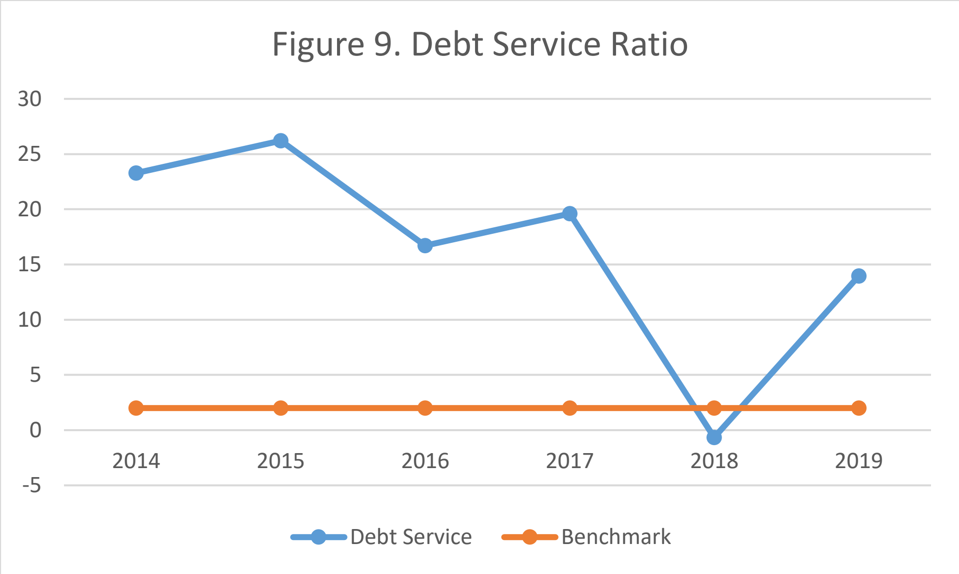
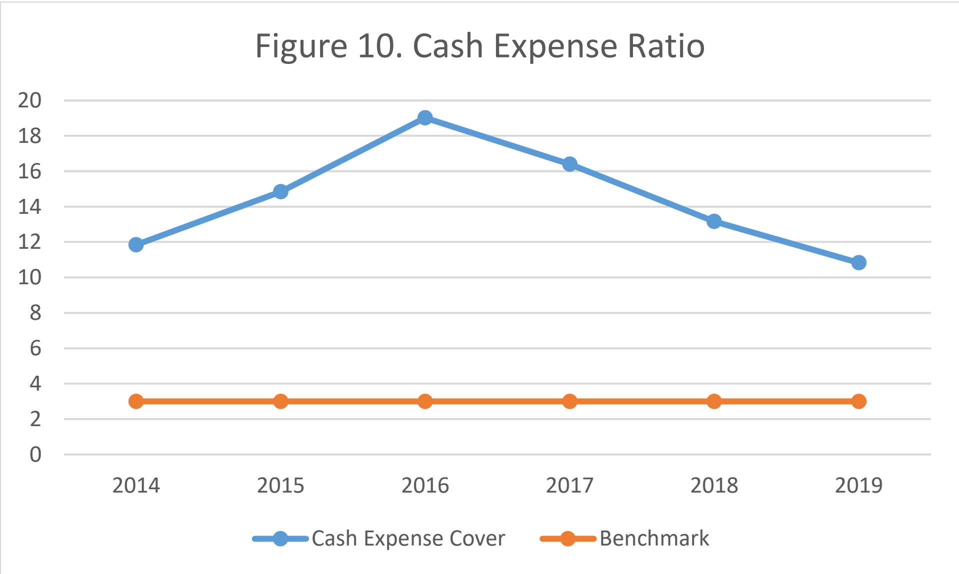


Figure 9 provides a picture of Council's ability to service debt. This has clearly diminished since amalgamation, and even dipped below the benchmark at one time, therefore suggesting that amalgamation may not have improved matters in this area of financial sustainability.

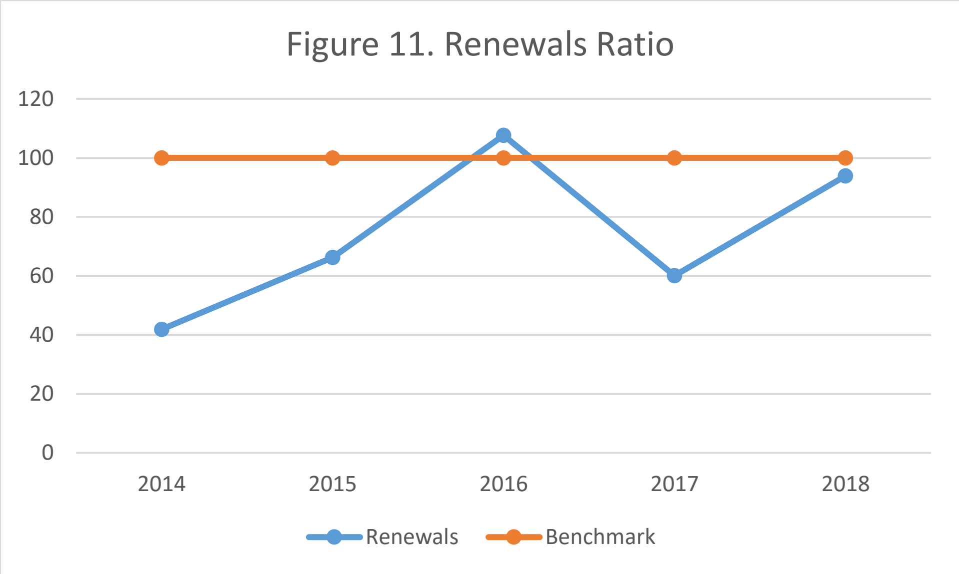


The cash expense ratio is another measure of liquidity. It has declined steadily since 2016, but is still well above the benchmark.

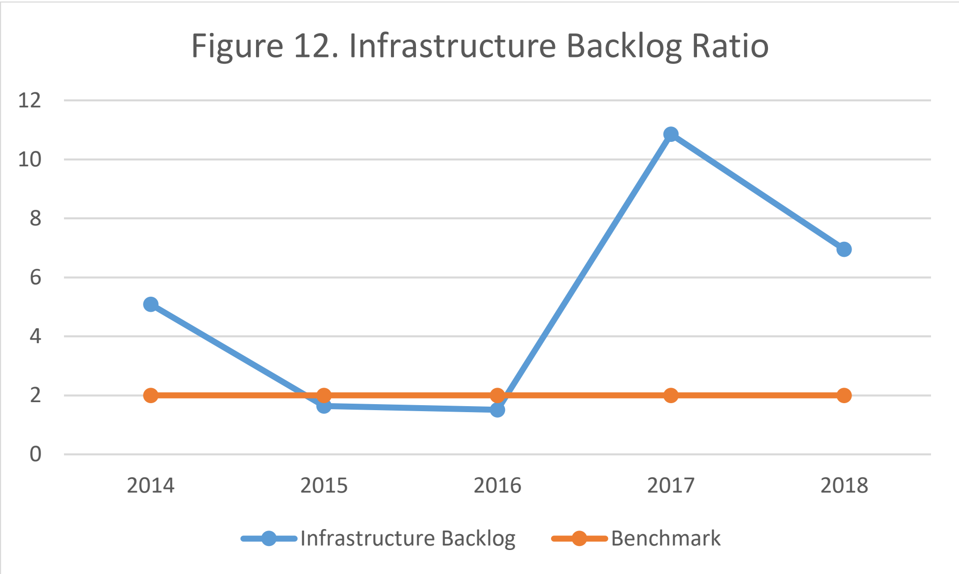


The next three ratios refer to asset management and were the subject of considerable contention during the 2011-2016 debate. Part of the problem with these ratios are that they involve some data which may be based on subjective criteria (Drew and Dollery, 2015b). It should also be noted that at the time of writing I did not have access to the 2019 data for these ratios.

Figure 11 purports to measure whether Council has renewed assets according to need. Prior to amalgamation, the constituent Councils rarely met this benchmark, and since amalgamation the benchmark still fails to be met.



