

# Submission to the Delegate

## Palerang/Queanbeyan Merger Proposal

---

on behalf of

**P A L E R A N G**  
**C O U N C I L**



## Table of Contents

Table of Contents .....	2
List of Figures .....	4
List of Tables .....	5
Executive Summary.....	6
Introduction .....	8
1 Legal Issues.....	11
1.1 Rural Town Economies .....	11
1.2 Exempting Bungendore as a Rural Centre.....	12
2 Financial Impacts.....	13
2.1 Claimed Merger Benefits.....	13
2.2 Summary of Alternative Financial Impact Estimates .....	14
2.2.1 KPMG Methodology Estimates .....	14
2.2.2 Estimates by LKS Quaero on behalf of QCC.....	16
2.2.3 Estimates by ORION Consulting Network .....	18
2.2 Analysis Based on Palerang & Queanbeyan City Financial Data.....	20
2.3 Critique of the KPMG Modelling.....	21
2.4 Critique of QCC/LKS Financial Analysis .....	23
2.5 Scale and Capacity .....	24
2.6 Financial Sustainability.....	27
2.7 Assets.....	28
2.8 Summary of Financial Impacts .....	29
2.9 Summary of Claims .....	30
2.9.1 Financial Benefit.....	30
2.9.2 Reduced Reliance on Rate Increases .....	31
3 Local Community.....	32
3.1 Centres of Influence.....	32
3.2 Survey Data .....	33
4 Historical Values.....	37
5 Ratepayer & Resident Attitudes.....	39
5.1 IRIS Survey Commissioned by Queanbeyan City Council .....	40
5.2 Winton Survey Commissioned by Palerang Council .....	41
6 Representation.....	44
6.1 Effective Representation .....	44

6.2	Operating Model .....	44
6.3	Relationships .....	45
7	Services & Facilities .....	47
7.1	The Tyranny of Distance.....	47
7.2	Urban vs Rural Services .....	48
7.3	Service Delivery Impact.....	50
8	Council Staff .....	52
8.1	Potential to Convert Staff to Lower Paid Front Line Positions .....	52
9	Rural Communities.....	55
10	Wards .....	56
11	Diversity .....	57
12	Other Factors .....	58
12.1	Organisational Capacity and Service Delivery .....	58
12.2	Strategic Planning .....	59
13	Data Analysis .....	62
13.1	Replication of KPMG Figures .....	62
13.1.1	Materials and Contracts.....	62
13.1.2	Employee Benefits .....	63
13.1.3	Other .....	64
13.2	Statistical Analysis .....	64
13.2.1	Methodology.....	64
13.2.2	Analysis.....	65
13.3	Regression Analysis.....	65
13.3.1	Staff Ratio – Rural providing water .....	65
13.3.2	Staff Ratio – Rural not providing water .....	67
13.3.3	Staff Ratio – Metro not providing water services.....	68
13.3.4	Conclusion .....	68
13.4	Operating Expenditure Regression Analysis .....	69
13.4.1	Methodology.....	69
13.4.2	Analysis.....	69
13.4.3	Conclusion .....	71
13.5	Financial Assistance Grants .....	71
14	Acknowledgements.....	72

## List of Figures

Figure 2-1	Staffing Levels in Large Regional Councils.....	19
Figure 2-2	FTE Staff per 100 Population.....	23
Figure 2-3	Staffing Levels in Large Regional Councils.....	25
Figure 2-4	Palerang Projected Operating Balance Ratio (P Allan & Assoc) .....	27
Figure 2-5	Palerang Projected Net Financial Liabilities Ratio (P Allan & Assoc).....	28
Figure 2-6	Palerang Projected Infrastructure Backlog Ratio (P Allan & Assoc) .....	29
Figure 2-7	Queanbeyan Projected Infrastructure Backlog Ratio (P Allan & Assoc).....	29
Figure 3-1	Palerang Residents' Work Locations .....	33
Figure 3-2	Palerang Community Linkages .....	35
Figure 5-1	Preferred Council Area.....	42
Figure 13-1	Population vs FTE Staff (Rural providing water).....	66
Figure 13-2	FTE per 100 Capita vs Population (Rural providing water).....	66
Figure 13-3	Population vs FTE Staff (Rural not providing water) .....	67
Figure 13-4	FTE per 100 Capita vs Population (Rural not providing water) .....	67
Figure 13-5	Population vs FTE Staff (Metro not providing water).....	68
Figure 13-6	FTE per 100 Capita vs Population (Metro not providing water).....	68
Figure 13-7	Population Density and Road Length .....	70

## List of Tables

Table 2-1	Comparison of Financial Estimates .....	15
Table 2-2	Ongoing Savings and Costs.....	17
Table 2-3	Modelling of QCC/PC Financials (KPMG Methodology) .....	21
Table 2-4	Invalid KPMG Assumptions .....	22
Table 2-5	Starting Financial Position .....	29
Table 2-6	Impact of Merger on Operating Position .....	30
Table 7-1	Travelling Distances.....	47
Table 7-2	Council Services.....	48
Table 8-1	Staff Numbers and Costs .....	52
Table 8-2	Potential Savings from Corporate/Management Staff converted to Front Line	53
Table 13-1	Assumptions: Materials and Contracts .....	62
Table 13-2	Assumptions: Employee Benefits .....	63
Table 13-3	Analysis Data .....	65
Table 13-4	Operating Expenditure Regression Outcome.....	69
Table 13-5	Operating Expenditure Regression Outcome.....	70
Table 13-6	FAG Regression Outcome.....	71

## Executive Summary

This submission provides commentary on the Proposal to merge the local government areas of Palerang and Queanbeyan City.

It must be emphasised from the outset that the point of reference for this Proposal is the Minister's Proposal to divide the Palerang LGA. Its purpose is not so much to present a case for merging Palerang and Queanbeyan City Councils as it is to present a case not to divide the Palerang LGA.

In line with the views expressed by the majority of our residents, Palerang Council remains opposed to any merger or boundary adjustment, believing that the current organisation is better positioned to deliver the range of services our community needs than any of the alternative merged structures being proposed.

Significantly, none of the Proposals before the Minister appropriately account for the consequences of Section 218CA of the *Local Government Act 1993* (the Act) in relation to the preservation of staff numbers in rural areas.

While retaining the Palerang LGA as a whole would be a better outcome for Palerang communities than dividing it, all three Proposals involving the Palerang LGA that are before the Minister fail to satisfactorily address every factor identified for consideration by the Boundaries Commission under Section 263(3) of the Act. In particular:

- The claims presented in the current Proposal are based on the same flawed financial data that was presented in previous Proposals. While this allows a valid comparison between the individual Proposals, a comparison that illustrates the significant and negative consequences of dividing the Palerang LGA, a full merger would still result in an annual budget deficit of at least \$0.5 million for the proposed new Council, which is \$2m worse than the most recent audited figures;
- The Proposal fails to recognise the distinct nature and demographics of the two Councils and the significant lack of overlap in their respective operations. Areas where there may be overlap are better dealt with via appropriate resource sharing arrangements between neighbouring councils than by merging entire organisations;
- The Proposal marginalises the rural communities throughout Palerang, leaving them with little chance of representation on the proposed new Council. It also grossly underestimates Palerang Council's current contribution to employment in the region and the impact that employment conditions would have on a new Council;
- The Proposal ignores the results of independent surveys of Palerang residents that consistently demonstrate the absence of any significant economic or social relationship with the proposed merger partner and a majority interest in retaining Palerang Council as an independent entity.

Extensive regression analysis, detailed in Section 13, further demonstrates that both Palerang and Queanbeyan City Councils are already lean and efficient organisations in comparison with other NSW councils. This underscores the view, presented in this submission, that the savings claimed by KPMG are simply not achievable.

Under these circumstances, the Minister has no just or economically logical alternative to taking no further action on this or any other Proposal that would see the dissolution of Palerang Council.

Nonetheless, Palerang Council remains committed to supporting genuine reform of the NSW local government sector. To this end, the most productive way forward for all councils in South East New South Wales (SE NSW) is for the State to recognise the central role played by the ACT in the economy of the region and to support the ongoing development of the Canberra Region Joint Organisation (CBRJO). The CBRJO is already helping to build strong working relationships with the ACT Government, while at the same time providing a solid foundation for the growth of member councils.

As is outlined at several points in this submission, most, if not all of the benefits that can be derived from mergers in the area are either already being, or can be, achieved through the CBRJO. Significantly, not only does the JO structure provide enhanced capacity, it does so while retaining and even strengthening both the competencies of and representation provided by the individual member councils.

## Introduction

Both Palerang and Queanbeyan Councils have been assessed by IPART as being financially viable. The only point on which they have been declared 'not fit' is the claim that the respective communities would be better served by a single Council.

It is our view that the best option by far is for the two Councils, Palerang and Queanbeyan, to play an active role in the local government reform process through membership of the Canberra Region Joint Organisation of councils, working together with all of their neighbours, including the ACT Government, to the benefit of the whole of the SE NSW region.

In this regard, it is worth making reference to the ILGRP Report, *Revitalising Local Government*. There are two quotes that are particularly relevant in the present context. First is the note that:

“The Panel sees stronger regional cooperation as a central plank of local government reform. This will enhance the role of councils and facilitate more productive State-local relations, especially in strategic planning, economic development, infrastructure provision and service delivery.” (Section 11, p.79)

As such, we propose that active participation in the Joint Organisation initiative rather than any merger is clearly the most productive path to follow in the present case. This path is, as noted by the Panel, “a central plank of local government reform”, and it is a plank of particular relevance in this case as we will see presently.

The second quote puts the spotlight on what should be motivating mergers:

“Mergers should be pursued where they can make a **substantial contribution** to addressing financial problems, reducing fragmentation of resources and duplication of effort, and building strategic capacity for the long term.” (Section 10.2, p.72, emphasis added)

Critically, the content of this submission illustrates quite clearly why none of the Proposals involving Palerang and Queanbeyan Councils make any *substantial contribution* to addressing financial problems, or reducing fragmentation of resources or duplication of effort within these Councils. Neither do they give cause to believe that there would be any impact on strategic capacity to serve any more than the urban population involved, at best.

