Submission No 81

INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

Organisation: Cooma-Monaro Shire Council

Date received: 6/07/2015

COOMA-MONARO
SHIRE COUNCIL

2 July 2015

The Director
General Purpose Standing Committee No. 6
Parliament House
Macquarie Street
Sydney NSW 2000

Dear Director

Subject: Submission – Inquiry into the 'Fit for the Future' reform agenda

Please find attached our submission to General Purpose Standing Committee No.6 for the Inquiry into the 'Fit for the Future' reform agenda.

This submission is authorised by me on behalf of Cooma-Monaro Shire Council.

I take this opportunity of thanking the Committee for the opportunity of making this submission.

If further information is required, please contact me or alternatively, Council's Director of Environmental Services,

Yours sincerely

John Vucic
General Manager

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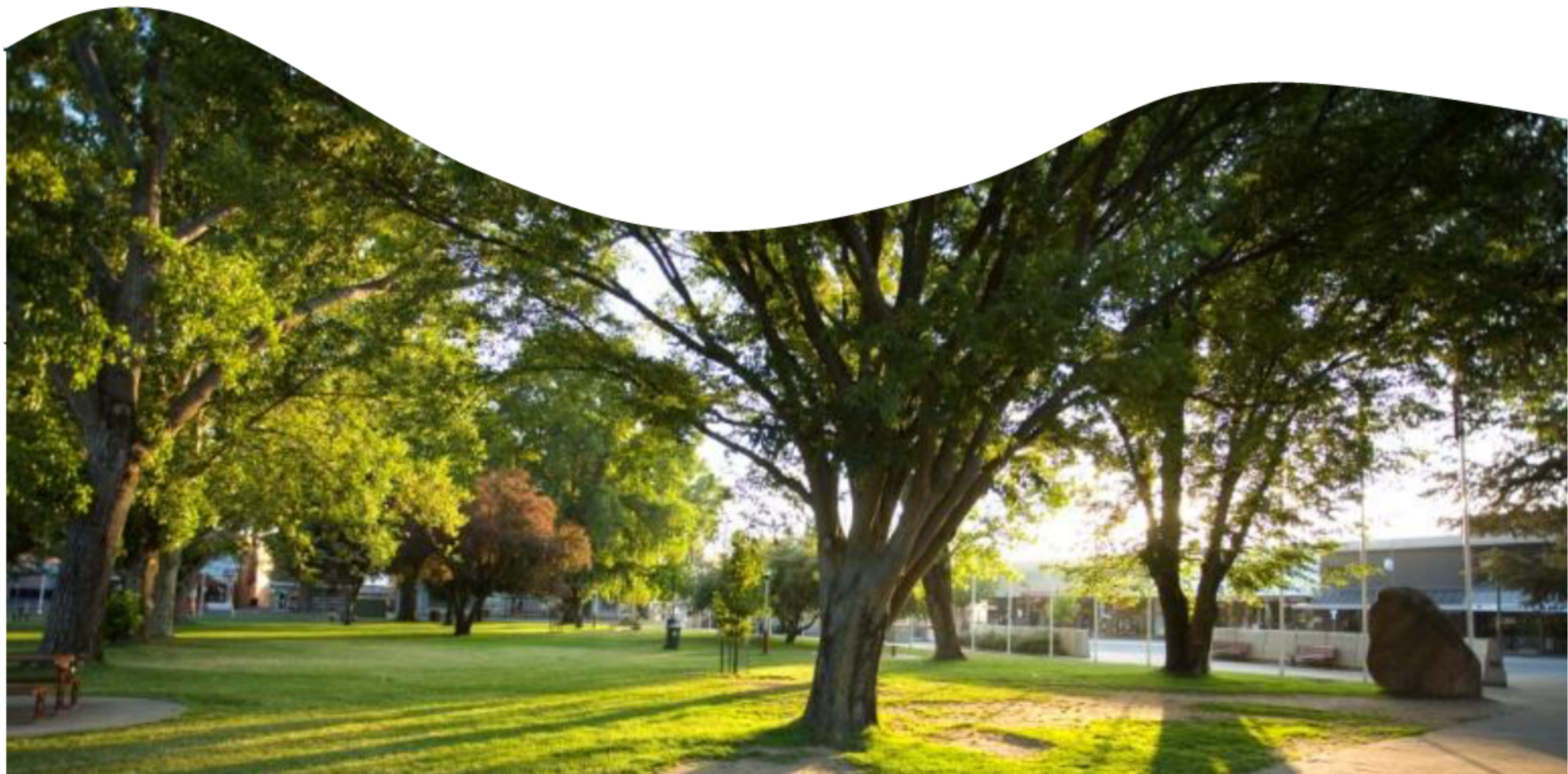
COOMA-MONARO
SHIRE COUNCIL

Submission to General Purpose Standing Committee No. 6 Inquiry into the 'Fit for the Future' Reform Agenda



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Introduction

Cooma-Monaro Shire Council welcomes and is grateful for the opportunity to make a submission to the General Purpose Standing Committee No. 6 on the 'Fit for the Future' reform agenda.

The need for reform in NSW Local Government is recognised and acknowledged by Cooma-Monaro Shire Council.