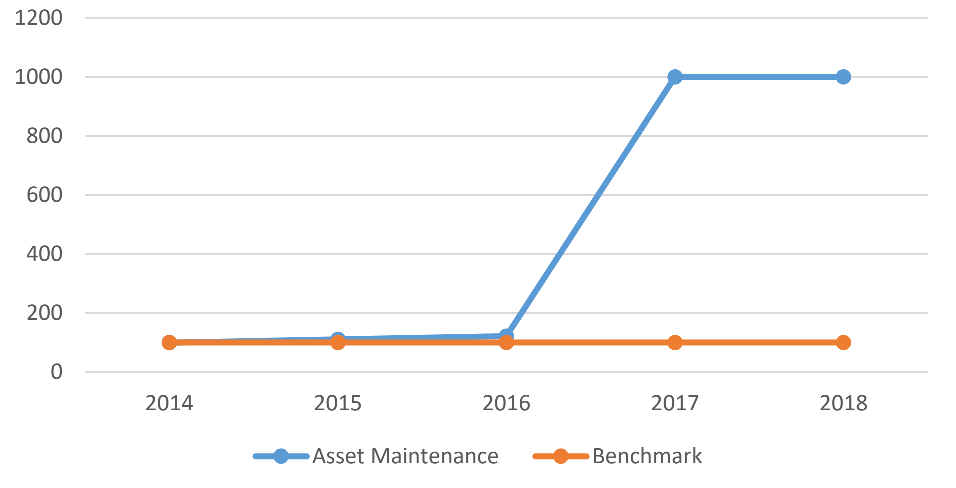
The infrastructure backlog was a key factor referred to in the Minister's Proposal (2016) and it appears to have been a major motivation for amalgamation. This ratio is the opposite of other measures in that achievement of the benchmark occurs when the blue line dips *below* the orange benchmark line. I think there can be little doubt that, by the measures provided in the financial statements, things have deteriorated significantly since amalgamation.



The asset maintenance ratio purports to measure whether Council has conducted required annual maintenance on its assets. I have set the last two years to '1000' because the Council has claimed that there is zero (0) required maintenance, which would yield the result of infinity[4]. By the data provided in the financial statements it appears that performance in this metric has benefited enormously by the amalgamation.

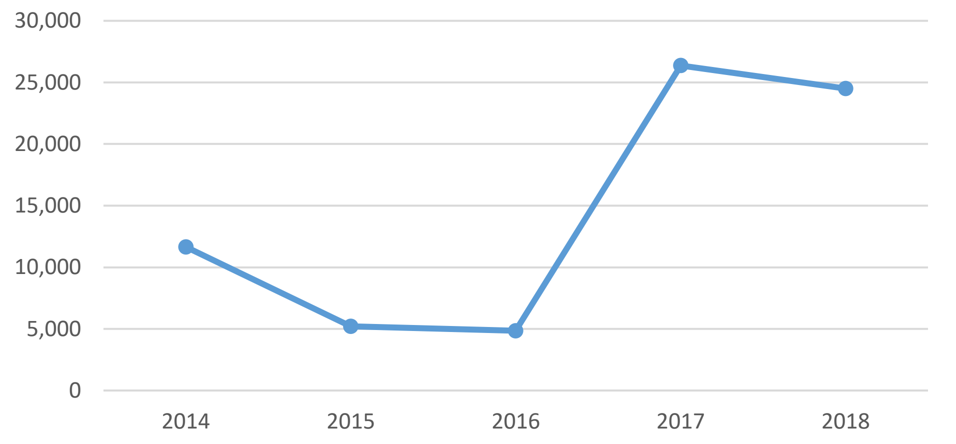
[4] Not zero as stated in the financial statements, because in mathematics anything divided by zero yields infinity.

Figure 13. Asset Maintenance Ratio



In Figure 14 I provide details of the cost to bring assets up to a satisfactory standard, which was also a point of great contention during the amalgamation debate. The definition for this data is extremely subjective (what is ‘satisfactory’ or, more recently, ‘agreed’) and definitional drift means that it is difficult to form any reliable conclusions based on the data stated by *any* Council.

Figure 14. Cost to Bring Assets to Satisfactory Standard



It might be noted that the ‘efficiency’ ratio (employed by IPART in its Fit for the Future assessments) has not been calculated and reported here as it was very misleading – given that it used data known to be inaccurate, and employed an empirical methodology that was obviously inappropriate (Drew and Dollery, 2015b). However, efficiency *is* an important aspect of financial sustainability and a major motivation for amalgamation according to the ILGRP, KPMG and NSW Government. Moreover, efficiency is specifically referred to in s263 of the Act (1993) as a matter that the Boundaries Commission must consider. It is therefore appropriate to measure Council efficiency over time and this is the matter to which I now turn my attention.

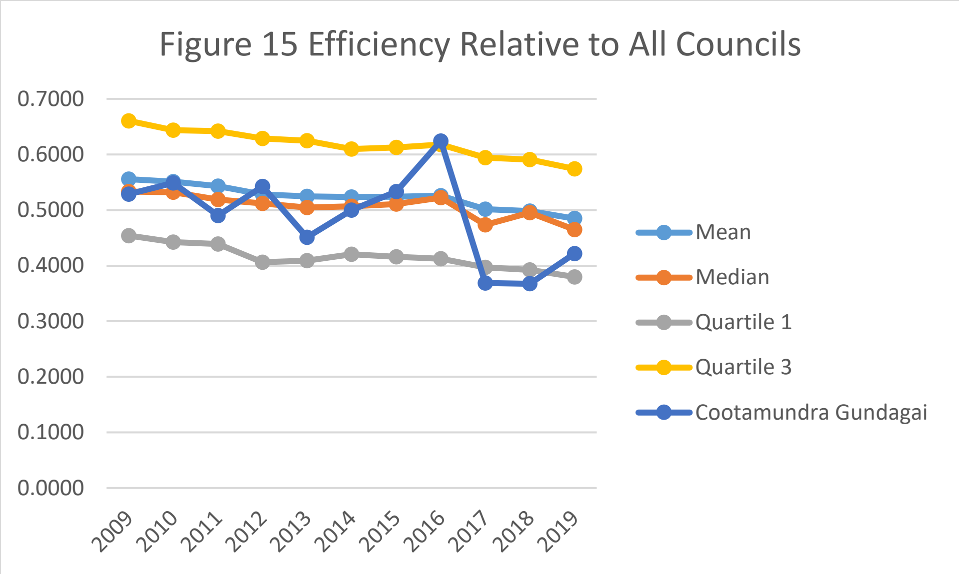
Efficiency of Cootamundra, Gundagai, and Cootamundra-Gundagai

Efficiency in economics is a term that is used to refer to the conversion of inputs into outputs and can be measured quite precisely using a sophisticated technique called data envelopment analysis (DEA) (see, for example, Cooper et al., 2007; Coelli et al. 2005). It essentially extends one output and one input ratios that we are familiar with (for example, expenditure per person, or kilometres per hour) to *multiple* inputs and outputs. The advantages of using multiple inputs and outputs is that we can more accurately model what actually occurs in the local government production function.

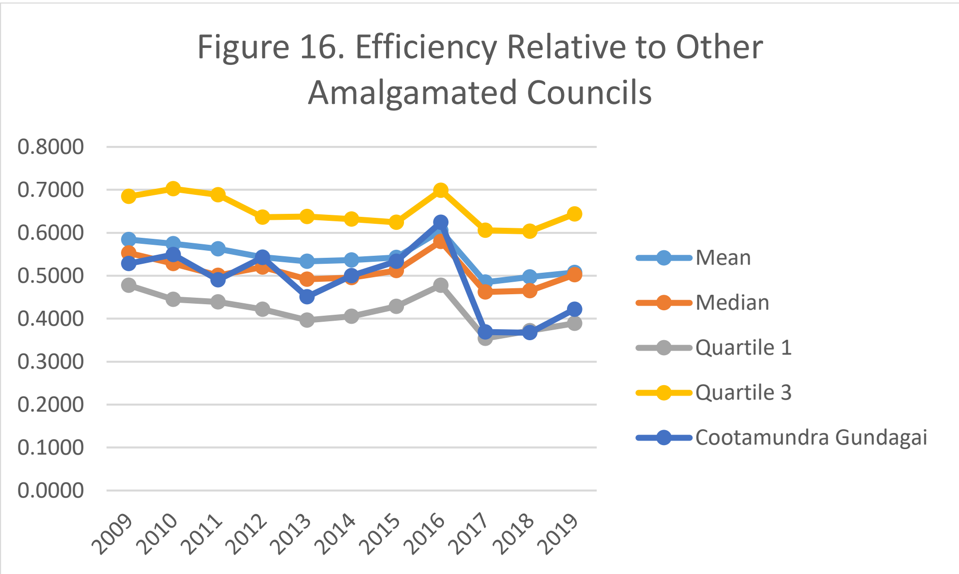
The inputs to local government are money and local government staff time. The outputs are specific services provided to different types of properties (residential, farmland and business) as well as the provision of local government roads (the single largest item of expenditure for local government). This specification is consistent with the scholarly literature (see, for example, Drew et al., 2015a; 2015b; 2015c).

I conducted two intertemporal DEA on the Cootamundra-Gundagai Regional Council over the period 2009 to 2019 inclusive. The word ‘intertemporal’ just means that a particular type of DEA was done so that legitimate comparisons could be made between successive years (I also did a refinement of this which is called local intertemporal DEA, which can be found in the appendix). To make a comparison prior to amalgamation I, once again, followed the established procedure of combining the various inputs and outputs of the pre-amalgamated entities (for example to get residential outputs I simply added the number of residential assessments in Cootamundra to the number of residential assessments in Gundagai).