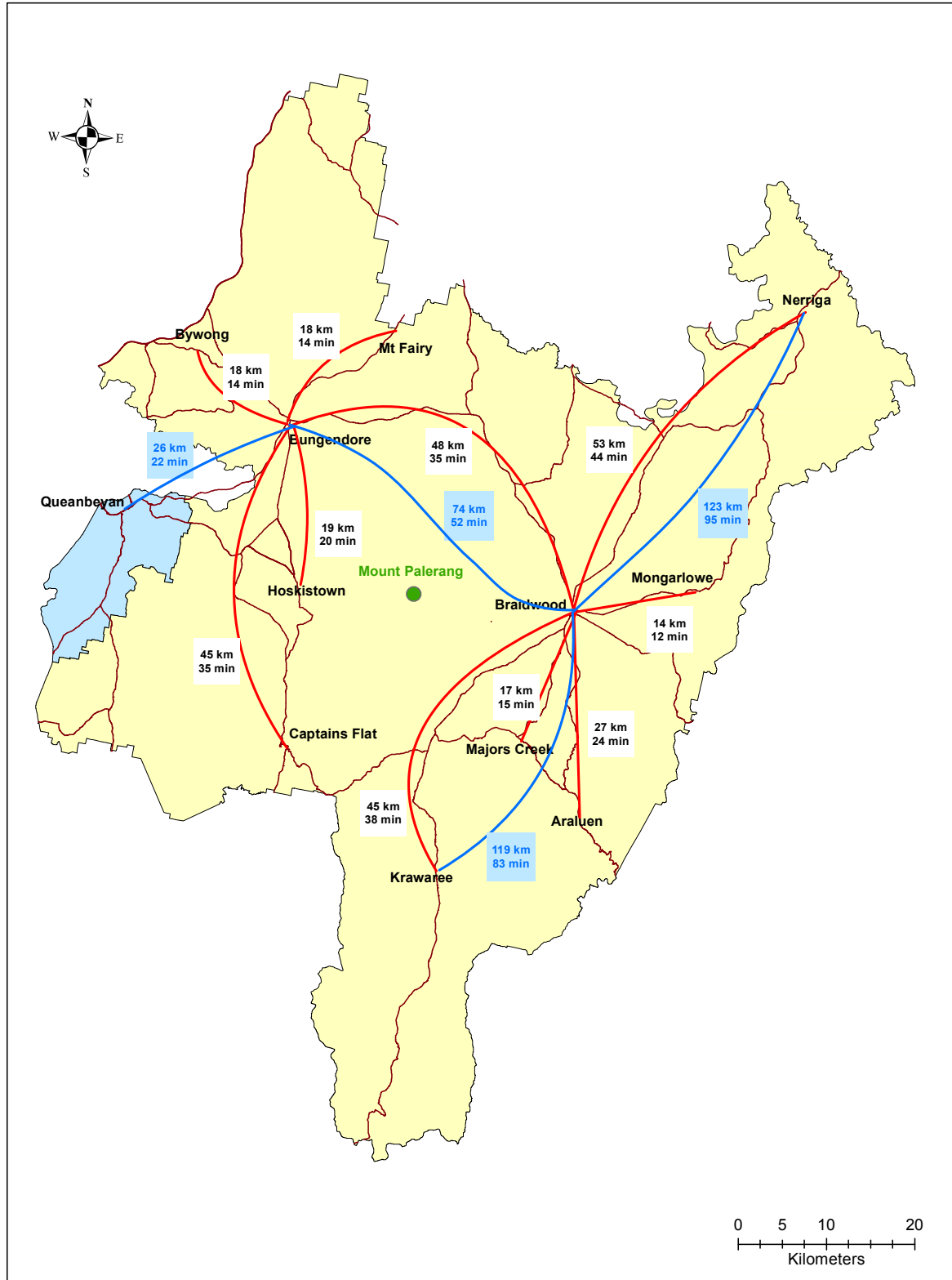
Significantly, none of the Proposals being considered make any effort whatsoever to identify any of the ongoing costs to the Palerang community, let alone present any case as to how any such cost might be offset.

It will be demonstrated through this submission that the Proposal fails to satisfactorily address every factor identified in Section 263(3) of the Local Government Act (the Act).

The map on the following page provides some reference for the geographic locations of the two council areas in question, the main towns and the distance involved.



### Map of Palerang & Queanbeyan with Travel Times and Distances



Section 1 of this submission deals with the legal issues relating to Section 218CA that have a bearing on the present Proposal but have not been appropriately considered.

In the absence of a satisfactory account of the basis for the KPMG financial model that underpins the Proposal, Palering Council engaged ORION Consulting Network (ORION), a consulting firm with over 25 years' experience in local government and direct involvement with the Queensland local government reform process, to develop a financial model for the proposed new Council based on publicly available, audited financial data.

In addressing Section 263(3)(a) of the Act, Section 2 of this submission provides extended commentary on the financial implications of the Proposal with reference to the modelling results provided by ORION.

Sections 3– 12 provide further comment against Sections 263(3)(b)–(f) of the Act respectively.

Section 13 outlines the data and assumptions underpinning the ORION modelling and provides a statistical analysis of relevant NSW Council data that demonstrates that Palering Council is a lean, efficient organisation and that there is almost no opportunity to find further efficiencies at a staffing level.

Section 14 acknowledges the assistance provided in compiling this submission.

## 1 Legal Issues

### 1.1 Rural Town Economies

One of the critical issues to consider is the employee protection aspects of the legislation. The simplistic, and flawed, modelling by KPMG does not effectively take this into account.

It is important to recognise that the implications of Section 218CA cannot be ignored even if a proposal is characterised as a boundary adjustment. Section 218CA(1)(b) is quite explicit in this respect.

*(1) This section applies to a council (the "transferee council"):*

*a) ...*

*b) whose geographical area is increased as a result of the alteration of the boundaries of two or more areas, where a council (the "previous council") whose geographical area is reduced as a result of the alteration employed regular staff at a rural centre in the area of the transferee council immediately before the alteration took effect.*

That Section 218CA applies regardless is also clear from the language of Section 218CA(2), which states that (emphasis added):

*(2) The transferee council must ensure that the number of regular staff of the council employed at the rural centre is, as far as is reasonably practicable, maintained at not less than the same level of regular staff as were employed by the previous council at the centre immediately **before the amalgamation or alteration of boundaries** took effect.*

The only circumstances where Section 218CA does not need to be considered are the circumstances prescribed by the regulations [see Section 218CA(3)] but there are currently no circumstances so prescribed.

It is also important to note the definition of 'rural centre' in considering if Section 218CA applies. A 'rural centre' is defined in Section 354B to be:

*a centre of population of 5,000 people or fewer, and includes a geographical area that is prescribed, or is of a kind prescribed, by regulations in force for the purposes of this definition as being a rural centre.*

Both Bungendore and Braidwood, where the majority of Palerang staff is based, have populations of fewer than 5,000. There can be no doubt that regular staff numbers (often referred to as the 'core numbers') apply under current legislation.

Any financial modelling for a Proposal affecting Palerang that does not take into account the implications of Section 218CA will be inaccurate.

Further, the Delegate and Minister cannot lawfully consider savings that depend on staffing reductions in Braidwood, contrary to the current Section 218CA. Virtually all of the savings claimed by QCC come from the planned dismantling of the Braidwood office and staffing levels, and therefore cannot be considered in the assessment of this Merger Proposal.

## 1.2 Exempting Bungendore as a Rural Centre

In their presentation to the public enquiry, the QCC Mayor and General Manager suggested that Bungendore should not be considered a rural centre even though it meets that definition under the current legislation. The motivation was stated as being “to enable some equity with staff conditions”. They did not explain why disadvantaging Palerang employees based at Bungendore would enable such equity.

Further, QCC’s financial analysis of the potential benefits of a merger appears to depend largely on the reduction of staff numbers. Given QCC’s desire to have Bungendore exempted from the employee protection legislation it might be inferred that the losses would be focussed on Bungendore-based staff.

While they provided no reason for seeking the exemption, QCC did attempt to justify a change to the regulations under s.218CA(3).

The first was that a number of current Palerang staff were formerly from one of the constituent Councils, namely Yarrawlumla Shire. They seem to suggesting that these employees would be “returning home” to Queanbeyan. This appears to ignore the requirements of s.354I that employees must be retained within their former local government areas. This section required Palerang to move its offices to Bungendore

They also claim that 60% of Bungendore people work in ACT. Regardless of the accuracy or otherwise of the statistic, it is a meaningless statement. It is not 60% of Bungendore-based Palerang employees that work in the ACT. Bungendore fits the traditional concept of a rural centre in that Council is the major employer in the town, and provides a considerable contribution to the town’s economy both through employee salaries and direct purchases from local businesses.

QCC also make the statement that Bungendore staff numbers have grown from 60 to 80 since 2004. This is not relevant to the consideration of s.218CA and it is easily explained by the rapid growth of Bungendore and district. For much of its existence Palerang has been one of the fastest growing areas in NSW, with the population increasing by over 3,000 since Palerang was created in 2004. That growth has required the expansion of a number of services, necessitating additional staff.

Palerang also takes the concept of regional cooperation seriously. Consequently Palerang is the auspice Council for the Canberra Region Joint Organisation and the lead agency for the \$20million South East regional weeds management program. The staff for these services are fully funded but counted in the Bungendore staff numbers.

It would be unwise to base any analysis of the benefits of a merger on the assumption that s.218CA would not apply. The Department of Premier and Cabinet in its February 2016 publication *Preparing for Change: Guidance for Councils* is quite clear on the current state of the law, noting:

*“There are some additional protections for staff in rural centres under section 218CA of the Act. A rural centre for this purpose is a centre of population that has a population of 5,000 people or less.*

*In such areas, any new council entity must ensure that the number of regular staff (permanent and casuals engaged on a regular and systematic basis) is maintained at the same level as before a merger occurs, as far as is reasonably practicable.”*

## 2 Financial Impacts

### Legislative Criterion

#### *(a) The financial advantages or disadvantages of the proposal to the residents and ratepayers of the areas concerned*

### 2.1 Claimed Merger Benefits

Using the data provided by KPMG in earlier Proposals, we see a slightly improved financial benefit with a full merger when compared to dividing the Palerang LGA. However, the same problems remain with the assumptions that lead to the figures quoted, and indeed the significance of the claimed savings.

The claimed benefit, as with earlier Proposals, comes in two parts. The first is a \$15 million enticement from the State, paid out of residents' taxes, if one of these Proposals is implemented.

It is not at all clear, however, what strings might be attached to this funding—\$5 million is associated with merger expenses and is not an open cheque. The commitment is merely to cover immediate merger expenses, and only up to \$5 million, not to simply provide any funds to the benefit of the community as such. And if there are no other benefits in this proposal, this is \$5 million of residents' money wasted.

The other \$10 million here is just a one-off payment for infrastructure improvements and the true impact of that funding on the Palerang community will be revealed below.

The remaining \$22 million is money that it is claimed will be saved over 20 years through the proposed merger. As we have noted previously, our own assessment shows nothing like this, but let us just take it at face value for the purpose of discussion and have a closer look at what that \$22 million would really mean to Palerang residents, if indeed this saving could be realised.

Over 20 years, taken simply that is \$1.1 million per year. Using the KPMG figures for the new Council's budget in 2019-20, that is a hypothetical annual saving of barely 1% in 2015-16 and only half that in 10 years, a saving of just 0.5%. Such a small saving is well within the margin of error in financial modelling. Even if this saving could be achieved, it is hardly what could be described as a "substantial contribution", per the recommendations of the ILGRP, that would justify the risk and upheaval associated with the merger of two such disparate Councils. In fact any independent analysis would regard potential savings of 1% of revenue in the timeframe being forecast as not being statistically significant.

KPMG have also ignored the costs to the community, as distinct from the organisation, in preparing their estimates. A significant change in local governance arrangements invariably leads to additional costs borne by community members. These additional costs can be as simple as additional travelling time and cost to attend Council offices and / or meetings and the change from local to timed telephone calls.

Our own financial modelling, which is based on audited financial data rather than the dubious<sup>†</sup> KPMG modelling, suggests that not even this small saving could be realised.

Nonetheless, this \$1.1 million is enough to pay for around 1 km of sealed road at today's value, and no doubt somewhat less as the years go by. For the record, there are over 1400 km of road, over 700 km of which are unsealed, throughout Palerang. And of course, these savings are for the whole new Council, not just the Palerang part.

If we look at this based on the relative populations involved, it amounts to around 250 metres of extra road construction in the Palerang area each year. That is the sum total of the financial benefit to current Palerang residents of the savings identified in this Proposal—if the KPMG figures are correct.

Of course, this money can only be spent once, so if any contribution to a new picture theatre, or a new car park, some playing fields or a celebration of some sort is required, we will have funding for even less than our 250 metres of road, maybe none of it at all.

On this basis, it is clear that the ongoing financial benefit of this Proposal to the Palerang community is insignificant at best, but perhaps even non-existent. Certainly not the “substantial contribution” recommended by the ILGRP.