Local Government in NSW has been eagerly awaiting the review and re-working of both the Local Government and the Environmental Planning and Assessment Acts, both of which have already involved extensive input and investment of staff time and resources in attending forums, workshops and discussions throughout the State.

These reforms are seen as critical in removing some of the in-built impediments to efficiencies in NSW Local Government, and it is suggested that resolving these may have been a beneficial pre-cursor to the Fit for the Future program.

As part of the 'Fit for the Future' program, the Councils of Cooma-Monaro, Snowy River and Bombala agreed to undertake a 'Merger Business Case' and commissioned KPMG to complete this task. The final report, released to Councils on 18 May 2015 did not provide a sound basis for pursuing the merger option.

The Independent Panel Recommendations for Cooma-Monaro were to either be a Council in the South East Joint Organisation (JO) or merge with Bombala and Snowy River; for Bombala the recommendation was to merge with Cooma-Monaro and Snowy River or be a Rural Council in South East JO; and for Snowy River to be a Council in South East JO or merge with Bombala/Cooma-Monaro. Of the three Councils, only Snowy River was listed by the Panel as being a Council that *"urgently require(d) a revised long-term asset and financial management plan plus an updated sustainability assessment".*

Bombala was listed by the panel as a "*Group B Council*" with a "*high merger potential*" as it has a "*Projected 2031 population below 4,000*".

The current lack of information regarding the JO model and whether Councils can still follow the Panel's recommendations as being either a 'Council' or a 'Rural Council' under a JO make it difficult to fully and competently address all of the Panel's options.

Background – Cooma-Monaro Shire Council

Cooma-Monaro Shire has a population of 10,073 (*NSW Office of Local Government 2013/14 Time Series Data – Your Council Report*) and is situated in the Monaro Region in the south east of NSW.

The Shire has a total land area of 5,229 km^2 which includes national parks, nature reserves, agricultural land, forests, the villages of Michelago, Bredbo, Numeralla, and Nimmitabel, and the town of Cooma which is the largest centre in the Snowy-Monaro Region. Past population variations have been attributed to changes in activities of major industry employers such as 'the Snowy' and State Government, and an increase in those seeking a rural lifestyle but wishing to retain an urban-based occupation.

Industry in the Shire consists of agriculture (the region is very highly regarded for its quality sheep and cattle production), some horticulture (including grapes, olives, vegetables and lavender), health care services including Cooma Hospital plus two medical practices, allied health services, the Cooma Correctional Centre, the Monbeef export abattoir, tourism and hospitality, a strong retail services sector, and light industrial activities. Snowy Hydro Limited has its headquarters in Cooma, and the Snowy Mountains Engineering Corporation also maintains a presence in Cooma. Compared to many similar rural areas the Shire has quite a diversified economy and is reflective of it being the “Capital of the Snowy Mountains”.

Cooma–Monaro Shire Council was formed in 1981 through the amalgamation of the Cooma Municipal Council and the Monaro Shire Council. In February 2004, the southern part of the former Yarrowlumla Council (the localities of Michelago, parts of Burra, Clear Range, The Angle and Bumbalong) was added to Cooma-Monaro Shire Council when the former Yarrowlumla Council was dissolved.

Cooma-Monaro Shire Council is a water and sewer authority, with reticulated water supplies provided in Cooma, Bredbo, and Nimmitabel, and reticulated sewage schemes in Cooma and Nimmitabel. Council runs its own waste and recycling collection services, including a recently introduced organics collection service for the Cooma urban area, and has an EPA licensed landfill facility, plus rural waste transfer stations located at Bredbo, Numeralla, and Nimmitabel.

In addition to the provision of the usual ‘municipal’ services, economic development has been and will continue to be a key priority for Council. Growth and development of the Shire will ultimately assist Council in meeting its ‘Fit for the Future’ benchmarks and ensure there is a robust and healthy local economy. The new ‘So much to Love’ campaign is a key element of our economic development strategy and will continue to be so into the future. Council also partnered with Snowy Hydro to establish the Cooma University Centre, providing access for local students to undertake university studies without the need to travel away.

Ensuring Council is an organisation that remains capable of delivering its services in a cost-effective manner and is recognised as a worthy leader within the community is another priority. Cooma-Monaro Shire has lead the way on matters such as asset management, waste and recycling services and asbestos management compared to other similar sized councils. It is important that Council maintains this position which ultimately benefits our residents. With the bedding down of a new finance system over the past few years Council is well placed to better understand and manage its budgets.

This submission addresses the Committee's Terms of Reference points as follows:

(a) The New South Wales Government's 'Fit for the Future' reform agenda

This Council acknowledges the NSW Government's aim of achieving improved levels of sustainability within Local Government. It is also recognised that there is a need for not only Local Government in NSW, but for all forms of government to be more efficient in delivering services to the community.

It is considered, however, that major structural reforms of the enabling legislation (the NSW Local Government Act) should have been resolved prior to, or at least as part of this process. Some of the inefficiencies attributed to Local Government operations are due to impediments which are embedded in legislation dating back to 1993 or beyond.

It also clear that many recommendations from previous reports into the sustainability of Local Government are still acutely relevant, and perhaps these could also have been taken into closer consideration in progressing the 'Fit for the Future' agenda.