Figure 15 presents the results for Cootamundra-Gundagai along with various measures of what is called central tendency for the entire cohort of NSW councils. Thus, I include the mean (or average) of NSW local government efficiency, the median (which is the middle number if one puts all numbers in ascending order), and each quartile (Q1 and Q3, which are the median of the first half and second half of the data respectively). As will be noted there was a spike in improved efficiency for Cootamundra-Gundagai in 2016 (owing largely to the financial year being shortened by several weeks because of the amalgamation). Following this time efficiency dropped quite significantly to recover slightly in 2019. Notably, prior to amalgamation efficiency at Cootamundra and Gundagai councils was pretty typical of most NSW local governments (that is, it was close to the mean and median – where 50% of councils lie below the median). However, following amalgamation it suddenly dipped below the lowest quartile (bottom 25% of performance) and has slightly improved this year. It therefore appears that the promised economies of scale were illusory (consistent with the report brought to the attention of the Boundaries Commission Delegate in 2016).



It is one thing to know that Cootamundra-Gundagai efficiency dropped alarmingly following amalgamation with respect to all NSW local governments, but one may also reasonably ask how performance compares to just the cohort of councils which were amalgamated. In Figure 16 I chart the results of a second intertemporal DEA which looks at just Cootamundra-Gundagai relative to other amalgamated councils. Once, again performance fell from more or less typical (close to the mean and median – where 50% of councils lie below the median) in 2016, to something just a little over the first quartile (which is the bottom 25% of councils). So, it would be fair to say that even when measured against other amalgamated councils the efficiency of Cootamundra-Gundagai has deteriorated alarmingly, contrary to the predictions of KPMG. This suggests that the amalgamation configuration of Cootamundra-Gundagai was particularly unhelpful and contributed to particularly poor outcomes for the community of Cootamundra-Gundagai.



The reason why efficiency reduced is because the amalgamation created a council that was too large – that is, the amalgamation generated diseconomies of scale. The report by Drew (2016) predicted that the amalgamation would shift the two former councils from having potential for economies of scale into a configuration that would result in diseconomies of scale (relative inefficiency) of just over 8 percent. This analysis was provided to the Boundaries Commission Delegate in 2016 because the s263(3)(a) of the Act (1993) specifically required the Delegate to give consideration to ‘economies or diseconomies of scale’.

The analysis that I completed for Figure 15 suggests that council is indeed currently operating with diseconomies of just under 11 percent, more or less consistent with the empirical analysis by Drew in 2016, but inconsistent with the lofty assumptions of KPMG in 2016.

To complete my analysis of the financial advantages and disadvantages of boundary change – which is the first criteria that the legislation requires the Boundary Commission to weigh – I will now set forth the pecuniary costs and benefits of de-amalgamation.

De-amalgamation Cost and Procedure

A potential de-amalgamation of Cootamundra-Gundagai Regional Council will be associated with two distinct kinds of costs and benefits. First, there will be one-off costs required to execute the de-amalgamation. Second, there will be a series of ongoing costs *and* benefits directly attributable to the new boundary structure. It is important to note that all of the following costs and benefits have been thoroughly investigated and are based on audited financial statement data, Human Resource records, surveys of staff travel, historical data from previous de-amalgamations and the requirements of legislation. It is not the kind of guesswork previously inflicted on the community, and the people of Cootamundra-Gundagai can be assured that the projections will be realised under able stewardship. Indeed, I have painted the worst-case scenario in all of my calculations, and I would not be at all surprise to find that the costs have been over-estimated and the benefits under-estimated.

One-off Costs of De-amalgamation.

To determine the one-off costs of de-amalgamation I consulted the scholarly literature on previous de-amalgamations (see for example, Drew and Dollery 2014b; 2015a), made a study of the costs associated with the 2016 amalgamation, inquired into contracts for executive staff, received estimates for work by IT providers, and consulted with management on each relevant area of expense. When faced with two cost projections (for example the actual costs of legal work for amalgamation and the historical cost of legal work from previous de-amalgamations suitably inflated), I have taken the higher of the two estimates. I have also added in extra margins for several costs to account for potential contingencies.

The total one-off cost for de-amalgamation should not exceed $1.75 million[5]. This will be constituted as follows:

Table 2. One-Off Costs of De-Amalgamation ($'000)

Communications and Branding	477
staff expenditure	211
ICT and finance	600
Governance	108
Asset Management	18
Legal	177
Plant	0
Transition Manager	120
Other	39
TOTAL	**1,750**

A few notable matters. I have confirmed with both the Works Supervisor and Technical Operations Manager that no plant will be required to be purchased as a direct result of a de-amalgamation. This state of affairs has arisen due to the conduct

[5] This cost compares favourably to the $1 million cost of the similar Delatite de-amalgamation, which is equivalent to $1.5 million in today's dollars.

of the councils as separate operations as recommended by the former Boundaries Commission Delegate. In previous de-amalgamations, elsewhere in the country, additional plant was a major cost of de-amalgamation. Second, I have included the costs for a Transition Manager – ideally this position would be filled by someone that holds the trust of both communities and understands the operations of the council(s) and the costs and tasks required for de-amalgamation. This is a 10-week appointment and I have priced it in at a consultant's rate appropriate for the level of expertise required. Third, ICT costs are considerably over the estimate made by the Council's provider and better reflect historical costs from previous de-amalgamations (and hence should not be subject to the kind of budget blowout that occurred during many amalgamations). Fourth, the branding costs are based on the assumption that both emerging councils would revert to previous logos and branding strategies.

Ongoing Costs and Benefits

To calculate the ongoing costs I consulted with staff, conducted surveys of travel frequency, reviewed historical human resource records, reviewed the age profile of staff, consulted with department managers, referred to the most recent local government remuneration tribunal ruling, consulted with the current Mayor and Deputy Mayor, attempted to consult with the State local government grants commission (on several occasions), and took note of new legislative requirements.

According to my calculations the de-amalgamation cost payback period is just over 8 years. The ninth year should see a nett benefit, accounting for the cost of de-amalgamation, and from the tenth year onwards annual savings should be in the order of $451,000 per annum.

As noted earlier, where there was any doubt about savings, I opted to omit the saving or record the lesser assured amount. Therefore, it is reasonable to expect that the nett benefit will occur much sooner and be much greater in magnitude. Given the previous damage inflicted on this community I was not prepared to include any saving that I could not be completely certain of.

Notably, I have not modelled any forced redundancies (except for the current General Manager contract). Instead I have used data on staff age and information about retirement plans to model savings in staff expenditure based on natural attrition. Unlike KPMG and others, I refuse to countenance the idea that any ongoing staff member should have their job placed in jeopardy as a result of Ministerial decision-making.

Projected costs and savings are detailed below:

Table 3. Ongoing Costs and Savings Arising from De-Amalgamation ($'000)

	Year 1	Year2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Employee savings	112	259	398	408	545	558	729	747	766	785
Additional employee costs (key positions)	271	278	285	292	299	307	314	322	330	338
Additional Governance	0	0	0	0	0	0	0	0	0	0
Travel savings[6]	154	157	160	163	167	170	173	177	180	184
Additional Assurance costs	192	197	202	207	212	217	223	228	234	240
Additional operating grant income (non FAG)	60	60	60	60	60	60	60	60	60	60
Additional FAG income	Waiting for NSW Local Government Grant Commission response									
Savings from eliminating diseconomies of scale	Substantial in the order of 11% but cannot be assured therefore not included									
ANNUAL SAVING	-137	2	132	132	260	265	425	434	442	451
CUMULATIVE SAVING	-137	-135	-4	129	129	654	1,079	1,513	1,955	2,406

(Please note slight rounding error occurs in the table – totals reflect precise costs and savings)

A few more matters should be noted. First, governance costs relate directly to the overall increase in the numbers of Councillors arising from a de-amalgamation. I have conferred with the current Mayor and Deputy Mayor and they both agree that a reduced number of councillors (relative to what existed prior to amalgamation) would be appropriate. Accordingly, I have priced in a total of 5 Councillors for Gundagai and 7 for Cootamundra, using the current minimum rate of Councillor Allowance prescribed for the rural category of councils by the Local Government Remuneration Tribunal, plus overheads. This actually results in a small annual saving (of just under $3,000), but I have not modelled the saving in order to err on the side of caution consistent with my overall approach to this matter. Second, reduction in diseconomies of scale modelled in the data envelopment analysis have not been included as a separate item. Some of these diseconomies have been captured in more specific line items (for example, travel costs). However, there will likely be further diseconomies captured following de-amalgamation that will contribute to outcomes better than those that I project. I took the decision not to include savings from mitigating diseconomies in my calculations because, whilst they are very likely, they cannot be 100% assured. Third, I have only modelled in extra operating grant income relating to the libraries grant. I am aware that Council has effectively missed out on a number (or some portions) of one-off grants (like federal drought assistance), but these cannot be counted on in the future. Moreover, I have focussed on operating grants only, because capital grants are not included in the NSW government preferred operating result figure. Fourth, I have not modelled in the extra Financial Assistance Grant likely to be forthcoming following de-amalgamation. On the 7th February 2006, the responsible Federal Minister proclaimed a variation under