## 2.2 Summary of Alternative Financial Impact Estimates

Palerang and Queanbeyan City have commissioned several independent estimates of the potential financial impacts of various merger scenarios. The following are discussed further herein:

1. Estimates using the KPMG methodology,
2. Estimates by LKS Quaero on behalf of QCC
3. Estimates by ORION Consulting Network (ORION) on behalf of Palerang Council

### 2.2.1 KPMG Methodology Estimates

KPMG were engaged by the NSW Government to undertake the financial estimates underpinning the Proposals that are currently under review. For the sake of consistency, and to facilitate direct comparison of the various Proposals impacting Palerang Council, the same methodology was applied in preparing the current Proposal for a full merger between Palerang and Queanbeyan.

However, the KPMG computations only apply generic savings and expenditure assumptions without regard to local characteristics. For example, no consideration is given to existing efficiency levels, salary structures or service levels. Therefore, the KPMG estimates can only provide pre-feasibility indicative estimates of the potential financial impacts that need to be validated or otherwise in the review process. If the KPMG figures are simply taken at face value, the review will not have considered all relevant matters and be open to challenge.

In the Minister's proposal for the part merger of Queanbeyan and Palerang, KPMG estimated that net financial savings of around \$20 million were achievable over the next 20 years, with the partial merger generating around \$1.8 million per year from 2020. In preparing the Palerang proposal for consideration of a full merger alternative,

---

<sup>†</sup> The Minister has still not released anything more than a set of generic, high level assumptions upon

independent modelling from ORION was sought to apply the KPMG methodology to the full merger option. Subsequently, the Delegate requested KPMG provide its estimate of the financial impacts from the full merger. A comparison of the ORION and KPMG estimates is provided in Table 2-1 below.

**Table 2-1 Comparison of Financial Estimates**

Item	Initial ORION Estimate (KPMG methodology)	KPMG Estimate	Reason for difference
Employee Costs	\$15.6m	\$16m	Rounding
Materials & Services	\$4.7m	\$5m	Rounding
Senior Management	\$5m	\$6m	Additional \$1m applied by KPMG, not ORION
<b>20 Year Net Impact</b>	<b>\$20.5m</b>	<b>\$22m</b>	

The data presented in Table 2-1 shows that the main difference between the ORION (KPMG methodology) estimate and KPMG's own calculation relates to rounding, and KPMG's inclusion of an additional \$1m in senior management savings due to the additional area included. ORION assumed that there would be no change in the senior management savings by the addition of the eastern part of Palerang into the full merger.

This highlights the need for the Delegate and Minister to validate the generic assumptions underpinning the indicative estimates by KPMG. There is simply no way that a merger of Palerang and Queanbeyan could achieve \$6m or even \$5m in savings when Palerang only has one senior executive position – the General Manager.

The KPMG methodology does not consider the structure or existing Council efficiencies, but simply applies standard formulae to the Council budget to estimate the savings. As we will show below, this does not provide any reliable estimate of a merger on the actual situation in Palerang, but is an indication of what could happen to an average council.

Similarly, the bulk of the KPMG savings estimates come from employee costs with a net present value of \$16m over 20 years, which requires annual savings of around \$1.9m after the four-year implementation period. Given the legislative protection requiring the preservation of all position numbers in the current Palerang towns, these savings can only come from converting more senior positions to front line service delivery positions. However, several local factors have not been taken into account by KPMG, which would greatly reduce the opportunity for such savings in the case of Queanbeyan and Palerang. These include:

- Palerang Council was created by a merger of all or parts of several Councils in 2004. As this was also subject to the employment protections, most of the senior positions have already been converted to front line service delivery. The opportunity for further reductions is very limited. The entire Palerang management and corporate wages bill which is in excess of Bands 1 and 2 salary levels for front line staff is only \$550,000 and there would be some supervisory staff still required for the 97 protected front line positions.
- Average salaries in Queanbeyan are over 10% higher than in Palerang. This is somewhat unique in this potential merger, because Queanbeyan has had to increase the salary levels to be competitive with those offered by the



Commonwealth and ACT Governments. Wages equalisation will cost an additional \$830,000 per year<sup>‡</sup>. In the Queensland 2008 amalgamations, wages equalisation often offset all other savings.

- Approximately \$1.8m in Palerang wages are funded through the RMS contracts, which QCC has no experience in managing. These positions would still be required under s.218CA, but the funding for them would no longer be available if the RMS work was discontinued for any reason.
- This would result in a net annual loss of \$2.6m per year, or around a net present value of around \$21m over 20 years.

### 2.2.2 Estimates by LKS Quaero on behalf of QCC

QCC's resolution of 6 April requires a number of conditions in order to create a financially sustainable merger Council:

- A \$10m grant to cover transition costs
- A \$20m infrastructure grant, in addition to the \$10m merger grant,
- Reclassifying Bungendore so that it is not subject to employee maintenance requirement under s.218CA. This will then enable QCC to achieve the 63.4 staff savings estimated by LKS. In other words, all of the savings will come from gutting the Bungendore office, and the loss of around 60 local jobs within a rural centre, in contravention of s.218CA as it presently stands. (Bungendore currently has 82.3 FTE employees. We understand that QCC intends to leave the library at Bungendore).

The LKS report on the partial merger option noted:

- There would be no additional senior management savings as the Palerang Directors are employed under the Award and redundancy protections are applicable,
- The only SES position at Palerang is the General Manager,
- LKS applied some KPMG assumptions including:
  - materials and services savings of 2% of 80% of the General Fund, phased in over four years
  - Staff savings of 5% of General Fund employee costs, phased in over 2 years, plus the loss of one GM position,
  - \$250,000 in redundancy costs, (one position instead of KPMG's assumptions)

In 2015, LKS also prepared a financial assessment of a potential full merger of Palerang and Queanbeyan. Their review estimated that the ongoing savings and costs presented in Table 2-2 below could occur.

---

<sup>‡</sup> The Palerang Council submission on the partial merger used earlier estimates provided by QCC that have since been revised.



Table 2-2 Ongoing Savings and Costs

Item	Annual Amount
Corporate & Governance	\$511,000
Information Technology	\$150,000
Employee Costs	\$4,834,000
Local Area Committees	(\$50,000)
<b>Total Annual Savings</b>	<b>\$5,445,000</b>

It can be seen that 89% of these projected savings come from reduced employee costs. This comes from a reduction of 63.4 FTE, but no explanation of where these reductions would occur appears in LKS documentation or was provided to Palerang Council. However, the staff-to-population ratios are already lower in both Councils than the average of their current and merged size, and therefore there is no substantiation of these staff savings.

The assumed staff savings in the LKS estimates are simply not plausible, and would require a staff to population ratio that is 38% lower than the average large regional Council with water and sewerage in the merged population range of 50,000 to 60,000. As it currently stands, the staff ratio for the combined Queanbeyan and Palerang staffing is already 26% lower than the average for Councils in the 50-60,000 population range, which provide water and sewerage. In fact there is no regional Council (with water and sewerage) over 20,000 population which has a staff population ratio lower than the current combined Palerang and Queanbeyan Councils. Claims of further potential staffing reductions are not supported by the facts relating to similar Council sizes.

Further, it appears to be QCC's intention to close down all but the library in Bungendore, so that the 63.4 FTE staff reductions will be focussed on Bungendore. Since Bungendore is currently protected from staff reductions under the current legislation (s218CA), the Delegate and Minister cannot lawfully consider any such savings in staffing.

Dismantling Palerang's structure and Bungendore office as planned by QCC would destroy the ability of the new Council to continue with the RMS contracts. QCC's submission on the partial merger indicated that it had no interest in maintaining the RMS contracts:

*To assist with the equitable distribution of assets, revenues and staff, the Roads and Maritime Services (RMS) contract to maintain and upgrade the Kings Highway and Braidwood Road should be assigned to the new Goulburn-Mulwaree Council. ... The relevant skills, plant and equipment should migrate to that new Goulburn-Mulwaree Council with the assignment of that contract. (Pages 3 & 8, QCC Submission)*

We understand that QCC has subsequently indicated that it would retain the RMS contract(s). However, retention of RMS contracts is not a matter for any council to decide. QCC's intention to close down the Bungendore office, coupled with the LKS and KPMG methodology of converting positions to front line services and to save 63.4 positions, would not leave the merged Council with the technical skills to continue to value-for-money service that RMS relies upon.

There is considerable risk that if the Palerang organisation is dismantled as is being proposed, the RMS would transfer the work to private contractors. The revenues and

the associated skill sets and experience would thus be lost entirely to the local government sector. The present Proposal must therefore be seen as entirely destructive in this respect. Palerang Council was awarded this work as the organisation is highly competitive in terms of both service value and product quality.

QCC has limited expertise in undertaking significant RMS contracts, and its apparent plans to reduce staffing levels in Bungendore would eliminate the ability to undertake these contracts. The KPMG assumptions of converting senior staff to front line services to get the bulk of the claimed savings, would have a similar impact.

Without the RMS work, the projected finances of a new Council will be negatively impacted in the order of \$6.9m per year. The RMS contracts directly pay the wages of at least 20 FTE employees per year and provide significant other benefit for the organisation and ultimately to the Palerang ratepayer.

Overall, the claimed staff savings by QCC's consultants LKS Quaero (LKS) cannot be substantiated and are highly unlikely to occur.

### 2.2.3 Estimates by ORION Consulting Network

ORION has conducted statistical analysis of NSW Local Government, particularly in relation to rural/regional Councils that provide water and sewerage. In addition they have examined the service delivery of both Councils.

ORION note the following:

- a) QCC currently has 10.2% higher average salary levels to compete with the Commonwealth and ACT Governments. Salaries equalisation will add \$830,000 per year to the operating cost of a merged Council.
- b) There are unlikely to be any staff savings other than the Palerang General Manager's position, because:
  - i) Queanbeyan and Palerang provide different services, which means that their structure will need to be combined rather than merged,
  - ii) The vast distance between Queanbeyan and the eastern area of Palerang,
  - iii) The protection of staff levels in Bungendore and Braidwood under s.218CA of the Act, and
  - iv) The average staff/population ratio is higher for Councils in the proposed merged population range than the current Council ratios. The current two Councils are amongst the most efficient in the State by focusing on their different urban and rural services. Amalgamation will lead to generic service delivery and higher staff levels.
- c) Therefore, it is likely that the ongoing cost of running a merged Palerang and Queanbeyan will be greater than the cost of the two separate Councils, and will consume the amalgamation grant relatively quickly.

In the Minister's Proposals relating to Palerang, \$15m was offered for the Palerang (part)/Queanbeyan merger, and \$15m for the Goulburn-Mulwaree/Palerang (part) merger, giving a total of \$30m on the table for this area. It would be better to apply the \$30m currently available in this area towards the essential \$50m upgrade of the missing link of the Nerriga Road to national standards in line with the Nerriga - Nowra section of that road, upgraded primarily through a Federal Government

grant.. This is the bulk of the asset management backlog claimed by QCC, but is in reality an upgrade required for national and state priorities.