While a lot of the focus and media attention has been on the issue of council mergers (either voluntary or forced) it remains that a major aspect for rural councils in a merger situation is the prospect that it's 'unit costs' for service delivery will be increased by having to serve a much larger land mass area with a lower population density.

In a discussion paper by Professor Percy Allan released in 2006 *What Drives Country Councils' Efficiency – Population Size or Density?* he states:

(In analysing the data) *"It suggests that the less dense a shire Council's population is the higher its unit operating cost."*

And

"(Figures 2 and especially 3) might suggest that forcibly amalgamating councils with a low population density without also forcibly merging their populations into larger urban centres (something not possible in a democracy and something that would strip a shore of its rural economic base) may not achieve significant cost savings."

This has particular relevance to Cooma-Monaro, Bombala and Snowy River Shires.

Based on the NSW Office of Local Government comparative information, Cooma-Monaro Shire has a population density of approximately 1.95 persons per square km, Bombala 0.7 persons/sq.km, and Snowy River approximately 1.4 persons/sq.km.

In a situation where the three councils were merged (being one of the Independent Review Panel suggestions) the population density of the new entity would be around1.4 persons/sq.km. Effectively, this would mean a reduction of the population density for the Cooma-Monaro Shire part by around 30%.

In applying the comments from Professor Allan's research, the reduction in population density may impact on the ability of the newly merged council entity to service the former Cooma-Monaro area with the same or similar unit costs as its residents currently receive.

(b) The financial sustainability of the local government sector in New South Wales, including the measures used to benchmark local government as against the measures used to benchmark State and Federal Government in Australia

It has been well documented for decades that NSW Local Government has suffered due to 'cost shifting' from other tiers of Government. It is undeniable that Local Government is now delivering numerous services that were previously not part of the traditionally viewed 'core' local government functions.

There are many examples where legislative changes have seen Local Government 'absorb' regulatory functions which were previously the domain of the State Government, and without any mechanism of raising revenue (other than through the issue of fines etc) to cover the expense (eg the 'appropriate regulatory authority' aspect of the *Protection of the Environment Operations Act 1997*, where upon being introduced, Local Government was transferred the oversight of a range of industrial and commercial premises and activities that were previously licensed by State agencies.)

While many derived functions have been established with grant or 'seed' funding from either the State and/or Federal Governments, in providing the service Local Government has unwittingly built up an expectation of continuation of service delivery after the initial funding source has been expended. Local Government is then required to fund the service from its General activities, in other words, from its revenue obtained through general rates.

With additional service provision being funded from its General Fund revenues, less is available to spend on infrastructure and asset maintenance/replacement. This feeds into the issue of on-going sustainability, with more of a council's income being used to fund 'people' services and not infrastructure services.

The attached extract from *Are Councils Sustainable? Final Report – Findings and recommendations – Independent Inquiry into the Financial Sustainability of NSW Local Government – May 2006* (Allan, Darlison, Gibbs) provides more detail regarding recognised areas of cost-shifting:

"Over recent decades Local Government has continually increased the amount of human services it provides. Some of these new services have been council initiatives or a response to altered community expectations. However, many have been mandated by State and Commonwealth Government as a way of shifting responsibility and thereby associated costs to Local Government. In other cases they have come about as a result of Local Government backfilling gaps left by other tiers of government that have reduced their traditional obligations whether statutory or not.

The Commonwealth House of Representatives Standing Committee on Economics and Finance, also known as the Hawker Inquiry, concluded that the majority of cost shifting has been from state governments onto Local Government. There was also some evidence of cost shifting by the Commonwealth Government onto Local Government.

The major types of cost shifting were identified as:

- *The withdrawal or reduction of financial support once a program is established therefore leaving Local Government with the choice of continuing the program or suffering potential political backlash if the service is cancelled;*
- *The transfer of assets without appropriate funding support;*
- *The requirement to provide concessions and rebates without compensation payments;*
- *Increased regulatory and compliance arrangements; and*

- *Failure to provide for indexation of fees and charges for services prescribed under state legislation or regulation.*

The Hawker Inquiry considered that most cost shifting occurred in the following five major areas: community security; fire services; health and welfare; libraries and airports (Hawker 2003, p3).”

The effect of ‘cost shifting’ from one tier of government to another is that the financial burden of service delivery is taken from one government’s ‘balance sheet’ and transferred to another. While ever this is allowed to occur and while ever it continues to occur, it appears unrealistic to look at the measurement parameters for Local Government in the same light as those expected of other levels of government.

Another area where the parameters used for Local Government appear to be unreasonable in comparison with the private sector is with the treatment of depreciation of assets. Local Government is required to recognise the value of assets at ‘fair value’ and must periodically revalue these assets to current replacement value. As such the cost of depreciation continues to rise over time as replacement costs invariably increase.

There is also an underlying assumption that all assets will be replaced when they have reached the end of their operational life. In reality, a council would review which assets to replace as part of its on-going asset management functions. It is highly likely that some older assets would not be replaced. Accordingly, any reserves accrued to cover the depreciation of those assets would not be required for that purpose.

(c) The performance criteria and associated benchmark values used to assess local authorities in New South Wales

It is noted that all of the performance criteria listed in the ‘Fit for the Future’ benchmarks are financial or economic in nature, that is, there are no criteria based on ‘social’ aspects as would be expected in modern triple or quadruple bottom line assessments.