[6] This does not include the value of staff time lost through commuting. When staff are driving between centres they cannot be performing their usual duties, which represents a significant opportunity cost to Council.

subsection 6(4) of the Local Government (Financial Assistance) Act 1995 (CTH) that a new national principle would come into force being that ‘the general purpose grant provided to the new body for each of the four years following amalgamation should be the total of the amounts that would have been provided to the former bodies in each of those years if they had remained separate entities’. The reason why this proclamation was made was to re-dress a number of situations whereby FAG grants had altered significantly following amalgamation (which will almost certainly happen any time that councils without identical demographics are amalgamated). I have emailed the NSW Local Government Grants Commission back on the 8th of January (and 18th of February) to ask for: (i) the Local Government Grants Commission report for 2016-17, and (ii) the precise formulas *and* factors used to calculate the grants. I was told there would be no 2016-17 report which seems to be inconsistent with s3(4)(a) of the Act (1995) which states the Parliament’s goal to ‘increase the transparency and accountability of the States in respect of the allocation of funds under this Act to local governing bodies’. I have pointed out the inconsistency of the approach taken by the NSW Local Government Grants Commission but not received a satisfactory response. Without this degree of detailed information, I have no way of verifying that the proclamation under subsection 6(4) of the Act (1995) has been observed correctly[7], nor can I model by how much the FAG grant would likely be increased following de-amalgamation. It is regrettable for the community of Cootamundra-Gundagai that the NSW Local Governments Grant Commission has not been sufficiently transparent in their operations.

Of interest is the fact that a de-amalgamation is expected to yield a saving of *at least* $2.406 million over ten years. This saving, based on rigorous analysis, stands in contrast to the guestimate that was used to justify the original amalgamation projected saving of $3 million over 20 years. Otherwise stated, what I have shown here is a commensurate saving that occurs in almost half the time as what was assumed might occur from the amalgamation. However, unlike the work that was done in 2016 my calculations are prudent and rigorous.

If a saving of $3 million over 20 years was deemed sufficient cause to bring about an amalgamation, then the same logic must dictate that a saving of $2.4 million over 10 years is even more cause to bring about a de-amalgamation.

I will now proceed to answer a number of questions that are typically posed during de-amalgamation debates regarding how matters should be managed prior to the proclamation and during the transition period.

[7] Although in email correspondence it was confirmed that ‘in 16/17 and 17/18 the FAGs were simply aggregated for amalgamated councils and apportioned based on population (ABS) or local road lengths (as reported by councils) where boundary changes occurred…in 2018/19 the FAGs went into a transition towards a revised model.’ This seems inconsistent with the aforementioned proclamation and it is very possible that Council has received less FAGs than its entitlement.

How Should the Transition be Managed?

The transition should be managed by a team of executives and political representatives headed by an independent Transition Manager, who understands the council's structure and challenges and has the complete confidence of the community. This person should come from outside of the community and should be appointed for a temporary period of ten weeks.

It is absolutely imperative that the Transition Manager is appointed by the *existing Council* as quickly as possible after the Minister makes her decision known. A big part of the problem that we have been dealing with over the past four years or so, is that the community has felt (with good reason) that they have had little input into the structural decisions which significantly affect their lives. The community, not the Minister, must appoint the Transition Manager, because it is the community who will bear the consequences of the decisions made by this person. There needs to be no room for doubt, this time, that the community has had control over the process and have had a real say over the decisions. The most appropriate way to ensure that this occurs is for the Council to appoint a Transition Manager at a Council Meeting that is open to the public.

The transition team should include the current General Manager, the current Mayor and Deputy Mayor, and the new General Managers of the emerging entities (as soon as they have been appointed[8]). The Transition Manager must have the authority to have the final say on all matters described below. However, the Transition Manager should in all instances first seek a consensus and all members of the transition team should have equal say prior to a decision being made. This is similar to the model that has been used in successful de-amalgamations elsewhere.

The Transition Team and the Transition Manager should be communicating with the Council and public throughout the process. The most expedient way to achieve this Council and public consultation would be for the Transition Team to report to the fortnightly Council workshops. Part of this workshop time should be open to the public, so that interested members of the community have a chance to both hear about the progress being made, as well as raise any questions that they might have.

I have absolutely no doubt that the current senior political figures and executive of Council will work respectfully and co-operatively for both communities. Each person understands that *both* de-amalgamated local governments must thrive and prosper subsequent to de-amalgamation, for the decision to be validated, and will work hard to ensure that this result is the outcome.

[8] Two General Manager Employment sub-committees should be formed from the body of existing Councillors as soon as the Minister has made her decision to de-amalgamate. The first sub-committee should comprise only Cootamundra Councillors and should be tasked with engaging a new General Manager for Cootamundra. The second sub-committee should be formed from only Gundagai Councillors and should be tasked with engaging a new General Manager for Gundagai. The Transition Manager should observe the engagement process to ensure that it is consistent with the de-amalgamation plan and provide her or his comments, but should not be given a binding say on any appointment.

Who Should Pay?

Principles of natural justice are generally considered to suggest that if one person inflicts damage upon another – whether intentionally or through negligence –then the person responsible for the damage is liable for the rectification of same. For instance, if I crash my vehicle into that of an innocent person going about their lawful business, then I would be responsible for the cost required to bring that person as close as possible back to their position prior to the accident.

This concept is clearly directly applicable to the amalgamation event. The people in Cootamundra and Gundagai did not act to bring about the amalgamation – indeed, many tried to bring facts to bear in the hope that the amalgamation architects would realise that the proposal was a particularly poor idea. However, the NSW government – probably relying heavily on some poor advice from their agents – drove the amalgamation vehicle into the community and, as I have shown, this caused significant financial damage. If we extend the principles of natural justice to this situation then there seems to be a clear case for the NSW government to bear some of the costs required to repair the damage done to the community. Notably, the current NSW government is under different management to the government that inflicted the damage. However, it seems that the current government is conscious of its obligations under principles of natural justice and the community might therefore have some reason to hope that the one-off costs of de-amalgamation might be granted to them (indeed, the one-off costs for de-amalgamation are likely to be far less than the ongoing support required from the NSW government to keep the Cootamundra-Gundagai Regional Council financially sustainable into the future and thus represents a wise investment). Even if one-off costs are covered by the NSW government, it should be noted that the damage that has occurred to the finances of the community over the last few years will still probably have to be repaired through future increases to fees and taxes.

In the past the precedent has been that the break-away community bear the entire cost of de-amalgamation (although in Victoria, in actual fact, the amalgamated entity bore most of the cost prior to de-amalgamation; see Drew and Dollery 2014b; 2015a). It is problematic for entities currently not in existence (Cootamundra council and Gundagai council respectively) to be bound to debts that they have had little say in (see, Drew and Dollery, 2014b). In Queensland, a particular piece of legislation had to be passed to facilitate this outcome, and there were grounds to contest both the morality and legality of doing so (Drew and Dollery, 2014b).

My strong preference (in the event that the NSW government declines to pay the costs of de-amalgamation) would be for the costs that are incurred by Cootamundra-Gundagai Regional Council – as it goes about the tasks that must be executed prior to de-amalgamation – to be borne by Cootamundra-Gundagai Regional Council. Costs that are incurred after amalgamation would also be borne by the Council that incurs the cost. This is clearly the most efficient and practical arrangement, but as I have alluded to earlier, also the arrangement with the least moral hazard.

In Table 4 I have set out the timing and responsibilities for most of the costs (if the state government declines to fund the de-amalgamation). As can be seen, a good proportion of the costs would be borne by Cootamundra-Gundagai Regional Council, simply because of the fact that they need to be incurred prior to the actual day of de-amalgamation.

Table 4. Apportioning One-Off Costs of De-Amalgamation

Communications and Branding	477	Community communications about actual de-amalgamation born by CGRC, branding cost born by each emerging council
staff expenditure	211	Borne by CGRC for legal and practical reasons
ICT and finance	600	CGRC, but some borne by emergent councils
Governance	108	Borne by council where cost originates, mostly CGRC
Asset Management	18	Borne by CGRC
Legal	177	Borne by all three parties
Plant	0	
Transition Manager	120	$96k CGRC, remainder shared between new entities.
Other	39	Borne by council where cost originates
TOTAL	**1,750**	

I emphasise that my preferred position is that the NSW government pay for the one-off costs. However, if the state government declines to do so, then my calculations demonstrate that there is still a nett benefit for the community even if they bear the cost and my plan in Table 5 is the most economic and morally defensible way of accomplishing what must be done.

How Should Assets be Allocated?

There are three types of assets to consider, which all require different treatment – fixed assets, movable assets and cash and cash equivalents (Drew and Dollery, 2014b).

Fixed assets, such as buildings and sports infrastructure, are the simplest to deal with and should be allocated to the council in whose borders the asset is located.