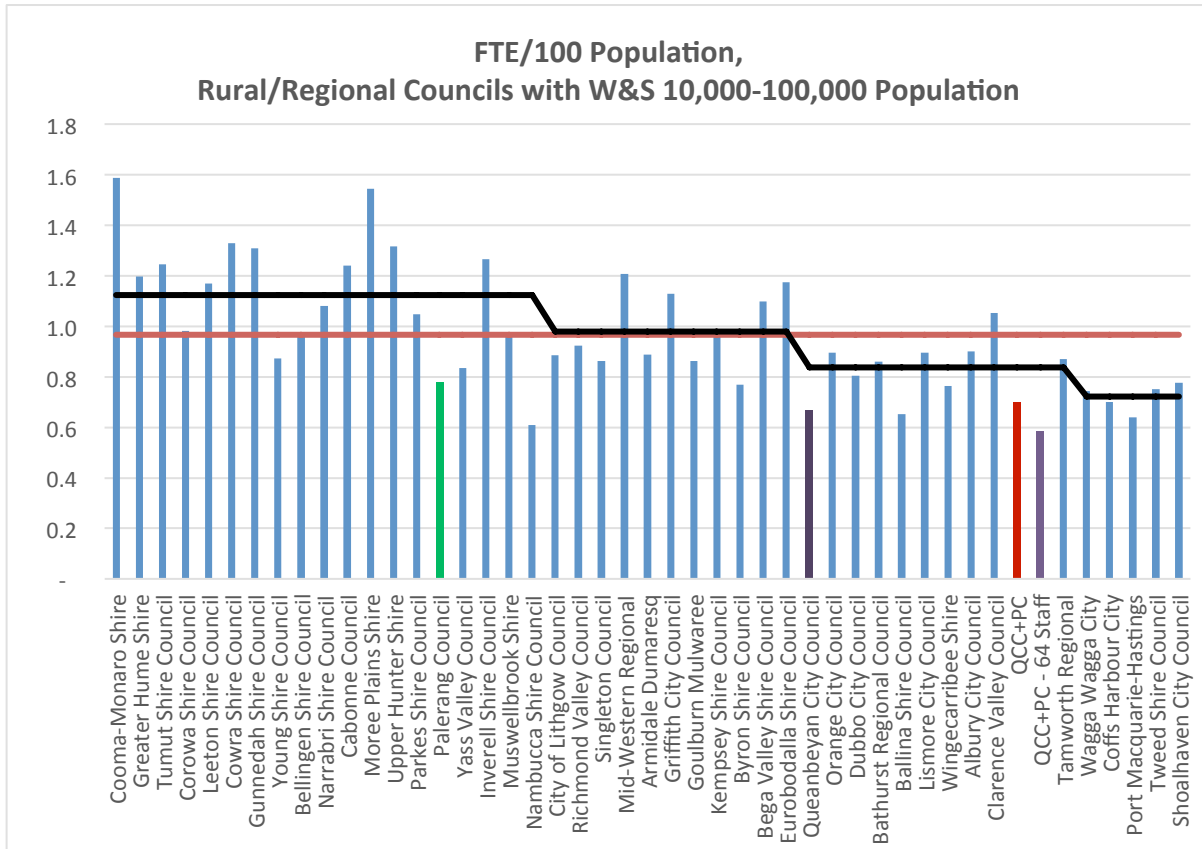


Figure 2-1 Staffing Levels in Large Regional Councils

The graph presented in Figure 2-1 illustrates our argument that the KPMG and LKS assumptions on potential staff savings from a full merger are not plausible. The black line shows the **average** FTE-to-100 population ratio does reduce as the population increases. This seems to be the basis of the KPMG formula-driven savings estimates.

However, Palerang and Queanbeyan are already operating at well below the average level at all population ranges. The average council below 20,000 population has a staff ratio 14% higher than councils in the 20-40,000 population range. Therefore the generic assumption that amalgamation savings might be possible for merging a 15,000 population council (like Palerang) with a 40,000 population council (like Queanbeyan) is worthy of investigation. But the reality is that Palerang and Queanbeyan are already amongst the most efficient in their respective population ranges, and this has been achieved by tight governance and management and focussing of differentiated urban versus rural services. By creating a more generic council which needs to provide urban and rural services over an area three times the entire Sydney Metropolitan area means that a merged Palerang and Queanbeyan is likely to ‘revert to the average’. This would see staff levels increase from 0.7 to 0.84, or an additional 12% staff above current levels.

The 63.4 staff savings assumed by LKS without any supporting documentation is clearly spurious. The purple bar in Figure 2-1 indicates that the staff ratio would become the lowest in NSW for any rural/regional council providing water and sewerage. The staff ratio suggested by LKS could only occur under a ‘slash and burn’ scenario and would result in a significant reduction in service levels, presumably rural services in Palerang.

The area of the Palerang LGA under consideration comes within the requirement under Section 218CA of the *Local Government Act 1993* to maintain all local staff numbers. In the context of the relevant legislation, only Palerang's General Manager is considered senior staff, with all other employees covered by the Local Government State Award. As such, their employment is protected for three years under legislation, and while the actual positions may be varied thereafter, regular staff numbers, often referred to as core numbers, must be maintained in perpetuity.

Further, Palerang Council (PC) and QCC have significantly different salary structures, so that QCC's weighted average cost per employee is 10.2% higher than that of Palerang Council. This is the result of QCC's belief that they need to compete with the salaries on offer by the Commonwealth and ACT Governments in Canberra. Palerang pays staff, with the exception of the General Manager, under the Award. The present Proposal will therefore involve a 10% wage equalisation cost amounting to approximately \$830,000 per year, and this alone would outweigh most of the savings claimed in the KPMG analysis.

## 2.2 Analysis Based on Palerang & Queanbeyan City Financial Data

The present Proposal claims that, based on KPMG modelling, a \$37m financial benefit to the community will be achievable over a 20-year period. The actual calculations underpinning this claim have not, however, been subject to any independent verification or indeed made available to the public.

Nonetheless, with the assistance of independent consulting firm ORION, using the generalised methodology applied by KPMG<sup>s</sup> together with publicly available Council financial data, we have been able to replicate the claims made in the Proposal as presented in Table 2-3 below. The assumptions adopted in the modelling process are listed in Section 13 of this submission and provide the basis for the critique presented in Section 2.3 below.

---

<sup>s</sup> KPMG, *Outline of Financial Modelling Assumptions for Local Government Merger Proposals: Technical Paper* 19 January 2016

Table 2-3 Modelling of QCC/PC Financials (KPMG Methodology)

	Full merger	Comments
Benefit over 20 years	\$22m	
NSW government funding	\$15m	
<b>Net financial savings</b>	<b>\$37m</b>	
<b>Gross savings</b>		
Streamlining senior management	\$6m	KPMG increased the saving from senior management from \$5m in the part merger, to \$6m in the full merger, even though there are no senior managers in the additional area affected.
Redeployment (employee benefits)	\$16m	
Material and contracts	\$5m	
Councillor savings	\$3.9m	KPMG estimate of \$380k per annum+2.3% salary inflation. Net Present Value (NPV).
<b>Total gross savings</b>	<b>\$30.9m</b>	
<b>Implied One-off costs</b>	<b>\$8.9m</b>	KPMG did not specify the estimated merger costs. However there is a \$8.9m gap between the \$30.9m savings from the individual savings items and the overall net savings of \$22m, which is assumed to be due to one-off costs.
<b>Merger Costs (one-off) Breakup</b>		
ICT	\$4.4m	\$3.35m plus 30% contingency, KPMG methodology page 5, assumed metropolitan cluster.
Transition costs	\$2.1m	2% of new council Opex, KPMG methodology page 6, "Transition costs are estimated to be 2 per cent of a merged entity operating expenditure in the first year of operation"
38 weeks payment	\$0.5m	1 GM, 2 senior staff @ 0.75xGM
Leave entitlements	\$0.1m	17.5% leave entitlements
Other costs	\$1.8m	Costs or savings not identified in KPMG methodology to balance with the \$8.9m
<b>Total one-off distribution</b>	<b>\$8.9m</b>	
<b>Annual savings from 2020</b>		
Average Annual gross savings	\$3.3m	Average from 2020 to 2035
Implied assumed annual costs	-\$1.3m	Assuming around 40% of savings used as expenditure
<b>Net average savings from 2020 (Discounted)</b>	<b>\$2.0m</b>	

### 2.3 Critique of the KPMG Modelling

There are a number of invalid assumptions applied by KPMG in relation to the present Proposal. These are presented in Table 2-4 below along with our comments.

Table 2-4 Invalid KPMG Assumptions

KPMG Assumption	Reality
<p>\$6m in executive salaries is assumed to be saved over 20 years. \$5m was assumed for the partial merger option.</p>	<p>There is only one executive in Palerang who is not under the Award and therefore not protected by legislation for the first 3 years. Therefore no such savings are possible. The existing QCC executives would need to manage a larger area, one third more in population, and their salaries are likely to increase. The current Palerang management (except the GM) are paid salaries similar to middle-managers in QCC and similar roles would be required to provide the vastly different rural services.</p>
<p>Equalisation of salaries has not been considered</p>	<p>The Queensland Local Government amalgamation experience showed that significant costs arose from moving staff paid under different salary structures to the higher level. QCC's weighted average salary per employee is 10.2% higher than PC's, and staff salaries would need to equalise to the higher (QCC) level from the outset. This will add \$830,000 to annual costs</p>
<p>\$16m savings over 20 years are assumed from redeploying administrative and support staff to front line activities at lower wage rates. The savings have been applied to the entire workforce of QCC and Palerang workforce.</p>	<p>Palerang operates a very lean structure, and has a population/staff ratio lower than most rural/regional Councils with much larger populations. All but one Palerang position is protected for 3 years and staff numbers must be maintained in perpetuity under the legislation. In addition, Palerang staff salaries will need to increase to QCC levels (extra 10%), offsetting any savings from redeploying the few managerial and support staff to frontline services.</p>
<p>No loss in other income, e.g. RMS contracts</p>	<p>Palerang has actively pursued opportunities to generate additional revenue through external contract work, including competitive RMS contracts.</p> <p>QCC has limited expertise in undertaking significant RMS contracts, and its plans to reduce staffing levels in Bungendore would eliminate the ability to undertake these contracts. The KPMG assumptions of converting senior staff to front line services to get the bulk of the claimed savings, would have a similar impact.</p> <p>Without these contracts, the projected finances of a new Council will be negatively impacted to the tune of \$6.9m per year. The RMS contracts directly pay the wages of at least 20FTE employees per year.</p>

Further to these observations, Figure 2-2 illustrates that there may be potential efficiencies to be gained from an average council in each of the population ranges, if they amalgamate to move to a larger population range. However, Palerang and Queanbeyan are already well below the average staff ratio for their population range, and are already realising efficiencies from shared services (such as libraries) and



regional groups. It should be noted that Palerang’s FTE staff figures include 20 FTE staff involved full time in RMS contracts and not delivering Local Government services. This is unusual in the similar Councils, and means that the Palerang FTE’s for Council services is only 0.65, and well below Queanbeyan and the average of all larger population regional/rural Councils.