Additionally, water and sewer activities were not included in considerations of Council’s position. Given that most rural councils are also water and sewer authorities it seems strange not to include those aspects as they form a key part of a council’s service delivery program, and can be a major factor in the overall infrastructure component of a council’s maintenance schedule.

Future decisions on critical funding areas such as redistribution of Financial Assistance Grants, and whether indexation will be re-applied to other sources such as the Roads to Recovery program will have an immediate impact on the level of compliance with the ‘Fit for the Future’ benchmarks for many councils.

Our Council has held the belief that due to being at an advanced stage in our asset management functions in comparison to many similarly sized councils, we are in a better position to more accurately reflect our infrastructure maintenance and depreciation position. In comparison, councils relying more heavily on ‘conservative estimates’ will potentially be shown as being in a ‘better’ position in relation to benchmarks where the reality may be quite different.

On the individual performance criteria, the following comments are offered:

Operating Performance Ratio

The definition of the Operating Performance Ratio states it is a "*Core measure of financial sustainability – indicates council's capacity to meet ongoing operating expenditure requirements*." It is argued that this is not exactly the case given that depreciation, a non-cash item, forms part of this measure.

Our Council more than comfortably achieves a substantial operating surplus before depreciation and as such has significant "*capacity to meet ongoing operating expenditure*." The issue for our Council, and possibly many others, is the ability to fully fund the depreciation by way of capital works or setting surplus funds aside for future works. While we agree it is important for a council to ultimately reach a break-even position with the inclusion of depreciation, the shortfall can be funded by loans and/or grants in the short to medium term.

As this measure is heavily affected by a Council's depreciation expense, it is considered that in comparing councils against one another that there is a failure in the assumption that each council has correctly and reliably valued their assets and applied appropriate depreciation rates.

For Cooma-Monaro Shire Council, our current operating result has been in a deficit position since the initial revaluation of the road assets in the 2009/2010 financial year. Prior to that Council typically recorded operating surpluses.

With many rural councils, there is a large reliance on external funding such as the Federal Financial Assistance Grant (FAG) and Roads to Recovery (R2R) which have a direct influence on this ratio. The freezing of indexation on the FAG and the non-indexation of R2R creates a significant erosion of the value of these income sources in real terms.

This in turn, can adversely affect the operating performance ratio.

Own Source Revenue

Council currently meets this benchmark and will continue to do so in the future. Whether this benchmark is a reliable informant of a council's financial sustainability is debateable, as many variables will influence a smaller council's ability to raise revenues from non-grant sources.

Building and Infrastructure Asset Renewal

The Review of TCorp's Report *Financial Sustainability of the NSW Local Government Sector – Final Report 3 October 2014 – JA Comrie Pty Ltd* comments as follows*:*

"*Intuitively it seems reasonable to assume that this ratio score should be about 100% as that would mean that infrastructure asset renewal expenditure over any particular period of one or more years was approximately offsetting the decline associated with age and use in the service potential of existing assets. In practice though there may be good grounds why a ratio of substantially more or less than 100% is more appropriate.*

The weighted average life of local governments' stock of depreciable assets is typically very long (often 40 years or more). Annual average asset renewal needs for classes of assets like stormwater drainage, road pavements and buildings are unlikely to be constant over time. They are likely to be periods of peaks and troughs. Rather than spend an amount on asset renewal each period consistent with annual depreciation, a council would be better advised to undertake asset renewal in accordance with levels and timing outlined in a soundly based asset *management plan."* (Review of TCorp's Report *'Financial Sustainability of the NSW Local Government Sector' – Final Report 3 October 2014 " – JA Comrie Pty Ltd – Page 11)*

It is this Council's opinion that transfers to reserves should be included as part of the expenditure in light of the above comments from Comrie, as this provides a more realistic reflection of how a Council funds its infrastructure renewals.

Infrastructure Backlog Ratio

The reliability of this ratio is questionable as it draws financial data from a council's Special Schedule 7 reporting, which is not an audited measure. As such, it is not seen as an overly accurate measure of one council's performance against another. Cooma-Monaro Shire Council expects to meet this ratio by 2016/2017.

Asset Maintenance Ratio

Again this ratio is taken from information contained in a council's Special Schedule 7 report, and as such the reliability to accurately compare one council against another is questionable. Cooma-Monaro Shire Council's forecast is that 100% of our required asset maintenance will be achieved in the 2016/17 financial year and beyond.

Debt Service Ratio

It can be argued that the debt service ratio is irrelevant where a council has little or no debt. In cases where a council is currently debt-free (such as Bombala) it seems unusual that they fail to meet the debt service ratio benchmark.

Many councils were encouraged over the last 30 years to pay off debt and to achieve a debt-free operating status, however it is acknowledged that an appropriate level of debt can be taken on in order to fund necessary (but prioritised) infrastructure improvements. In the current economic situation where interest rates are at historically low levels, funding infrastructure backlogs by manageable and appropriate levels of debt is considered to be sound.

Real Operating Expenditure Per Capita

This criteria is not seen as a reliable comparison to use between different councils, but it is accepted that in implementing efficiencies, it will provide a basis for measurement for an individual council if levels of service are maintained at the current or 'base-case' level.