In Cootamundra-Gundagai the moveable assets have mostly stayed within the pre-amalgamation borders and in most instances it will not be controversial to continue to keep the asset where it is currently located. Assets associated with specific staff (ICT equipment) should travel with the staff. There will inevitably be a small number of assets that do not fall into any category. These assets should be transferred according to the judgement of the independent Transition Manager after consulting with the relevant staff and representatives. I cannot emphasise enough the critical role that an independent Transition Manager will play in a de-amalgamation scenario. Inevitably judgements will need to be made by someone in authority and hence it is imperative that a truly independent and knowledgeable Transition Manager is appointed.

Cash and cash equivalents should be allocated as part of a division of nett liabilities, as I will detail below.

How Should Staff be assigned?

In most cases staff have remained within the borders of the area that they were located in prior to amalgamation. In a few instances, key staff have been split between the two council chambers, and in other instances new staff have been taken on to fill positions that have become vacant over the last four years or so.

Staff who were located at a particular council chamber prior to and since amalgamation should remain at that location. Staff who have been split between the two locations should be assigned as follows:

For positions that will not be operated as a shared service, the views of the staff member involved should be given the greatest weight, followed by the needs of each emerging entity, followed by the preferences of the new entity management. If a shared consensus cannot be reached, then the Transition Manager's decision must be considered binding.

How Should Liabilities be Allocated?

The objective of the Transition Manager should be to ensure, as far as practical, that both emerging local governments end up with nett current assets and nett non-current assets respectively in proportion to those that existed immediately prior to amalgamation. Clearly liabilities associated with a particular fixed asset should be transferred to the new entity where the asset is located. Similarly, liabilities associated with staff (for example, leave entitlements) must be transferred to the entity where the staff member will be employed. Next, liabilities associated with a particular movable asset should be transferred to the entity where the movable asset will be located. The remainder of the nett current and nett non-current assets should be allocated *separately* such that the new entities are placed as close as possible in the situation that existed immediately prior to amalgamation. In this matter – as in most others – the independent Transition Manager will have a binding say on final allocations.

How Should Natural Attrition be Managed?

The objective of both councils should be to reduce the number of executive positions down to one General Manager and three Directors. There are currently one General Manager, one Deputy General Manager and 10 Director-equivalent positions at Cootamundra-Gundagai Regional Council. These 'legacy costs' of the amalgamation will, unfortunately, continue to weigh on the emerging councils for many years, and have substantially reduced the savings that would otherwise have arisen from de-amalgamation.

After de-amalgamation some changes to the job position of each Director-like position will need to be made to ensure that each emerging organisation has oversight over all key functional areas of council. This will have to be done in consultation with the affected staff and in cognisance that no changes can be made to salaries. Soon after the de-amalgamation work has been completed the General Manager at each emerging entity should interview all senior staff with a view to understanding their career and retirement plans. At this point a succession plan should be put into place whereby ultimately functions of the departing executives are divided among the Directors who will be staying on. Appropriate plans should then be put into place to ensure that the remaining Directors will have the required skills and knowledge to absorb the function when their colleague ultimately leaves.

It will be tempting to replace positions as executive retire or resign. However, this should be resisted strenuously as many of the savings associated with de-amalgamation are contingent on reducing the numbers of managers over the next decade.

Similarly, the number of FTE that existed immediately prior to amalgamation – 51 at Gundagai and 89 at Cootamundra – should be set as the ceiling for the new de-amalgamated entities. Until numbers have reduced below this ceiling new staff should not be put on, unless there is both (i) a dire need for a certain expertise, *and* (ii) a plan to reduce the FTE by not filling a specifically identified position which will soon be vacated. Ideally this cap should be regulated somehow and perhaps there is a role for the new Councillors to play in approving any proposal to add extra staff to the payroll that would result in the ceiling being breached. At the very least, the General Managers of the emerging councils should be required to complete a new business case to justify positions other than those already modelled in the ongoing costs and savings[9] detailed in Table 3.

I cannot stress strongly enough that strict discipline will be required to manage a successful de-amalgamation. There are always good reasons that can be found for hiring new staff, however if the communities are going to successfully recover from the damage inflicted to them through amalgamation, then these reasons will have to be vigorously resisted. This may mean that service levels might need to be reduced slightly, and that some job descriptions may need to alter, but prudence must win out on every occasion. I have complete faith in the community and the staff that they will be able to make the difficult decisions required to recover.

How Many Councillors Should the New Entities Have?

There are currently nine Councillors, including a Mayor and Deputy Mayor. Prior to amalgamation Cootamundra had nine Councillors and Gundagai had eight. Section 224 of the Local Government Act (1993), states that a council must 'have at least 5 and not more than 15 councillors'. I have discussed the matter with both the current Mayor and Deputy Mayor and propose that a new Cootamundra council should have

[9] In my modelling I have included the salaries and on-costs to recruit a new Chief Financial Officer, increase the rate of pay for the current Human Resource Assistant to the rate for a Human Resource Manager, employ an additional Executive Assistant for the Gundagai General Manager, and convert the existing accounts payable traineeship position at Gundagai to a permanent position. All other non-duplicate positions will be conducted in the same way that they were performed prior to amalgamation.

7 Councillors and a new Gundagai, 5. This is a significant decrease on pre-amalgamation representation, but represents a large improvement on the representation ratios that have occurred over the last four years. Based on the numbers proposed Cootamundra residents would have just over 1,100 people per Councillor, and Gundagai residents just over 750 people per Councillor. This compares favourably to the current representation ratio which is a little less than 1,280 people per Councillor.

Furthermore, I have modelled for the Councillors to be paid at the bottom range of the annual fee guidance provided by the Local Government Remuneration Tribunal. In view of the sacrifices the community will be asked to jointly make and the relatively lower workload after the de-amalgamation has been bedded down, I believe that the lower level of remuneration is warranted.

Who Should Sit on the Inaugural Council?

When the Governor's proclamation is read then the currently elected Councillors should be considered duly elected Councillors of the emergent local governments. Three of the current Cootamundra-Gundagai Councillors hail from Gundagai, and six from Cootamundra. Until the September 2020 local government elections, the existing Mayor should be assume the role of Mayor for Gundagai and the existing Deputy Mayor should assume the role of Mayor of Cootamundra (subject to s294(4) of the Act (1993)). A by-election would be impractical, and depending when a de-amalgamation occurred, unnecessary under the Act (1993).

When Should a De-amalgamation Occur?

This largely depends on when the Boundary Commission produces their report and when the Minister makes her decision. However, it would reduce work considerably if the proclamation was made on the first day of the new financial year (1 July, 2020). Given the large number of tasks that will fall to an inaugural council all efforts should be made to execute the de-amalgamation on this date providing that it falls at least eight weeks away from when the Minister makes her decision known, so that the Transition Team can undertake necessary pre-requisite tasks.

What Should Happen to Service Levels?

A consequence of amalgamation is that service levels tend to be increased to the highest that existed in the constituent councils. This is referred to as service harmonisation, and its neglect in modelling is one reason why amalgamations don't always deliver on the projected savings.

It will be critical that with the establishment of each new entity that service levels are immediately reduced to those that existed prior to May 2016. This is the absolute minimum necessary to ensure that the de-amalgamated entities do deliver on projected savings.

However, it is also important for the de-amalgamated entities to each conduct a service level review with their communities within the first 12 months of operations. If the fiscal damage inflicted by the amalgamation is to be repaired with minimal hardship, then it is imperative that service levels be dropped wherever practical.

Moreover, great care needs to be made with respect to capital spending. Discretionary capital spending needs to be halted and maintenance focussed only on essential infrastructure for the first 5 years, *at least*. One of the unfortunate side-effects of the amalgamation has been the very high levels of discretionary capital spending on community assets that had the characteristics of ‘wants’, rather than ‘needs’. Depreciation and required maintenance on these assets will be a burden on the community for decades. Moreover, this spending has engendered fiscal illusion with the effect being that the community was not always aware of the serious nature of the local government finances. Therefore, capital spending on non-essential infrastructure will need to be put on hold until budget repair has been completed – which could be a decade or so away. Notably, it would be prudent to cease all non-essential capital expenditure on ‘wants’ even if the de-amalgamation doesn’t progress – indeed it would probably be more important to do so under that scenario given the very large gap in revenue adequacy.

What Should Happen to Rates?

In all likelihood there will not be time to develop and put on public display a new rate structure for the new local governments, for the 2020/21 year. To ensure each new entity has sufficient revenue for its first year of operations, rates should default to the pre-amalgamation paths that would have existed had the Cootamundra-Gundagai Regional Council not resolve to harmonise rates in accordance with the Local Government Amendment (Rates – Merged Council Areas) Act 2017, No 8.

However, the new entities should be required by the Minister to resolve and put on public display a new rating structure within nine months of de-amalgamation. Ideally the new structure should be simple and transparent and based on the principles adopted by the former Cootamundra-Gundagai Regional Council – to have just three categories and to minimise rate shock for any one given category.