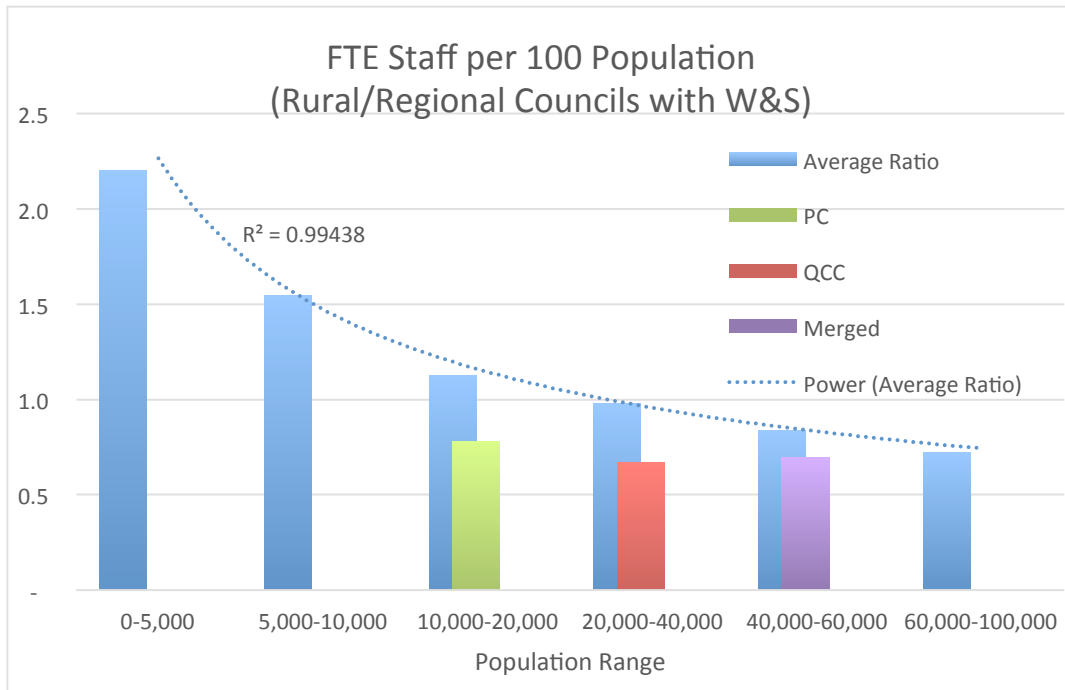


Figure 2-2 FTE Staff per 100 Population

This highlights that the KPMG formulae can only be used as pre-feasibility indication of the potential benefits to an average council. Palerang is not an average council. It was formed by amalgamation 12 years ago and has already achieved the potential savings. A further merger with Queanbeyan is only likely to worsen the situation.

### 2.4 Critique of QCC/LKS Financial Analysis

The QCC submission on the partial merger with Palerang notes the following in relation to the LKS financial analysis:

*The 2015 Merger Report undertaken by LKS proposed a raft of service, structural and back office changes to achieve a \$54m saving – in part through reduction of over 60 staff and without the limitations of s218CA. Without those changes, the LKS report indicated a merged entity would not achieve the financial and asset benchmarks of government within the (then) prescribed 5 years. But now with the assumed benefit of \$5m toward costs of merger and investment in technology and back office functions not normally available to councils, together with a \$10m injection into infrastructure, most of those benchmarks would likely be achieved.*

These assumed savings are based on adoption of a novel alternative service delivery model being promoted by LKS Quaero, but which has never been successfully implemented in any NSW Local Government Area. Even if such savings are achievable, they would be due to the alternative service delivery model, and not the amalgamation. Furthermore, they are dependent on overriding the limitations of s218CA that

guarantees employment in towns of under 5,000 population, which applies to Bungendore and Braidwood. Therefore, such savings would only be achievable if staffing in Bungendore is virtually eliminated, and services are provided from Queanbeyan and Braidwood. Service levels in the current Palerang area would decline dramatically. Furthermore, the claimed total staff level for a merged PC-QCC would have a staff to population ratio below that which has been achieved in any larger rural/regional Council in NSW providing water and sewerage.

The quoted LKS staff savings are clearly not achievable without a significant reduction in service levels. Given the minority representation that would occur for the Palerang part of a merged Council, the loss of service levels would be predominately in the Palerang area, especially in relation to the rural services which are not provided by Queanbeyan.

It is more likely that staffing will increase, as has been the experience in Queensland, due to longer travel times and equalisation of service levels to the higher standard. The staff to population ratio for councils in the 50-60,000 range (which is applicable for the proposed merged Council) is 0.94 FTE's per 100 population. This is 35% higher than the combined staffing of current QCC and PC.

If the restrictions are removed, the only way to achieve the LKS savings would be to close down the Bungendore operations and provide all services from Queanbeyan and Braidwood.

## 2.5 Scale and Capacity

An assumption by KPMG and other bodies in determining local government reforms is that larger councils can be more efficient. The technical analysis by ORION in Section 10 of this submission shows that there are apparent diseconomies of scale in rural councils below 10,000 population and metro councils below 50,000. Figure 2-3 illustrates the staff to population ratios (as Full Time Equivalent staff members per 100 population) for NSW regional councils that provide water and sewer services and have a population of 40,000 – 100,000. The fact that Palerang has a lower than average staff to population ratio in this group is indicative of the fact that there is very little potential for economies of scale in staffing beyond those that are already being realised within the current Palerang Council organisation.



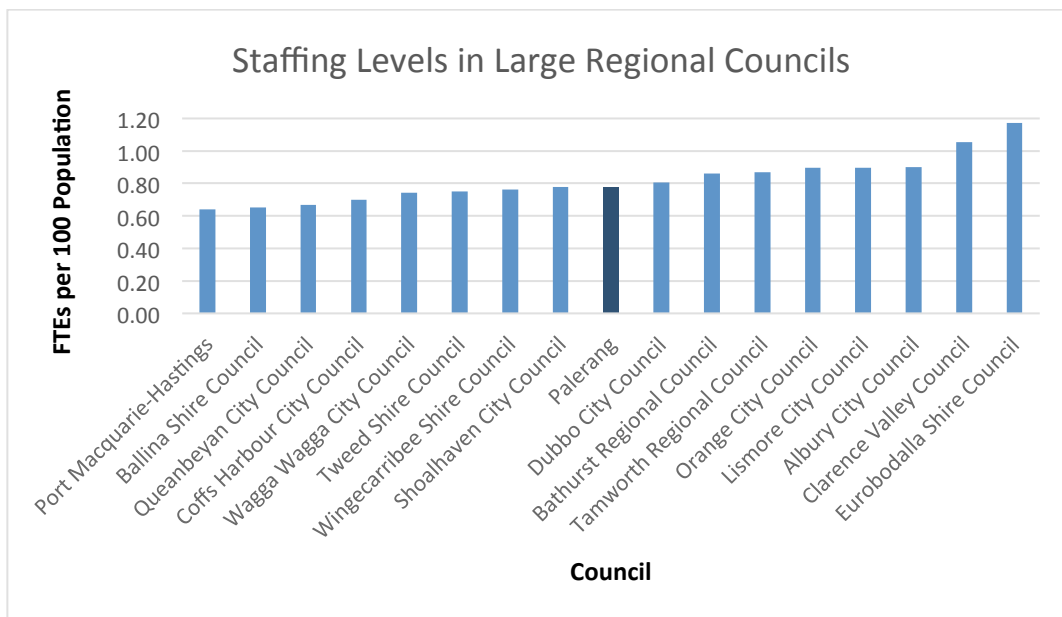


Figure 2-3 Staffing Levels in Large Regional Councils

The analysis provided in Section 10 also shows that many of the diseconomies in smaller councils are associated with low population densities and disproportionately large transport infrastructure responsibilities.

Much has been made throughout the Fit For the Future exercise of the importance of ‘scale and capacity’ in local government. Indeed, the very basis for the present Proposal is to improve the ‘scale and capacity’ of council organisations in the region. There is, however, a fundamental flaw in this logic in the present case.

It is generally recognised that efficiencies in capacity are achieved through increases in population density. The present Proposal, however, will result in a 30-fold increase in the area covered by QCC, with a dramatic reduction in overall population density, yielding a proportionate *reduction* in associated efficiency.

The proposed amalgamated area is three times the entire Sydney Metropolitan area, which the Government proposes to be run by 25 metropolitan councils after the amalgamations.

As noted in Section 2.2.2, dismantling Palerang’s structure and Bungendore office as appears to be suggested by QCC would destroy the ability of the new Council to continue with the RMS contracts.

Retention of RMS work is not a matter for any Council to decide. Nonetheless, QCC’s apparent intention to close down the Bungendore office, coupled with the LKS and KPMG methodology of converting positions to front line services and to save 63.4 positions, would not leave the merged Council with the technical skills to continue to undertake the RMS work.

All indications from the RMS also support the view that if the Palerang organisation is dismantled as is being proposed, these contracts would be awarded not to another Council, but to private contractors, revenues thus lost entirely to the local government sector. The present Proposal must therefore be seen as entirely destructive in this respect. Palerang did not win these contracts in the first place for any other reason than

the recognition of both service value and product quality provided by the Palerang Council organisation.

The same destruction in service capacity will apply to Palerang Council's Environmental Services division, which, for example, is currently the lead agency for the \$20m SE Weeds Action Program.

Both of these programs require a central location, critical mass and team cohesion to provide the required organisational capacity to undertake projects of the scale being awarded to Palerang Council.

From the information provided in the preceding sections, it should also be abundantly clear that the present Proposal will not improve the financial situation of QCC and hence a new Council. It has also been noted that the provisions of Section 218CA of the Act will constrain a new Council's staffing arrangements and resource allocation capability.

In view of these details, the Proposal clearly fails to provide financial advantage to any of the residents and ratepayers involved and fails on several critical counts to improve the 'scale and capacity' of the proposed new Council. Rather, the present Proposal has the very genuine potential to undermine the capacity of a new Council by destroying the productive cohesion that exists within the Palerang organisation, significantly increasing the area that must be serviced and reducing the overall population density without increasing any financial capacity to support this expansion.

The QCC partial merger submission notes that Palerang and Queanbeyan are already benefiting from joint projects, and further opportunities might be possible:

#### ***8 Existing cost sharing initiatives***

*Both Palerang and Queanbeyan participate in data gathering and benchmarking programs aimed to reduce cost and streamline process. Those include the Australian Business Excellence Framework (ABEF), the procurement roadmap (ArcBlue) and LG performance (PWC). Examples are at Attachment 1. Drilling in to those data sources may expose opportunities for joint saving that may not have emerged in the high level merger proposal.*

*It should be recognised however, that those or greater savings may also be achieved through cooperative joint purchasing and service delivery options coordinated through the Canberra Region Joint Organisation (CBRJO), or formerly SEROC.*

*It should be recognised that Queanbeyan and Palerang staff already share resources, skills and functions, based on scale and expertise. For example, Palerang bring roads, weeds, water and emergency service expertise to the table, while Queanbeyan retains planning, development, environment, parks, HR and ICT high level skills. Both share facilities such as emergency services and pound, while Queanbeyan host ABEF, library and other back office support. P12*

*Palerang has spent 10 years fashioning its staff into the organisation it is today. While it would be difficult to split teams across the LGA or between towns, but it may assist setting a new culture for the merged entity. P12*

*As outlined in the section on 'serviceability', the access to the main service centre by residents and the access of staff to deliver to more remote rural or village centres, may exceed the 60-90 minute travel threshold recommended by ILGRP. P12*

*From the experience of the 2008 Queensland mergers, there is the potential that standardising services and asset levels tend to elevate standards to the highest existing level (for parity and consistency) and with that may bring higher costs and pressure on rates. For example, expectations may raise to provide higher level parks, streetscape and other services akin to the Queanbeyan urban area, in villages. However, given the increased scale (both in volume and geography) of some services, different delivery models may be explored, with leveraged costs through that scale. Those models may include shared delivery between councils through the CBRJO or contract arrangements with commercial or ACT government providers. P12*

This highlights that a merger is not necessary to obtain the required scale and capacity.

## 2.6 Financial Sustainability

QCC commissioned Percy Allan & Associates (PA) to conduct financial sustainability Analyses for both QCC and Palerang Council. These were completed in March 2016 and are therefore the most recent assessment of each Council's finances.

The PA reports show that Palerang Council is headed for improved financial sustainability, and will therefore be fit for the future without the need for an amalgamation.