In the event that a Council lowers its service levels to achieve a decrease in real operating expenses on a per-capita basis, it is questioned whether any improvement is actually made.

(d) The scale of local councils in New South Wales

Cooma-Monaro Shire Council's 'Fit for the Future' submission details how we meet the 'scale and capacity' criteria. For a rural council of our size, we have implemented numerous projects in partnership with government agencies (EPA, former CMA's (now LLS), Restart NSW etc) and have been successful due to our capacity to not only collaborate and negotiate, but to also deliver.

We are probably not in a position to make further comment in relation to how or why other Councils of a similar size do or do not meet the stated criteria.

(e) The role of the Independent Pricing and Regulatory Tribunal (IPART) in reviewing the future of local government in New South Wales, assisted by a South Australian commercial consultant

Other than the extremely tight timeframe in IPART delivering the final methodology to enable finalisation of submissions, we have no issue with IPART's involvement in reviewing submissions, providing there is opportunity to discuss issues of concern or to provide clarifications as and where necessary. It is seen as logical to have an 'independent' review of each council's 'Fit for the Future' submissions, as it will give credibility to the pathway accepted by the State Government.

It is seen as critical that councils have the ability to discuss any issues of concern and to clarify their position with the IPART reviewers prior to the final consideration of the State Government.

(f) The appropriateness of the deadline for 'Fit for the Future' proposals

The main concerns regarding the 30 June deadline for submission of the 'Fit for the Future' proposals was the lateness in receiving the final methodology from IPART, the time it took to complete the Merger Business Case and in Cooma-Monaro, Bombala and Snowy River's cases also the Shared Services report.

The tight timeframes meant that it was difficult to undertake consultation with our community, as until the final methodology and the various business case reports had been received, we were not in possession of the full details of available options. With the framework for Joint Organisations not being finalised, it was not possible to fully explain how a council might fit into a JO as a member or as a 'Rural Council'. Some attendees at our information sessions found that to be a little confusing.

Although the level of public attendance and interest at our information sessions was quite pleasing, there was not adequate time to do more in the way of public consultation. The public were quite aware of the critical time constraints that had to be met, but were unsure of how they could make a fully-informed appraisal of options with some options still not completely finalised.

In addition to our 'standard' day-to-day activities and service delivery, finalisation of the 'Fit for the Future' process had to run concurrently with Council's normal budgeting processes, and consultation with the setting of rates, fees and charges for the commencement of the 2015/16 financial year. The additional workloads placed on Council staff to finalise everything by the 30 June deadline were substantial.

This further highlights our Council's capacity and ability to respond to changes and also demonstrates the commitment of our staff in ensuring the additional workloads and distractions did not detrimentally affect the services we provide to our community.

(g) Costs and benefits of amalgamations for local residents and businesses

The 'Merger Business Case – Final Report' by KPMG which was issued to Cooma-Monaro, Snowy River, and Bombala Shire Councils on 18 May 2015 highlighted that there are potential savings to be made through a merger, but cautioned that:

"The estimated net financial benefits represent a high-level assessment of the potential impacts of a merger. It is important to consider the experiences of other jurisdictions that have undertaken local government reform and note the challenges of implementing reform. There is a notable absence of comprehensive reviews examining the success of these reforms."

(KPMG – Bombala Council, Cooma-Monaro Shire Council, Snowy River Shire Council – Merger Business Case Final Report 18 May 2015, page 2)

While accurate projections have not been completed, a merger for the Cooma-Monaro, Bombala and Snowy River Councils would incur significant up-front costs in standardising IT operating systems. Cooma-Monaro and Bombala Councils collaborated and entered into a joint tender arrangement to replace their IT operating system in 2012, however, Snowy River Shire uses a different IT system and is unlikely to change their system voluntarily.

Other significant up-front and on-going costs are expected with the standardisation of business practices including record administration and storage, and potentially standardisation of salaries for positions of equivalent stature that are likely to be different as each Council has its own individual ‘salary system’.

On-going costs will include the moulding of potentially differing work cultures, managing phased redundancies (noting the legislated protections), standardising rating processes across all rating categories, reviewing and standardising land use planning controls (LEPs, DCPs, Contribution Plans etc), and establishing governance structures including the make-up of the new Council (number of Councillors etc).

It is acknowledged that some efficiencies would potentially be gained in some ‘back-office’ functions (such as HR, Payroll, Risk, and governance functions) and some savings may be made due to having less (in number) Senior Staff (eg General Managers and Directors). However, while a merged council would only require one General Manager (GM) rather than a General Manager for each of the three separate Councils, it is expected that the GM of the newly merged entity would command a far higher remuneration package than currently provided – so the potential saving in that regard is not on a lineal 3 to 1 ratio.

Additionally, with the staff ‘protections’ afforded through the *Local Government Act*, the only other area of definite employee ‘savings’ is with staff defined as ‘Senior Staff’ in each Council’s organisational structures.

It is quite possible that due to the protections afforded through the *Local Government Act*, that some of the projected costs from redundancy of potentially duplicated positions would not materialise until the fourth year of the merged entity’s existence. Any projected savings and efficiencies from such redundancies may take far longer to manifest.