Moreover, it should be presumed that both councils will submit a Special Rate Variation in November 2020 for the 2020/21 year. Furthermore, it should be presumed that the Boundaries Commission hearing and determination constitutes *prima facie* evidence of four of the five IPART assessment criteria, specifically:

- Community awareness of plans for a SRV
- Demonstrated need for higher increases
- A sustainable financing strategy
- A history of well-documented council productivity improvements

Emergent Councils will still be required to address the criteria that the proposed SRV has a reasonable impact on ratepayers, although the burden should be shifted to ratepayers to prove that a proposal is unreasonable in impact given the financial sustainability position of the emergent councils.

Otherwise stated a SRV should be considered a definite necessity for each emergent council.

Notably if the Minister decides against de-amalgamation it must be acknowledged that the need for a SRV will be even greater. In this instance the Minister would be well-advised to also direct IPART to adopt the presumptions listed above for the case of Cootamundra-Gundagai Regional Council.

What Should Happen to Fees Already Harmonised?

In all likelihood there will not be time to develop and put on public display a new fee structure for the new local governments for the 2020/21 year. To ensure each new entity has sufficient revenue for its first year of operations, fees that have been harmonised downwards should default to those laid forth in the *2019* Operational Plan increased by 2.6% (some harmonised fees in the 2020 Operation Plan may not provide sufficient revenue for a particular emerging council). Fees that have been increased relative to the levels that previously existed at each Council should continue to be charged as detailed in the 2020 Operational Plan.

Moreover, both emergent councils should be directed by the Minister to ensure that new fees and charges are set for the next operational plan. Furthermore, the Minister should direct councils to ensure that new non-regulated fees and charges at least fully recover the costs and overheads of providing the service wherever possible. As part of the budget repair effort it will be important to review all fees to ensure that the full costs are being recovered (which is often not the case in most NSW local governments). There are also strong moral grounds for ensuring this (and hence reducing cross-subsidisation out of the common tax pool). Notably this exercise would still be required if the council was not de-amalgamated and, because of extant diseconomies of scale, would likely result in higher fees and charges, than might be expected in the de-amalgamation scenario.

Shared service for certain functions?

Previously Gundagai employed consultants or used informal shared service arrangements to meet some specialist skills needs such as town planning, building surveying, IT support, and environmental health. This should continue to be the arrangement going forward in a de-amalgamated Gundagai Shire. The new Council would be advised to give serious thought to engaging specialist skills from Cootamundra Shire when required. Hiring specialist staff from Cootamundra Shire (rather than private consultants or staff from other councils) will increase the overall benefits for the Cootamundra and Gundagai communities, and will likely result in better outcomes given that the staff involved will have a more comprehensive understanding of the operational environment at Gundagai.

What Legislation is required

The Queensland Government established the Local Government (De-amalgamation) Regulation 2013, to regulate its four de-amalgamations. The NSW Government is advised to enact similar legislation with respect to the following sections of the aforementioned regulation which should be changed as follows:

Section or Part	Purpose	Recommendation
Part 2	To establish new elections and term of inaugural council	Assuming a de-amalgamation takes place on the 1st of July section 294 of the existing Act (1993) allows for the Governor to proclaim the two new Mayors nominated by the Council who should be the existing Mayor and Deputy Mayor respectively.
		Current Councillors should be appointed as Councillors to the emerging councils (6 to Cootamundra and 3 to Gundagai). The casual vacancies effectively created (1 at Cootamundra and 2 at Gundagai) do not seem to need to be filled prior to the scheduled September 2020 elections (see Section 292)
		Existing Remuneration Tribunal classification (rural) can be used for the emerging councils.
Part 3	Transfer Manager	This is absolutely critical, however the Transfer Manager should be appointed for 10 weeks, which must extend 2 weeks after the changeover day.
		A clause should be inserted to state that the Transfer Manager should first seek consensus with the Transfer Team before making any decision. However, it needs to be noted in the legislation that the Transfer Manager will have the capacity to make binding decisions even if consensus is not reached.
		A Transfer Team should be specified as being made up of: the current Mayor, the current Deputy Mayor, the current General Manager, the two new General Managers (following appointment)
Division 2	Transfer methodology	This is not ideal. The people in the best position to formulate and execute a transfer methodology are the Transfer Team.
		Potentially the legislation might require the Transfer Manager to present a copy of the transfer methodology to the Minister for her approval. However, it is important not to lock the Transfer Team into a methodology that may ultimately prove insufficiently flexible to respond to the particular situations encountered during the process.
Division 3	Transfer Committee	This should be replaced with the Transfer Team as specified earlier.
		The Transfer Team should be established for a period of up to twelve months. Given that the frequency of meetings is not specified it makes sense to keep the team long enough to deal with problems that might arise at the time that

		the next Operational Plans are being developed.
Division 3, s30	Adjudication by Minister	Won't be required during the term of the Transfer Manager.
Division 4	Local Advisory Committee	Won't be required if recommendations to establish two new Mayors and Councillors are observed.
Division 5	De-amalgamation Costs	This part of the legislation was very problematic. If the NSW Government funds the one-off costs of de-amalgamation then the Division will be redundant. If the NSW Government declines to fund the de-amalgamation, then the clause should state that costs incurred by the Cootamundra-Gundagai Regional Council, should be borne by the Council, and costs incurred by the emerging councils should be borne by the emerging councils.
Part 4	Financial matters	Asset transfer – references to the 'transfer committee' should be replaced with the 'Transfer Manager'.
	Liabilities	As above
	Rates and Charges	In addition to what is already stated there needs to be a clause to clarify that if a council had previously adopted a harmonised rate, then this resolution would be declared void, and the new councils would be required to levy a rate consistent with the Local Government Amendment (rates – Merged Council Areas) Act 2017, No 8 for the first year (only).
	Charges	For charges that have been harmonised downwards it should be declared that fees will default to those laid forth in the 2019 Operational Plan, increased by 2.6%.
	Fees	see above
Part 5	Local Laws and Other Instruments	No major changes appear to be required
Part 5A	Disaster management Matters	Needs to be amended to reflect the situation in NSW
Part 6	Councillors	Needs to specify 5 Councillors for Gundagai and 7 for Cootamundra.
		Needs to reflect the plan for existing Councillors to continue their duties at the respective councils where they are domiciled, until the next Local Government elections.
Division 2	Employees	The new organisational structure should be specified – namely one General Manager and three Directors for each emerging council. Excess Director-like staff should be retained with amended duties.

s55		Allocation of staff must be conducted by the Transition Manager taking into account (i) pre-amalgamated location of staff member, (ii) pre-de-amalgamation location of staff member, (iii) the staff member's preference.
s55		The ideal of returning the Councils as close as possible to their pre-amalgamated FTE staffing (51 for Gundagai and 89 for Cootamundra) should be stated. However, it should be noted that non-contract staff will have their conditions of employment protected, even if this results in staff ceilings being temporarily breached. Notwithstanding the protections for employment and conditions, it should be specifically noted that the new General Managers will have full discretion to re-define employment duties and roles according to operational needs.
s56(4)	Employee conditions	This should be deleted – part of the reason for executing a de-amalgamation is to right an injustice. It is not morally licit to create an injustice to right an injustice.
s56(5)	Retrenchment and redundancy	Should be deleted
Division 3	Major Contracts	the amount in s57(4)(a) should be reduced to $50,000

In addition to the above, any references to continuing local governments should be deleted to reflect the particular scenario of NSW.

Other Criteria for Consideration by Boundaries Commission (Local Government Act (1993) s263(3)).

Community of Interest and Geographic Cohesion

Anyone who has had even a passing acquaintance with Cootamundra and Gundagai cannot help but realise that they are two fundamentally different communities with very little community of interest and little geographic cohesion. As Gundagai submitted to the Boundaries Commission in 2016 the Australian Bureau of Statistics (ABS, 2015) Socio-Economic Index for Area (SEIFA) clearly reflects this difference[10]:

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

As can be seen the two towns were 32 rankings apart on a state-wide comparison, and 84 rankings apart in a national comparison – thus certainly not similar. Moreover, the dominant industries in the respective towns were recognised by the ABS as being different.

The Boundaries Commission Delegate chose to eschew evidence in favour of his personal perception that 'the populations are almost exclusively of Anglo-European origin and share a strong tradition of Christian values and conservative politics' (Turner, 2016, p. 22). By this dubious reasoning Cootamundra or Gundagai might have been just as easily amalgamated with North Sydney, which was also predominately Anglo-European, Christian and vote conservative!

To eschew evidence and then grasp at a ridiculous perceived similarity suggests that there were good grounds for suspecting a misapprehension of bias by the Delegate and a miscarriage of administrative procedure.

The 2020 Boundaries Commission is encouraged to visit both communities and spend sufficient time in each to understand how they operate and the commuting patterns of residents. It will be quite obvious from such a visit that the communities could hardly be more disparate, and that the geography is also plainly different. Moreover, after travelling the Muttama road which links the two towns, it will be clear that there has never been much cause for people to travel between the two communities – for had there been much commuting activity between the towns in the past then the road would have been upgraded substantially many decades ago.