Palerang had an operating surplus in 2014-15, and PA showed a return to a healthy operating position over time, as shown in Chart 1 of that Report (see Figure 2-4):

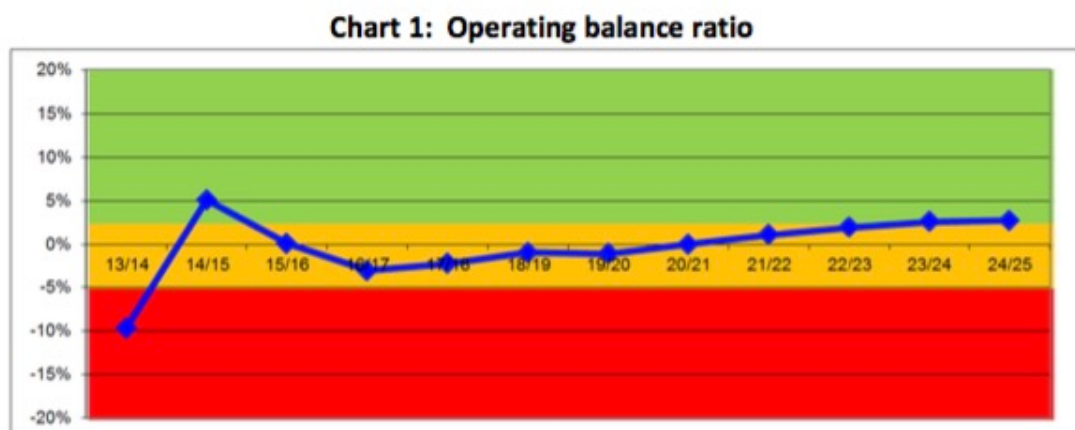


Figure 2-4 Palerang Projected Operating Balance Ratio (P Allan & Assoc)

Similarly, Palerang was shown by PA to have a healthy level of net financial liabilities over the forecast period (see Chart 2 of that Report, Figure 2-5 below). Coupled with the forecast return to an operating surplus, this would give some scope for Palerang Council to increase borrowings to overcome the infrastructure backlog without the need for any Council amalgamations.

Chart 2: Net financial liabilities ratio

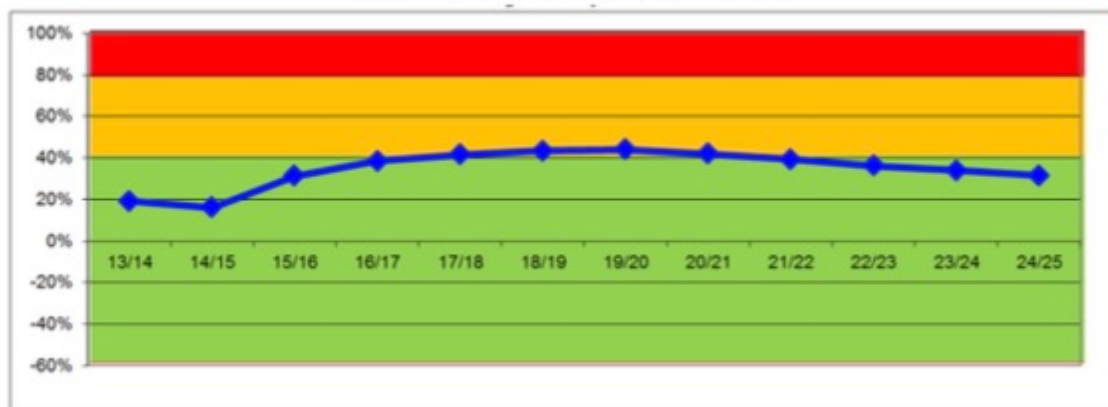


Figure 2-5 Palerang Projected Net Financial Liabilities Ratio (P Allan &amp; Assoc)

## 2.7 Assets

In its submission on the partial merger of Palerang and Queanbeyan, QCC raised concerns about:

*“the veracity of the Palerang asset backlog and standards”. “The FY2014 financial statements for Palerang differ to their FY2015 statements. In essence, by reducing standards, the Palerang published asset backlog (ss7) has been reduced from \$24m (FY14) to \$16m (FY15). Yet the merger proposals identified the combined Palerang backlog at \$40m.”*

These claims are simply incorrect. In simple terms, Palerang Council reviewed its classification of asset requirements to ensure that it focussed on renewal requirements of existing assets and did not include desired upgrades to asset standards.

Morrison Low was engaged by Council for this review, and has since made the following commentary on the process:

*Morrison Low was engaged to advise the Palerang Council on the calculation of the Infrastructure Backlog. Morrison Low are recognised as experts in asset management (appointed to the Fit for the Future Technical Panel: Asset and Infrastructure Planning and Management) and have a particular expertise around Special Schedule 7. The condition based network level methodology used by Morrison Low and adopted by Council is explained in the appendix. It is the same methodology used by Morrison Low in completing the onsite assessments for the OLG’s 2013 Local Government Infrastructure Audit (refer to page 98 of that report for the reported results of the 35 Council’s assessed), presented at the IPWEA International Conference (2013), demonstrated to over 90 attendees from across Regional and Rural NSW through webinars (2015) and adopted by between 15 – 20 Councils across NSW either before or during the Fit for the Future process. While the result differs from that previously reported by Council, Council is confident in the methodology and the change is not without precedent. Many Councils across NSW reported lower infrastructure backlogs during the Fit for the Future process as a result of a review of the approach used to calculate a number which continues to have no prescribed methodology for its calculation. Dan Bonifant, Director.*

In the PA review of Palerang’s financial sustainability that was only recently completed, the infrastructure backlog ratio was shown in an acceptable range (see Chart 3 of that Report, Figure 2-6 below):

**Chart 3: Infrastructure backlog ratio\***

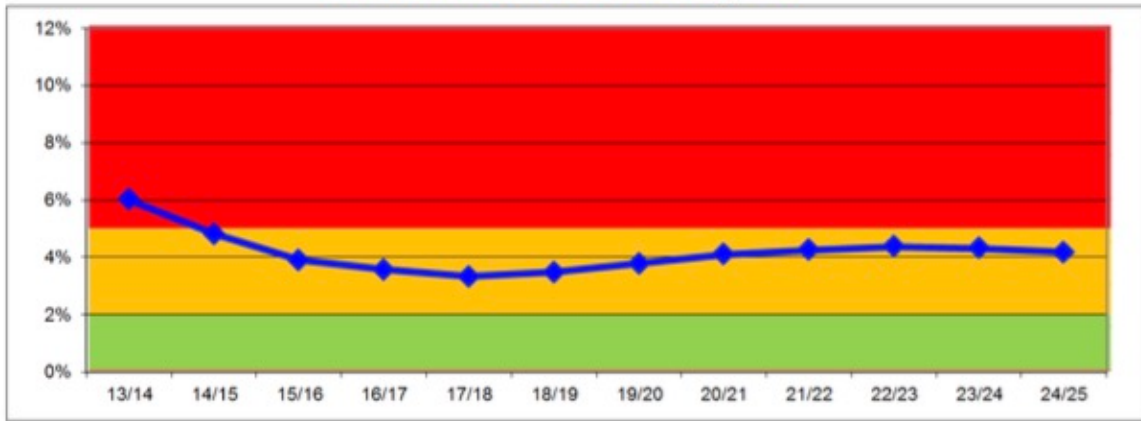


Figure 2-6 Palerang Projected Infrastructure Backlog Ratio (P Allan & Assoc)

By contrast, the analysis conducted for QCC shows that they will hit the red zone (over 5%) within a few years unless they adopt a responsible scenario, involving increased rates and charges, as illustrated in Figure 2-7 below.

**Infrastructure Backlog Ratio for Responsible Scenario versus Existing Policy**

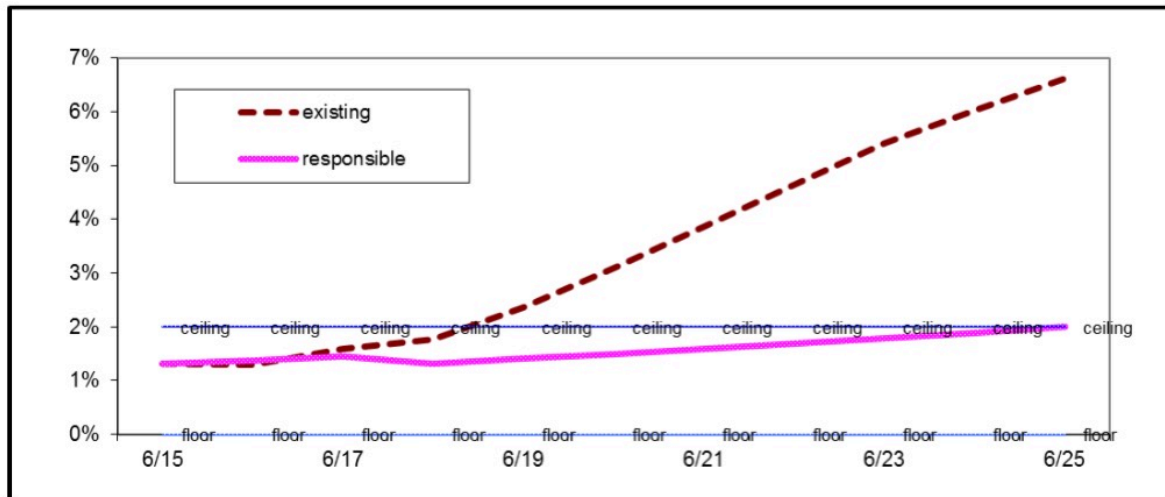


Figure 2-7 Queanbeyan Projected Infrastructure Backlog Ratio (P Allan & Assoc)

**2.8 Summary of Financial Impacts**

The most recent audited financial statements show the following financial results for Palerang and Queanbeyan.

Table 2-5 Starting Financial Position

	<b>2014-15 Operating Surplus/(Deficit)</b>
Palerang	\$1,289,000
Queanbeyan	\$197,000
<b>Starting Position Palerang &amp; Queanbeyan</b>	<b>\$1,486,000</b>

Table 2-6 Impact of Merger on Operating Position

Opening Operating Position	<b>\$1,486,000</b>
Plus maximum staff savings (conversion of corporate & management positions to front line)	\$552,000
Plus 1 x General Manager Savings	\$250,000
Plus Palerang Councillor savings (KPMG Calculation)	\$380,000
Plus KPMG Materials & Contract savings	\$586,000
Less wage equalisation costs	(\$830,000)
Less RMS contribution to costs including protected employee wages	(\$2,760,000)
<b>Net Operating Result</b>	<b>(\$1,336,000)</b>

Table 2-9 shows that even with the optimistic savings, a merger of Palerang and Queanbeyan would turn the most recent combined operating surplus of around \$1.5m to an operating loss of \$1.3m, or a deterioration of \$2.8m per year. Section 8 outlines an analysis of the maximum theoretical potential savings that could be achieved by converting all Palerang non service delivery roles to lower paid front line service delivery roles. This maximum savings is \$552,000 per year compared with \$1.9m assumed by the KPMG modelling. We have applied the modelled KPMG savings for Councillors, and materials and contracts although there is no substantiation by KPMG of how these could be achieved. LKS have made similar estimates without providing any supporting data. Without the materials and contract savings, the end result would be an annual deficit of over \$1.9m per year, or \$3.4m worse than the current situation.

The financial case for merging Palerang and Queanbeyan simply does not stack up even under the most optimistic assumptions.

## 2.9 Summary of Claims

### 2.9.1 Financial Benefit

A comprehensive independent analysis of the financial implications of the present Proposal is provided above.

Nonetheless, it is important to recognise the various components of the claimed financial benefit.