Alignment of rating systems will take considerable effort, potentially over a series of rating years, to achieve fairness and equity. For example, Cooma-Monaro’s average ‘Farmland’ rate has consistently been one of the lowest in the State (*Office of Local Government/Division of Local Government Comparative Information*) whereas our ‘Business’ rates have been quite high in comparison with other councils in our group.

‘Standardisation’ within rating categories across three councils with significantly different rating allocations will potentially deliver a rate ‘saving’ to some ratepayers while at the same time bringing a level of dissatisfaction from others. It is likely that Cooma businesses would see a ‘benefit’ from rating standardisation, whereas our ‘farmland’ ratepayers would likely see that standardisation as an additional cost.

This will be difficult to manage, including from the ‘political’ perspective.

It is projected that the level of theoretical savings due to a merger of one or more councils in a rural area may not be achieved due to the ‘hidden’ costs of implementation.

The KPMG Merger Business case provided for Cooma-Monaro, Bombala and Snowy River Councils also made reference to the Queensland reforms – extract as follows:

"Following the implementation of the reforms, a 2009 survey by the Local Government Association of Queensland offered a number of insights: (some points excluded)

- *less than one-third of council CEOs believed there would be a net benefit from the mergers, with regional councils the least positive about the potential benefits;*
- *the key challenge with implementing reform was the difficulty in managing community expectations and perceived loss of cultural identity; and*
- *a displaced workforce and differences in organisational culture associated with merged council entities risked undermining the potential efficiency and productivity benefits of the reform (Dollery, 2010)."*

(KPMG – Bombala Council, Cooma-Monaro Shire Council, Snowy River Shire Council – Merger Business Case Final Report 18 May 2015, page 14)

The report also included that in 2014, the Queensland audit Office (QAO) report into the local government sector "*suggests that despite the 2008 reform initiative, the financial sustainability of local councils in Queensland remains mixed*."
(KPMG – Bombala Council, Cooma-Monaro Shire Council, Snowy River Shire Council – Merger Business Case Final Report 18 May 2015, page 15)

With the merger business case clearly showing that the newly formed entity would not meet all of the 'Fit for the Future' benchmarks, it is inevitable that special rate variations would still be required.

(h) Evidence of the impact of forced mergers on council rates drawing from the recent Queensland experience and other forced amalgamation episodes

The KPMG 'Merger Business Case' for Cooma-Monaro, Bombala, and Snowy River Shire Councils shows that in the event of a merger, the newly created entity does not meet all of the 'Fit for the Future' benchmarks. In fact, in Cooma-Monaro's case, the merged entity meets fewer of the 'Fit for the Future' benchmarks than the current Council does in its own right.

It is clear that in the case of a merger of our three Councils, regardless of whether it was 'forced' or voluntary, a newly created entity would require an increase in revenue to address the issues that are currently plaguing the Local Government sector in general, being infrastructure backlogs and the long-term ability to maintain community assets at acceptable levels.

If the Councils of Cooma-Monaro, Bombala, and Snowy River are not to merge, each will have to secure increases to rating above the current rate pegging limits for several years to meet the 'Fit for the Future' criteria.

It is apparent that merge or no-merge, rate increases above the rate-pegging limit will be inevitable without significant increases in other revenue sources.

It is understood from informal conversations that the substantial 'up-front' cost of merging Queensland councils has been mirrored by the substantial cost of de-merging some of those councils.

The following extract from *Are Councils Sustainable? Final Report – Findings and recommendations – Independent Inquiry into the Financial Sustainability of NSW Local Government – May 2006* (Allan, Darlison, Gibbs) refers to perceived savings due to previous amalgamations in Victoria and South Australia:

"Allan (2003 p77) compares actual financial savings arising from amalgamations in other states to the originally predicted amounts. He argues that Victorian amalgamations of councils in the 1990s realised only an 8.5 per cent reduction in expenditure, which was largely as a result of competitive tendering, not because of mergers. The Kennett Government had promised a savings ratio of 20 per cent. In South Australia a saving of 17.4 per cent was originally envisaged by a government taskforce, but the State's Local Government Reform Board identified savings of only 2.3 per cent.

It is interesting to note that since the mid 1990's rates in Victoria have been growing faster than in other states (Brooks 2006, p9), suggesting that the original rate cut may not have been sustainable." (Are Councils Sustainable? Final Report – Findings and recommendations – Independent Inquiry into the Financial Sustainability of NSW Local Government – May 2006" (Allan, Darlison, Gibbs))

(i) Evidence of the impact of forced mergers on local infrastructure investment and maintenance

From the KPMG Merger Business case undertaken for Cooma-Monaro, Bombala, and Snowy River Shire Councils, there is nothing to suggest that a merger would solve the infrastructure backlog issue nor the requirement for additional revenue to fully fund the depreciation of assets.

The merger business case shows that the merged entity would still fail to meet the 'Building and Infrastructure Asset Renewal' metric, and not fully meet the Infrastructure backlog metric. (Refer to Tale 5.8 from the Merger Business Case below).

The Merger Business case states:

"Significantly, the financial analysis indicates a merged council would not meet all the Fit for the Future financial benchmarks –three of the seven benchmarks would be met in full, with one additional benchmark partially met. In particular, a merged council is likely to materially underperform against benchmarks relating to asset renewal and infrastructure backlog, and the expected net financial benefit of the merger is unlikely to be of sufficient quantum that would enable a merged council to invest heavily in these areas."