Existing Historical and Traditional Values

The Delegate noted that the two towns are both located on the ancestral lands of the Wiradjuri people. This appears to be correct, but what was overlooked is that the

[10] Since amalgamation the ABS has not compiled statistics for the amalgamated councils, hence my reference to the 2015 data.

Wiradjuri Region was a vast area also encompassing Albury, Bathurst, Orange, Wagga Wagga, Denilliquin and Griffith to name just a few of the towns that share this heritage (Aboriginal Land Council, n.d.). If we were concerned to amalgamate according to this logic, then the resultant council would have encompassed around one fifth of the state of NSW.

Similarly, the Delegate noted that both townships were settled in the early 1800's and were part of the mid-century gold rush. So was Bendigo in Victoria, but it hardly suggests a shared history and values. Most of Southern Australia was settled during this period and the observations made by the Delegate are not salient for decision-making regarding the suitability of local government boundaries.

Indeed, the Delegate failed to recognise the differences in history and values when he conveyed his approval for a proposal that the new local government should be named 'Gundagai Regional Council'. The fact that this name was quickly changed following a post-amalgamation community survey is more evidence that the towns clearly did not feel they shared a common heritage.

Attitude of Residents and Ratepayers

I have already examined the attitude of ratepayers at the time of the first Boundaries Commission in 2016, and it is perfectly clear that the community was not in favour of the proposal. This is likely because the community understood that there was little commonality and a vast distance between the townships, serviced by a pretty ordinary road.

On Monday 9th March, 2020 I conducted a community forum at Cootamundra regarding the response of Council to the Boundaries Commission process. On Tuesday the 10th of March I conducted a similar forum at Gundagai. When interpreting the data which follows it is important to be mindful of a few matters. First, I have been regularly uploading information videos which a number of residents and staff told me they watch avidly – this might mean that people considered themselves already sufficiently informed regarding the Boundaries Commission proposal. Second, as we are all aware the coronavirus scare was in full swing during the week I attended, and many people have clearly decided to avoid public gatherings. Third, there was some confusion in Cootamundra (so I have been reliably informed by two different individuals) regarding the time and place for the forum. Moreover, there is a good deal of cynicism in Cootamundra – many people told me that they weren't bothering to express an opinion 'because it was a waste of time because no-one listened in 2016'. Given that the community went to a lot of trouble to consider a detailed plan for amalgamating with Harden in 2016 – a plan that was approved by various bodies (including IPART) as being fit for the future, only to be summarily dismissed with no reason given – it is probably not surprising that there is a trust deficit with state government in this present instance.

Despite this confusion and trust deficit 70 people registered as attending the Cootamundra forum, and a reliable count was made of 90 attendees (I know for a fact that there are names missing from the registration list of people I met and talked to before and after the event). A simple survey was conducted at the end of the information and Q & A sessions. A copy of the survey appears in the appendix (this is the example I presented to residents on a PowerPoint presentation). Seventy surveys[11] were received with the following distribution of responses:

Cootamundra – *Were you in favour of the 2016 amalgamation?*

Yes	No	Undecided
6	59	5

Cootamundra – *Do you think de-amalgamation will save money?*

Yes	No	Undecided
54	12	4

Cootamundra – *Are you in favour of a de-amalgamation?*[12]

Yes	No	Undecided
64	3	2

The responses of informed persons give us a good indication of what people in Cootamundra would likely think if they were exposed to relevant information. Indeed it is indicative of the likely conclusions of anyone who approaches the matter purely on the basis of evidence, sans bias or political concerns.

What is particularly interesting about these results is that people who had been in favour of the amalgamation in 2016, have clearly decided it is not working (nor likely to work) in 2020. Moreover, the principle motivation for de-amalgamation is not necessarily financial. Twelve people don't believe the projections of savings (which is hardly surprising given how inaccurate projections have been in the past) – yet only three people are not in favour of a de-amalgamation. It seems very clear to me that the far majority of people at the forum understand that things just aren't working – financially as well as in terms of community cohesion and internal Council culture – and that a change is the only sensible option.

The standard of questions during the Q & A session were very sophisticated and clearly indicated that these residents had been watching the videos, doing their homework, and giving the matter serious consideration over a long period of time. Indeed, these were the opinions of very well informed, intelligent people more than capable of making good decisions about matters that will affect their lives consistent with our principles of local democracy.

The forum at Gundagai was heavily attended, but the physical set-up for the room was not ideal, and there is little doubt that many of the attendees failed to register and failed to submit their survey. Unlike Cootamundra, it was simply impractical to

[11] Copies of the scanned surveys can be obtained from Council.
[12] One response was missing

have tables at the front of the club to register people as they entered, and the numbers which follow must be considered a significant under-estimate.

Gundagai – *Were you in favour of the 2016 amalgamation?*

Yes	No	Undecided
4	253	3

Gundagai – *Do you think de-amalgamation will save money?*

Yes	No	Undecided
241	13	6

Gundagai – *Are you in favour of a de-amalgamation?*

Yes	No	Undecided
256	2	2

Clearly the people at Gundagai want a de-amalgamation and I don't think that this has ever been in doubt (nor was there any reasonable doubt that they didn't want the amalgamation back in 2016). What is interesting is that thirteen people don't think that the de-amalgamation will save money, but the far majority (over 98 percent) want it nevertheless. From the comments made after the presentations it is pretty clear that people are prepared to pay to guarantee more effective and responsive local government into the future for Gundagai.

We also need to be mindful that the decision-making by both communities will have inevitably been clouded by the fact that the real implications of the 2016 amalgamations have largely been hidden from residents due to the Local Government Amendment (Rates – Merged Council Areas) Act 2017 No 8, as well as Administrator and Council inaction on fee harmonisation. In addition, many in the community are still unaware of the pressing need to address substantial operating revenue shortfalls in the order of 2.9 million dollars annually (according to the latest draft of Cootamundra-Gundagai's 2019 Financial Statements). Moreover, Stronger Communities funding (for 'popular' community infrastructure) has been descending on these communities for almost four years now, clearly exacerbating chronic fiscal illusion. However, despite this contextual bias (presenting an unrealistically rosy picture of the current state of affairs) there can be no doubt that the consensus of informed opinions in both Cootamundra and Gundagai is in favour of de-amalgamation.

Whether we take note of these residents really depends on our views about democracy (Dahl, 1990). If you – like Aristotle, the late great Robert A. Dahl, and I – believe that most adults are capable of making good decisions about their futures when appropriately informed, then the survey results elicited from intelligent residents presented with rigorous and reliable evidence will prove compelling for

Boundaries Commission and Ministerial decision making. However, if like Plato you believe that the masses are incapable of competent decision making and need to be ruled by their betters, then these survey results will be disregarded and another decision will be made against the wishes of these people who clearly believe that they have already had their community wealth eroded, community cohesion disrupted and lives adversely affected from being ignored back in 2016.

Requirements in Relation to Elected Representation

I have already detailed the ideal configuration for each emergent council, and the procedure that can be followed to ensure that the community continue to have a voice during the transition period. There is no need to appoint an Administrator, as happened during the amalgamation, and the inadequate performance of the past Administrator confirms that it would not be in the community's interest to do so.

Impact of Proposal on Ability to Provide Adequate, Equitable and Appropriate Services

As things stand it would not be reasonable to conclude that Cootamundra-Gundagai Regional Council is financially sustainable in the long-run. Eliminating the large diseconomies of scale (which unfortunately will take up to a decade to do if we agree that it is not morally licit to force redundancies) will help to ensure that the community can receive adequate, equitable, and appropriate services into the future. However, even with this boundary change there will be a lot of work to do to repair the damage inflicted on the finances of the community. Special Rate Variations are almost certain to be required. The rate system at both councils will need to be simplified and made more transparent consistent with the plan presented to Cootamundra-Gundagai Regional Council in February 2020. Non-regulated fees and charges need to be examined again to ensure that they cover the full cost, plus overheads. Strict discipline will also be required to follow the plan set out in this report and realise the full benefits of a de-amalgamation.

However, not proceeding with the de-amalgamation will require even more extreme measures. Rates will need to be increased even further to make up for the foregone savings of just under half a million dollars per annum which are expected to occur by year 10. Fees and charges will have to be re-assessed and increased. Rates harmonisation – which will bring about high level of rate shock to some residents – will also need to proceed so that the flow of taxation revenue is morally defensible.

As I noted earlier, de-amalgamation is not the whole solution to the financial sustainability problems at Cootamundra-Gundagai – but it is an incredibly important part of the solution. The political certainty that a de-amalgamation brings about will put both councils in a better position to engage with their communities and press forward with essential reforms. It will also lead to much more efficient local government, consistent with the greater community homogeneity achieved, as predicted by the well-known Decentralisation Theorem (Oates, 1972).