There is no net benefit associated with the \$5 million being offered to cover the costs of implementing the present Proposal. Our consultants' analysis of the KPMG methodology indicates that the one-off merger costs could be closer to \$9 million. These funds are being provided from the public purse, simply so that they do not need to be drawn from the council's own revenue stream. Ultimately, residents are paying regardless. The only issue is whether they pay through their income tax or their rates. If there is no ongoing financial benefit, any expense relating to the cost of the present Proposal will simply have been an extra, unnecessary drain on the public purse.

There is then a one-off \$10 million grant for community infrastructure. To consider the true impact of such a grant, it must be recognised that independent financial modelling has revealed an ongoing annual deficit of \$1.3 million on the balance sheet of the proposed new Council. This compares with the \$1.5 million combined operating surplus



of the two Councils according to the most recent audited financial statements. That is, the value of this grant would very quickly be negated by the ongoing losses of a new Council.

The remaining \$20 million is money that it is claimed would be saved through improved efficiencies over the next 20 years. As already noted, however, independent financial modelling indicates that the proposed new Council would actually be losing \$2.8 million per year compared with the current situation and with the best possible savings.

On this basis, there can be no expectation of any ongoing financial benefit arising from the present Proposal. In fact, there will be an ongoing and mounting financial deficit.

### 2.9.2 Reduced Reliance on Rate Increases

Again, on the basis that independent financial modelling demonstrates that the present Proposal will create a substantial financial deficit in the new Council, revenue streams will need to be augmented to simply maintain, let alone improve service levels. In the absence of additional State or Federal funding opportunities, this must increase rather than reduce the potential for reliance on rate increases. This fact is supported by several independent financial analyses that have been commissioned by both Palerang and Queanbeyan City Councils in the process of responding to both the Fit For The Future program and the current round of merger Proposals.

The real issue here within the Palerang LGA is the impact of cost shifting from higher levels of government, in particular the burden of maintaining regional transport infrastructure that rests disproportionately on rural councils. Every dollar that councils must draw from rates revenue to maintain regional infrastructure is a dollar that cannot be invested to the benefit of ratepayers in local infrastructure or services.

If the practice of cost shifting was to cease, and regional transport infrastructure were to be adequately funded by the State, there would be a genuine potential to reduce reliance on rate increases.

Palerang was created in 2004 with enormous financial challenges. A large rate base from the former Councils had been transferred to Queanbeyan and other area, but the employee protection provisions of the Act remained and were enforced. Palerang had no option but to become as efficient as possible and to seek alternative revenue sources, such as RMS work. A merged Council is likely to lose the focus on rural services and RMS work (especially if staffing in Bungendore is massively reduced as apparently sought by QCC). Consequently there is a very real possibility that the RMS work, which provides considerable net benefit to the Palerang community including the employment of 20 protected FTE positions will be lost. Therefore, the reliance on special rate variations is likely to increase under an amalgamation, rather than reduce.

## 3 Local Community

### Legislative Criterion

#### *(b) The community of interest and geographic cohesion in the existing areas and in any proposed new area*

Throughout the reform process, it has become apparent that the influence of the ACT and Canberra within the SE NSW region has been consistently underestimated. To truly appreciate the character of the region at a community level, one must ignore the jurisdictional boundary between NSW and the ACT and simply look at the settlement pattern.

Quite clearly, the regional cities of Goulburn, Queanbeyan and Yass predate the creation of the ACT and Canberra, but this is of little relevance in this case. Canberra and the surrounding region are unique in Australia.

The growth of Canberra in the period since it was created has resulted in its clearly becoming the dominant centre in the region from any point of view. This has a significant impact on the relevance of Queanbeyan, for example, as a regional centre. While Queanbeyan might officially be recognised as a city, it is unique in many ways, not least because it is not the dominant influence in the surrounding region. In fact, Queanbeyan has become so dependent on Canberra that, for example, it is not possible to buy white goods, a television or the like in Queanbeyan. For these items, a resident must travel to Canberra, although this is no further away than the next suburb in any metropolitan area.

The relevance of this situation is that any broader goal to strengthen city centres in regional NSW must recognise that while it may once have been, and indeed may still look like a regional centre if one ignores the existence of the ACT, and Canberra, it has very few of the characteristics of other regional centres in NSW, or indeed Australia. Were we to ignore the ACT boundary, Queanbeyan would be indistinguishable in most ways from and demand no more recognition than any of Canberra's other town centres. The fact is that none of the rural areas surrounding the ACT are any more economically dependent on Queanbeyan than they are on any of Canberra's town centres\*\*.

### 3.1 Centres of Influence

From a workforce perspective, as identified by the 2011 ABS Census data, 62% of the working population of Queanbeyan cross the border to work in Canberra each day, as do around 50% of the working population of Yass. Similarly, 56% of the working population of Palerang work in the ACT. Only 10% of Palerang residents at that time worked in the Queanbeyan area. Compare this, for example, to the 56% of the working population who cross the border to work in Canberra each day, as illustrated in Figure 3-1.

---

\*\* Canberra is based on a series of interconnected town centres and discrete industrial estates rather than a single, central business district.



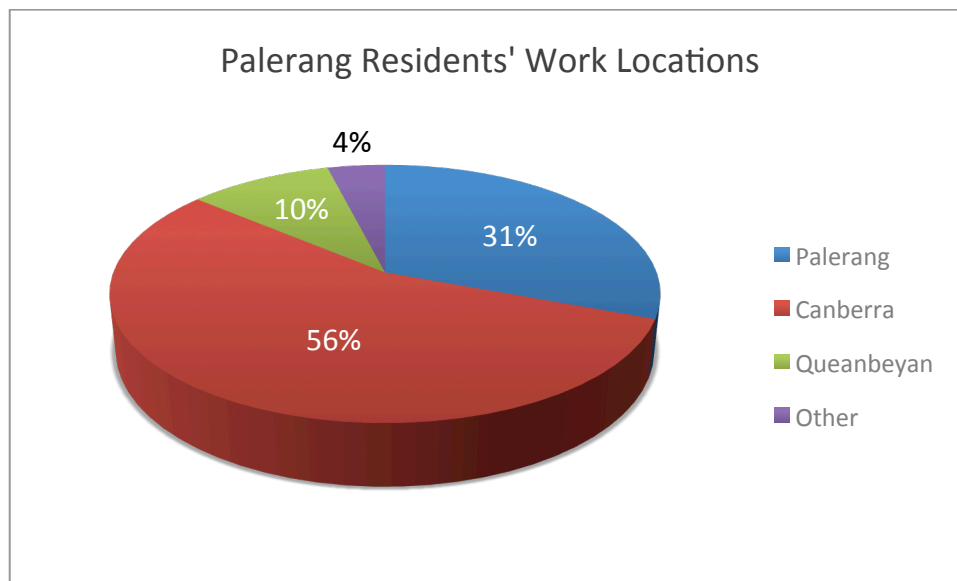


Figure 3-1 Palerang Residents' Work Locations

The social and economic exchange between adjacent areas in NSW is indeed minimal, as discussed further in Section 3.2 below, in stark contrast to the situation that prevails in other NSW rural and regional areas.

It might then be tempting to suggest that the areas have a common community of interest in that they are all closely tied to Canberra. That, however, is where the similarity ends. Palerang and Queanbeyan have traditionally attracted quite distinct demographic groups.

Since the seventies in particular, when rural residential development began in earnest in the parts of the former Yarrowlumla Shire that are now within Palerang, the individual characters of Queanbeyan and Yarrowlumla/Palerang have developed along quite distinct paths. Queanbeyan has always provided opportunities to own freehold land (all ACT land is leasehold) in an urban environment, while those seeking a more relaxed, rural lifestyle have settled in the Palerang or Yass LGAs.

Today, around two thirds of the population of Palerang resides in either rural residential areas along the ACT border or in the rural towns of Bungendore, Braidwood or Captains Flat. By contrast, the Queanbeyan population is almost entirely urban, and there is no evidence that either one could be considered as overspill from the other.

Further, while the Kings Highway provides the main link between Canberra and the coast, the busiest roads in Palerang, on a daily basis, are those that feed into Canberra via the Federal Highway—they go nowhere near Queanbeyan.

### 3.2 Survey Data

In the process of responding to the various requirements of the local government reform process, Palerang Council contracted Winton Sustainable Research Strategies to survey Palerang residents on a range of issues. These will be discussed in more detail in the Section 5 of this submission. In the present context, however, the survey included questions relating to shopping patterns, health services, entertainment and educational activities. The relevant survey questions and results are summarised in Table 3-1.

Table 3-1: Centres of Influence

	Major food and grocery shopping %	Major h'hold items shopping %	Minor top-up food & groceries %	Healthcare providers %	Entertainment %	Education %
Canberra only or mainly	15.2	48.3	8.0	38.9	56.3	29.9
Canberra and Queanbeyan about equally	9.4	12.1	0.0	2.1	1.9	2.9
Queanbeyan only or mainly	44.8	15.1	12.9	9.0	7.8	14.8
<b>Total Canberra and/or Queanbeyan</b>	<b>69.4</b>	<b>75.5</b>	<b>20.9</b>	<b>50.0</b>	<b>66.0</b>	<b>47.6</b>
Goulburn + nearby towns	3.6	2.5	0.4	1.8	2.5	3.6
Batemans Bay + nearby towns	2.2	0.7	0.0	0.7	1.9	0.4
Further afield (incl Sydney)	0.0	0.0	0.0	1.7	3.7	1.4
<b>Total beyond Palerang</b>	<b>75.2</b>	<b>78.7</b>	<b>21.3</b>	<b>54.2</b>	<b>74.1</b>	<b>53.0</b>
Braidwood [town]	18.4	13.7	31.8	27.1	5.8	12.7
Bungendore [town]	4.6	0.4	45.1	18.0	6.4	7.6
Captains Flat [town]	0.0	0.0	0.0	0.0	0.0	0.7
Sutton [area]	0.0	0.0	0.0	0.0	0.0	0.2
Not applicable/ don't do that/ unsure	1.8	5.6	1.8	0.4	13.7	25.8

The responses reveal that majorities of the population venture beyond Palerang Council's borders for major household shopping (78.7%), major food and grocery shopping (75.2%), entertainment (74.1%), healthcare providers (54.2%) and educational activities (53.0%), but with only a minority doing so for minor top-up food and grocery shopping (21.3%).

In all cases, most of those venturing beyond Palerang go no further than Queanbeyan or Canberra. Clearly, Canberra (far more so than Queanbeyan) is the main destination for major household items, healthcare providers, entertainment and education, whereas more people do their major and top-up food and grocery shopping in Queanbeyan than in Canberra.

These survey results are further summarised and presented in Figure 3-2 below, which emphasises the relative levels of dependence that exist within the local area. Most community ties are stronger within Palerang itself than they are with Queanbeyan. Clearly, the strength of these ties will vary in localities closer to the actual boundary between the two areas, but Canberra remains the dominant influence within the region.