(KPMG – Bombala Council, Cooma-Monaro Shire Council, Snowy River Shire Council – Merger Business Case Final Report 18 May 2015, page 2)

Table 5.8: Summary of Fit for the Future metrics

Indicator	No Merger			Merger
	Bombala	Cooma-Monaro	Snowy River	
Operating Performance Ratio	-	-	-	-
Own Source Revenue	○	●	○	●
Building & Infrastructure Asset Renewal	-	-	-	-
Infrastructure Backlog	●	○	-	○
Asset Maintenance Ratio	●	●	-	-
Debt Service Ratio	-	●	●	●
Real Operating Expenditure per capita	●	○	●	●

Source: KPMG. ● = benchmark achieved; ○ = benchmark shortfall marginal (<10%)

(KPMG – Bombala Council, Cooma-Monaro Shire Council, Snowy River Shire Council – Merger Business Case Final Report 18 May 2015, page 2 & 59)

In relation to infrastructure funding, recommendation 7 of "*Are Councils Sustainable? Final Report – Findings and recommendations – Independent Inquiry into the Financial Sustainability of NSW Local Government – May 2006"* (Allan, Darlison, Gibbs) states:

"To overcome the infrastructure crisis, increase council funding by the order of $900 million per annum through a combination of increased Commonwealth and state grants ($200 million), council expenditure savings ($200 million) and higher rates, fees and charges ($500 million). *See 6.4.4*

The size of the infrastructure problem is so large that it will require a combination of revenue, debt and savings measures to overcome it. No single measure will be adequate on its own."

The under-funding of Local Government to address infrastructure issues has been recognised for many years without adequate steps being taken by any level of government to provide a fair and equitable solution.

Relying on mergers alone to deliver the funding required to address infrastructure does not appear to be viable.

(j) Evidence of the impact of forced mergers on municipal employment, including aggregate redundancy costs

While not being able to provide 'evidence' in relation to redundancy costs, the protection for employee positions provided through the NSW *Local Government Act 1993* (Chapter 11, Part 6, Sections 345B to 345I) indicate that potential 'savings' from making any duplicated positions redundant would not necessarily materialise until after year 4 of a merger. In centres of less than 5,000 people, it is unsure whether any staff reductions would be achievable at all.

The following extract from *Are Councils Sustainable? Final Report – Findings and recommendations – Independent Inquiry into the Financial Sustainability of NSW Local Government – May 2006* (Allan, Darlison, Gibbs) details an experience from the Greater Hume Shire Council where the protections for staff employment were viewed as hindering the ability for a merger to drive efficiency gains:

"In any event, state requirements that merged councils must have no forced redundancies for three years, employees terms and conditions must be preserved, staff may not be relocated outside the boundaries of the former council area if they claim hardship, and that pre-existing employment levels must be retained in rural areas, effectively inhibits a merger from being used to drive efficiency gains. (Greater Hume Shire Council 2005, pp 5-6)."

It is understood that similar issues were experienced in the formation of Palerang Council in 2004 with the dissolution of the former Yarrowlumla and Tallaganda Shire Councils.

It also must be recognised that for many rural or remote areas, the council is a major employer for the area. Accordingly, any reduction in staff numbers may have a far more significant impact on a local economy than that expected in larger or metropolitan areas.

Rather than reducing staff numbers, emphasis could be placed on redeploying staff resources to address operational areas where desired levels of service have not been possible.

(k) The known and or likely costs and benefits of amalgamations for local communities

A theme that was clearly evident from Cooma-Monaro, Bombala, and Snowy River's public consultation sessions was that the projected savings from things like the reduction of Councillor numbers will be offset by the fear (real or perceived) that smaller communities will lose a level of representation.

While difficult to put in terms of a monetary figure, as for the 'Fit for the Future' benchmarks, much of the discussion is relating to economic issues and not recognising social and community issues.

In reducing Cooma-Monaro's current population density of around 2 persons per square km by around 30% in the event of a merger with Bombala and Snowy River Councils (refer to item (a) above) it is highly probably that 'unit costs' of many day to day 'on-ground' services (such as building inspections, animal control and other enforcement activities, inspections of food premises etc) will be increased due to additional travelling requirements.

It is recognised that this is not likely to be as significant with mergers in larger urban areas.

"This indicates a proposed merger, while generating a net financial benefit to the region, is unlikely to completely resolve the financial pressures currently experienced by each of the councils. It is noted that other potential structural options –such as shared services analysis – are currently being reviewed in parallel with this Merger Business Case."

(KPMG – Bombala Council, Cooma-Monaro Shire Council, Snowy River Shire Council – Merger Business Case Final Report 18 May 2015, pages 2 and 3)

(l) The role of co-operative models for local government including the 'Fit for the Futures' own Joint Organisations, Strategic Alliances, Regional Organisations of Councils, and other shared service models, such as the Common Service Model

Cooma-Monaro Shire Council has been part of the SEROC group since its inception (now re-branded as the Canberra Region Joint Organisation - CBRJO), which also includes the Australian Capital Territory. While the final shape and format of the JO model is yet to be finalised, it is seen as an opportunity to further explore efficiencies and resource sharing, advocacy and lobbying, and purchasing power as a larger conglomerate of individual entities.