Impact of Proposal on Employment of Staff

As I have stated earlier, I do not consider it morally licit to visit a wrong on staff in order to correct a wrong committed to the community in 2016. I have therefore not modelled any redundancies. This, of course, means that the full staff savings won't occur until the seventh year and that the total cumulative savings will be lower than might otherwise have been realised. However, I firmly believe that it is not acceptable to destroy the lives of staff and their dependents, and I know the community agrees with this position. If a de-amalgamation does not proceed, then there will need to be significant additional reductions to employee expenditure in the future (to offset the considerable diseconomies of scale) in order to bring about desperately required budget repair.

Impact of Proposal on Rural Communities

As has been shown over the course of this report the 2016 amalgamation had a devastating impact on the two rural communities. Moreover, to avoid further damage, and even more hardship for residents it is important to execute a de-amalgamation for the new financial year.

As my modelling has confirmed, de-amalgamation will have positive benefits for the community in terms of financial sustainability. However, a de-amalgamation will also help to heal the respective communities and return their dignity[13] which should lay the foundation for a brighter future. Indeed, discussions with senior management and political representatives suggests to me that de-amalgamated councils will have a strong relationship – sharing resources and expertise well into the future – which will maximise the benefits to both communities. As strange as it might seem to some outsiders (especially those from Sydney), a de-amalgamation is likely to ultimately bring these communities together more and heal the obvious rifts that exist at present.

Sub-sections e4 and e5 don't apply

These subsections both start with the words 'in the case of a proposal for amalgamation'. This is not a proposal for an amalgamation, therefore these subsections of the legislation clearly do not apply.

[13] Dignity here refers to the Natural Law position – the ability to choose existential ends without undue interference (see Messner, 1952).

Concluding Remarks

The Cootamundra-Gundagai Regional Council is experiencing chronic fiscal stress, arising from the amalgamation as well as some poor decisions that were made during the administration phase. Indeed, the Council can no longer be considered financially sustainable in the medium or long term. If drastic action is not taken shortly, matters from the last four years will come to a head with serious implications for the community. I emphasise that the current management and councillors are not responsible for the problems that they now face – but they certainly need the help of fair minded people who are courageous enough to honestly consider the robust evidence that has been presented in this report and put the interests of this community first by allowing a de-amalgamation.

Removing political uncertainty will allow the executive the existential space it needs to put in place a number of reforms crucial to the community interest. Even if there was no direct financial benefit to de-amalgamation it would probably be worth executing boundary change to release the Cootamundra-Gundagai Regional Council from political uncertainty and division which constantly impedes the implementation of sound policy.

However, the proposed de-amalgamation will indeed result in significant financial benefits. In ten years, a benefit of *at least* $2.4 million will be delivered to the community contingent on de-amalgamation. Notably this figure is not much less than the supposed savings upon which the original decision to amalgamate was based – although in this latter case it was expected to take over twice the time, and was never likely to actually happen in any case.

If it was reasonable to conduct boundary change in 2016 mostly on the basis of a guesswork report projecting savings of $3 million over 20 years, then it almost obligatory in 2020 to conduct boundary change on a thoroughly researched and robust report projecting savings of $2.4 million over 10 years. The difference is that this time the savings will actually eventuate, and the proposal is consistent with the wishes and best interests of the community.

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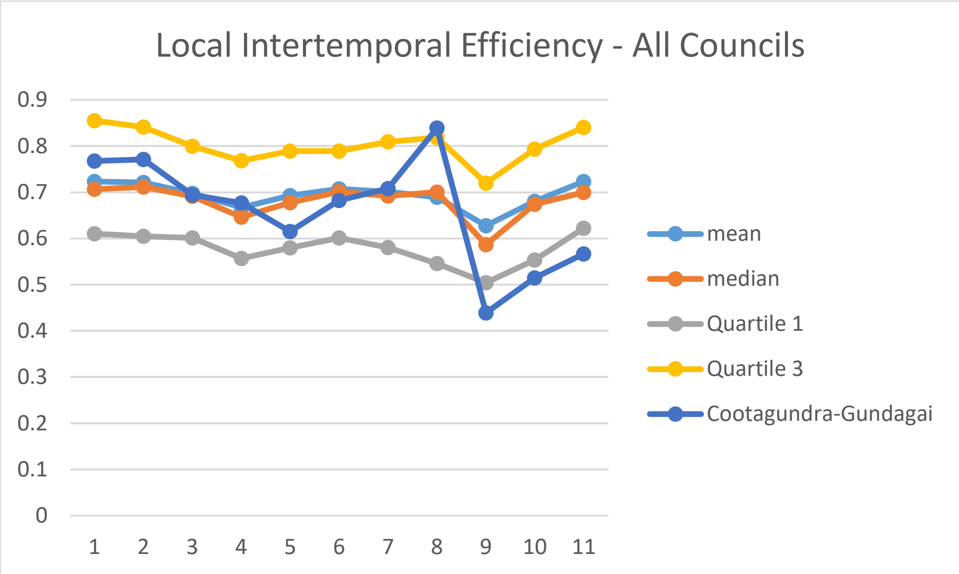
Appendix

Reproduced from Drew (2016) which was submitted to the Boundaries Commission Delegate by Gundagai Shire.

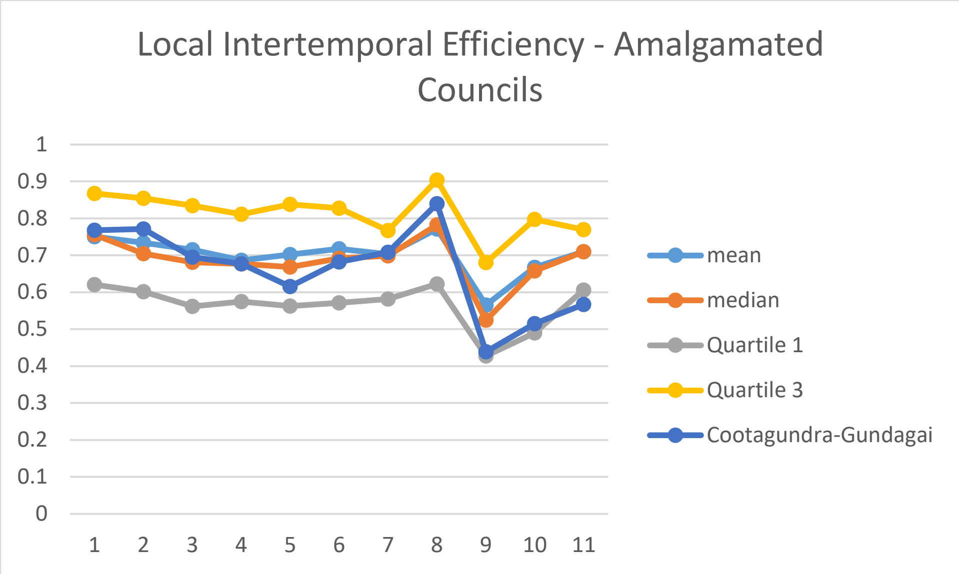
Table 1. Queensland Employee Expense: Mean Annual Change, 2009 to 2015 (standard deviation in parentheses).

Period	Non-Amalgamated Councils	Amalgamated Councils[14]
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.



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



Ratio Definitions

Definitions, Benchmarks, and Weightings of TCorp Financial Sustainability Ratios

Variable	Weighting	Benchmark	Definition
Operating ratio	17.5%	>–4%	(Operating revenue[a] – operating expenses)/operating revenue[a]
Own-source Revenue ratio	17.5%	>60%	Rates, utilities, and charges/total operating revenue[b]
Unrestricted Current ratio	10.0%	>1.50×	Current assets less restrictions/current liabilities less specific purpose liabilities
Interest Cover ratio	2.5%	>4.00×	EBITDA/interest expense
Infrastructure Backlog ratio	10.0%	<0.02×	Estimated cost to bring assets to a satisfactory condition/total infrastructure assets
Debt Service Cover ratio	7.5%	>2.00×	EBITDA/(principal repayments + borrowing costs)
Capital Expenditure ratio	10.0%	>1.10×	Annual capital expenditure/annual depreciation
Cash Expense ratio	10.0%	>3.0 months	(Current cash and equivalents/(total expenses – depreciation – interest costs)) × 12
Buildings and Infrastructure Renewal ratio	7.5%	>1.00×	Asset renewals/depreciation of building and infrastructure assets
Asset Maintenance ratio	7.5%	>1.00×	Actual asset maintenance/required asset maintenance

[a]Revenue excludes capital grants and contributions. [b]Revenue includes capital grants and contributions.

BOUNDARIES COMMISSION INQUIRY COMMUNITY FORUM

Please complete this survey ***after*** you have listened to the presentation from Prof Drew and heard answers to any questions raised.

It is important Council understands the views of our residents on this matter and we thank you for your time in attending.

1. Were you in favour of the 2016 amalgamation? Please circle your response.

   Yes

   No

   Undecided

2. Do you think a de-amalgamation will save money? Please circle your response.

   Yes

   No

   Undecided

3. Are you in favour of a de-amalgamation? Please circle your response.

   Yes

   No

   Undecided

   Why? (please be brief)

   ……