It is Cooma-Monaro Shire Council's position that in not entering into a merger with neighbouring councils, that efficiencies be investigated through an expansion of our existing shared arrangements including through the establishment of an 'alliance' based on the Wellington-Blayney-Cabonne model.

At an extra-ordinary Council meeting on 22 June 2015, Council resolved to participate in an alliance with Bombala Council and Snowy River Shire to progress cost savings and efficiencies and to contribute $50,000 towards the cost of employing an Executive Officer for the alliance. Bombala and Snowy River Shire Councils have also resolved to progress this formalised alliance model.

It is highlighted that the three Councils have effectively been providing shared services since the 1960s through the establishment of the Monaro Regional Libraries – which is still operational across the three Council areas today.

Additionally, services have been provided on a shared basis through former grant funded programs such as the very successful and Award-winning *Monaro Rural Health Service* which operated for over 10 years through Federal funding. This service was auspiced by Cooma-Monaro Shire on behalf of the three Councils, and provided a broad array of services to address identified gaps in the health system. This service was halted due to the re-direction of funding to the Medicare Local system.

Cooma-Monaro and Snowy River Shire Councils have had joint tender projects for contracts involving road pavement sealing and pipe-bursting for several years; Cooma-Monaro and Bombala have successfully implemented a joint program of IT operating system upgrade; and the three Councils are currently progressing a joint tender acceptance for standardisation of their web sites.

'Informal' arrangements are in place through the 'High Plains Forum" (a forum created by the three Councils to regularly meet and keep each other updated on industry pressures and opportunities) to enable items such as 'peer review' of Development Applications where one of the Councils might be the property owner or applicant; utilisation of staff for operational requirements such as weed control/advice, and assistance in emergency operations such as investigation of suspected food poisoning outbreaks etc.

Exploration of further avenues for sharing services, either formally or informally, is seen as a positive way of delivering efficiencies to our communities.

While the Joint Organisation model details are still to be finalised, this is seen as a natural progression or continuation of the Regional Organisation model that has worked successfully and delivered measurable and effective outcomes for participants for several years.

(m) How forced amalgamation will affect the specific needs of regional and rural councils and communities, especially in terms of its impact on local economies

Forced amalgamations are inevitably viewed as a way of delivering theoretical efficiency and cost-savings through removal of duplicated staff positions and streamlining of governance structures.

In consultation sessions held with our community through the 'Fit for the Future' process, it was made very clear by community participants that some held the view that there would be a loss of local representation, and possible marginalisation of smaller centres with more focus being placed on centres of larger population.

A forced merger is likely to exacerbate any lack of good-will between involuntary participants, or to create disharmony where neighbouring councils are currently operating in a collaborative manner, particularly if one council is in a better financial position than the other. A community is unlikely to be willing to take on another jurisdiction's debt or infrastructure issues, and the value of incentives currently being offered for voluntary mergers is not considered to be adequate to satisfactorily address the current infrastructure backlog and depreciation situation.

In rural areas, councils are usually major employers, so any job losses can have a snowballing effect on the local economy.

The loss of a certain number of jobs is a rural area has a far greater impact than the loss of the same number of jobs in an urban or city centre, as there is usually far less 'spare' capacity amongst other local employers to take on more employees.

Through our community consultation, concerns were raised that smaller centres would experience a loss or reduction of services.

(n) Protecting and delivering democratic structures for local government that ensure it remains close to the people it serves

Throughout discussions with our neighbouring Councils, with consultants Ernst & Young and KPMG, and through our community consultation forums on the ‘Fit for the Future’ program, a key message was heard that smaller rural areas have a very real fear that in the event of a merger they would lose ‘local representation’.

The issue of representation is quite complex, as under the current Local Government Election processes, in the absence of “Wards” or ‘Ridings”, it is quite possible that a merged Council would have elected members primarily from those centres with the higher populations.

Whether that actually creates a loss of representation is not known, and would have to be proven by examining the functionality of the new entity, but the perception that this may eventuate can create disharmony and disillusionment with the Local Government system.

A loss in confidence in any sector of government is not advantageous.

(o) The impact of the ‘Fit for the Future’ benchmarks and the subsequent IPART performance criteria on councils’ current and future rate increases or levels

To meet or move towards meeting all of the ‘Fit for the Future’ benchmarks Cooma-Monaro Shire Council will be required to increase rates above the NSW Government rate pegging limit for a series of years. This is probably not viewed as an unexpected scenario, given that Cooma-Monaro has not had any special rate variations since the inception of rate-pegging.

However, the KPMG merger business case provided to Cooma-Monaro, Bombala and Snowy River Shires shows that a merged council would meet less of the ‘Fit for the Future’ metrics than Cooma-Monaro currently does (refer extract Table 5.8 above), and accordingly to meet some of the performance benchmarks, rate increases above the NSW Government rate-pegging limit would still be necessary.

While it is recognised that the limitations imposed on a council’s revenue-raising capacity has been diminished by rate-pegging when compared to Local Government in other states, consideration is also required as to the community’s fiscal capacity to pay increased rates and taxes.

This opens up a whole new gambit of discussion around Local Government’s share of other taxation revenue such as GST.

Conclusion

Thank you for the opportunity to make a submission to this inquiry.