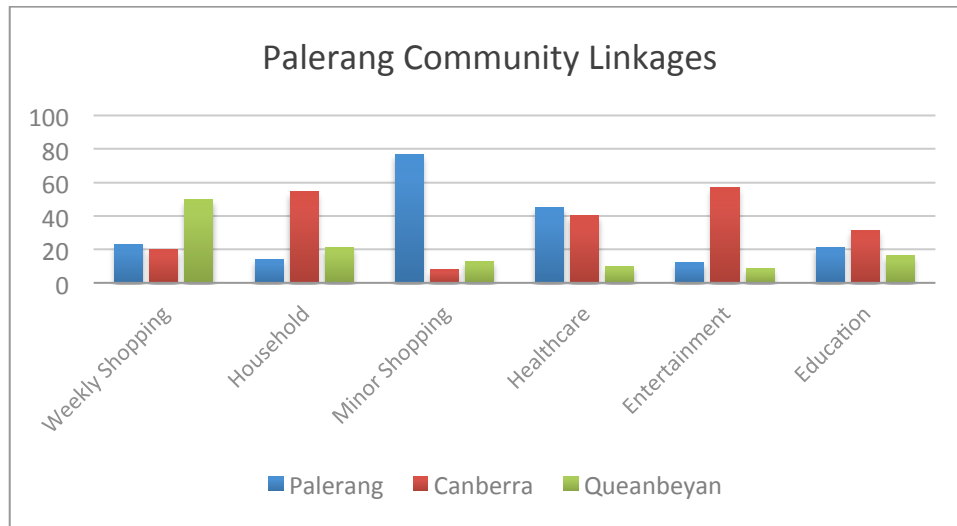


Figure 3-2 Palerang Community Linkages

The merger Proposals also claim that there will be benefits from having a common regulatory framework across the area:

*Adopting best practice regulatory activities will generate efficiencies for a merged council and benefit local residents and businesses. For example:*

- *a tradesperson who operates a small business across Bungendore and Queanbeyan will have a single local council regulatory framework to understand and comply with; and*
- *residents can have greater confidence that development applications will be subject to a more uniform process than the existing variations in regulations, which can add to the cost and complexity of home renovations and building approvals.*

There is, however, no evidence in the ABS census data or independent surveys commissioned by Palerang Council that this is in any way an issue in the Palerang area. Far more important in the SE NSW region are the cross border issues between the ACT and neighbouring councils, and these will exist with any council that borders the ACT, regardless of its size.

Nonetheless, tradespeople operate primarily under national standards and any variations in Council regulations are more a reflection of the different predominant land use characteristics in a rural versus and urban area, none of which would change in a new Council.

Furthermore, the State now has all the control it needs to standardise regulations through the Standard Instrument Local Environmental Plan (SI LEP). It can eliminate any undesirable differences simply by mandating clauses therein. To suggest that merging councils will create a more uniform process necessarily implies that individual communities will have less control or capacity to influence the character of their area. This follows as a direct result of reduced representation on their local Council, or simply a loss of focus on individual communities based on some misguided assumption that all communities have the same needs.

Ultimately an LEP and a Council's development policies are formulated by the local Council, which comprises the community's elected representatives. To suggest that one

might merge councils to eliminate this level of policy control is simply suggesting that a smaller, local community's views should carry less weight in making such decisions.

This approach has all the makings of a one-size-fits-all approach to planning. If that is the intent, then merging councils is not the way to achieve this end. The State has the power to control the content of the SI LEP so that it contains all the standardisation that it wants. If the State Government wants a higher level of standardisation, it should change the planning legislation accordingly and deal with any community backlash directly, rather than passing the buck by merging councils to diminish the input individual communities will have over development controls.

This position notwithstanding, it is important to note that Palerang Council already has planning resource sharing arrangements in place with neighbouring councils as a means of balancing out Development Application assessment loads between participating councils in the area. This is not some idle claim relating to what could be, but a statement of arrangements that have been in place for several years.

## 4 Historical Values

### Legislative Criterion

#### *(c) The existing historical and traditional values in the existing areas and the impact of change on them*

While Palerang is only a young LGA, the area most impacted by the present Proposal from an historical perspective is that part which is the former Tallaganda Shire. With its boundary established in 1906, the traditional communities thereby defined date back over 110 years and beyond to the time of the original European settlement of the area and the subsequent gold rush of the 1860s.

While this may seem to have little relevance in the present case, the importance lies in the void that exists between the values of such communities and those of the current Queanbeyan City area. As will be emphasised throughout this submission, Queanbeyan is an urban centre and the focus of Queanbeyan City Council activities is necessarily quite different from those which are seen as being important in a rural community.

It is perhaps also important to consider recent history here. In the amalgamation that created Palerang, the residents of the former Tallaganda Shire comprised only 25% of the population of the new Palerang council area. Their proportionate representation at a community level was reduced from 100% to around 25%, effectively from nine councillor representatives to just three. Today the area is represented by only two local residents and we are now looking at a situation where the unique interests of this local community might not even rate representation by a single local councillor. This is a significant change in a period of just 12 years, and there is no evidence to suggest that community values across this area and adjacent LGAs have homogenised to the point where rural and urban communities have similar priorities.

In the southwest of the Palerang LGA, there are indeed communities with ties with the current Queanbeyan area. This, however, is largely due to the ill-conceived boundary that was defined at the time Palerang was created. The ties here are not so much with Queanbeyan as they are within the communities that were divided by the boundary that was created at that time.

The reality is that the growth along the NSW side of the ACT border is driven by growth in Canberra. Queanbeyan captures an element of Canberra's urban overflow while Palerang captures the demographic group that is seeking a more rural life style and its associated values. This growth is not Queanbeyan overspill, nor is Queanbeyan growth in any way due to Palerang residents moving into urban localities. These are distinct demographic groups embracing different sets of values.

The issue here then is that there is no value in combining these demographic groups. The service needs and expectations are different, and the growth in both areas, urban Queanbeyan and rural Palerang, is an indication that both sets of values are viable in their own right.

The risk is that merging the two LGAs will necessarily reduce the focus of the merged entity on either demographic group, since they have little in common and must be serviced largely independently of each other, if they are to be serviced at all.

And this is the nub of the problem. In a situation where one group is significantly larger than the other, the natural consequence of change is that the larger group dominates and the interests of the smaller group become less significant, to the point where peripheral elements of the smaller group are simply ignored.

## 5 Ratepayer & Resident Attitudes

### Legislative Criterion

#### *(d) The attitude of the residents and ratepayers of the areas concerned*

The Palerang area is a collection of rural and rural residential communities. Historically, rural communities would have been centred on nearby villages, and ultimately the towns of Braidwood, Bungendore, Captains Flat and Queanbeyan, depending on their individual location. In more recent times, the rural residential areas closer to the ACT have been influenced entirely by economic growth in Canberra, and these areas now accommodate the majority of Palerang's population in life style and hobby farm developments.

Bungendore has developed along similar lines, with many new residents seeking a more relaxed lifestyle than is provided in nearby urban areas, but they are nonetheless employed in Canberra. Further to the east, the traditional values of a rural community remain although this area too is becoming increasingly attractive to residents seeking a rural lifestyle while working in Canberra.

Growth in the rural residential areas along the ACT border began back in the 70s and 80s, and continues today, although at a reduced pace. Bungendore has seen a doubling in its population in just the last 15 years.

In the 12 years since its formation, the Palerang LGA has developed its own, unique but fundamentally rural character. It has not given way to urban sprawl, retaining relatively large block sizes even within its towns. The dominant rural residential population occupies lots generally ranging from 5 to 40 acres and accommodating a range of rural activities, from lifestyle blocks to low intensity and specialist hobby farming.

The Palerang area now provides a unique life style opportunity that clearly retains its rural roots but accommodates a demographic group that sees Canberra as its focus for employment and a wide range of social activities.

Palerang Council plays an important role in supporting this community. With many residents availing themselves of higher-level professional services provided in Canberra, Palerang Council is able to focus its resources on the delivery of services that underpin the rural character of the area.

Throughout the whole reform process, there has been a common misconception relating to growth in the Palerang area. This growth is often referred to as Queanbeyan 'overspill' development. It would, in fact, be an entirely defensible position to propose that 'historical' Queanbeyan is not growing at all, and that what is, and has been happening for several decades is little more than what is also now happening on the north-western (NW) boundary of the ACT—Canberra development is spilling across the state boundary. There is little more logic in considering this growth to be part of Queanbeyan than it is to consider the overspill in the NW part of the ACT to be part of Yass. None of this growth is driven by economic development or growth in Queanbeyan (or Yass), it is entirely driven by economic growth in Canberra.

## 5.1 IRIS Survey Commissioned by Queanbeyan City Council

It is important at this point to comment on the survey commissioned by Queanbeyan City Council and conducted by IRIS Research.

This survey claims to have been carried out on a stratified sample of 402 Palerang residents. Anecdotal evidence, however, suggests that the survey was fundamentally flawed and that the results are not at all representative of community views.

In the first instance, the adult population in Palerang numbers around 10,600 (2011 ABS census figures) and Palerang Council comprises nine councillors. In the supposedly random sample of residents selected by IRIS, three councillors were contacted to participate in the survey. All were rejected by the interviewer because they were elected representatives on Palerang Council. Current employees of Palerang Council, and their families, were also excluded from the survey.

There are two serious problems here. If one were to seek a small sample of community members to comment on the views of the community as a whole, would not the first people to be consulted be the community's own elected representatives? Why did the community elect these people in the first place if not to represent their views? Where is the logic in, or reason for, excluding elected representatives from a survey impacting the future of the residents who elected them?

The second is a purely statistical assessment of this situation. If three councillors out of nine were included in a random sample of the community, on a statistical basis that would suggest that the sample included fully one-third of the population, or around 3,500 residents. Yet the survey claims to have involved only 402 residents.

To understand this apparent paradox, we need to look no further than the survey methodology. This assessment is based on reports from councillors, Council staff and residents of their first hand experiences.

The survey in question comprised 10 questions. The first was simply:

*Are you in favour of a merger of any sort between Queanbeyan City Council and Palerang Council?*

Acceptable responses were simply "Yes" or "No". There is already a problem here in that it was not acceptable to be "Undecided".

The second question sought reasons for the response given to the first.

The third question, however, was where the real problems began. It asked:

*If Council were to merge, which of the two merger options would you prefer?*

Only two acceptable responses were offered:

*A part merger between Queanbeyan City Council and the western and southern parts of Palerang*

or

*A full merger between Queanbeyan City Council and Palerang Council*

Again, it was not acceptable to be "Undecided".



The problem now was that if a respondent failed to nominate one of the two 'acceptable' options, and insisted that they were either undecided or did not have a preference, invariably because they did not support a merger of any kind, the survey was terminated and they were removed entirely from the survey sample.

As such, the responses reported for the first question, relating to support for a merger, are only those of respondents who agreed to nominate one of the 'acceptable' responses to the third question. If a respondent was strongly opposed to amalgamation and declined to select one of the merger options offered, they were not included in the survey.

It is then not so difficult to understand why more than 3,000 residents might have been contacted in order to accumulate just 402 'acceptable' responses.

One resident reported to Council that he had demanded to speak to the interviewer's supervisor when the interviewer refused to accept his response as valid, subsequently pointing out to this supervisor that he had extensive experience with the surveying system being used and explaining how the survey could be amended, quite simply, to allow the collection of all relevant responses. His input in this regard, together with his 'non-compliant' survey response, which simply failed to nominate which merger option he supported (since he supported neither), was dismissed.

In view of the above, this entire survey must be deemed to be statistically invalid.

## 5.2 Winton Survey Commissioned by Palerang Council

By comparison, Palerang Council commissioned a survey<sup>††</sup>, part of the Council's regular community feedback program, that was based on a stratified random sample of 1,100 residents and did not restrict the responses that could be provided in a valid interview. This survey effectively provided respondents with an 'undecided' option or an opportunity for an open response to all questions.

This is quite clearly a far more valid means of seeking out true community views than limiting responses or, worse still, rejecting entire survey responses because they do not comply with some predefined outcome.

The results of this survey reveal that more than half of the respondents (55%) would prefer that Palerang remain as it is, while only one-fifth (21%) indicated a preference to be part of the more urban styled Queanbeyan City Council. The responses to the questions relating to amalgamation are summarised in Figure 5-1 and presented in more detail in Tables 5-1 and 5-2 below.

---

<sup>††</sup> 2015 Community Survey, conducted on behalf of Palerang Council by Winton Sustainable Research Strategies, 5 July 2015

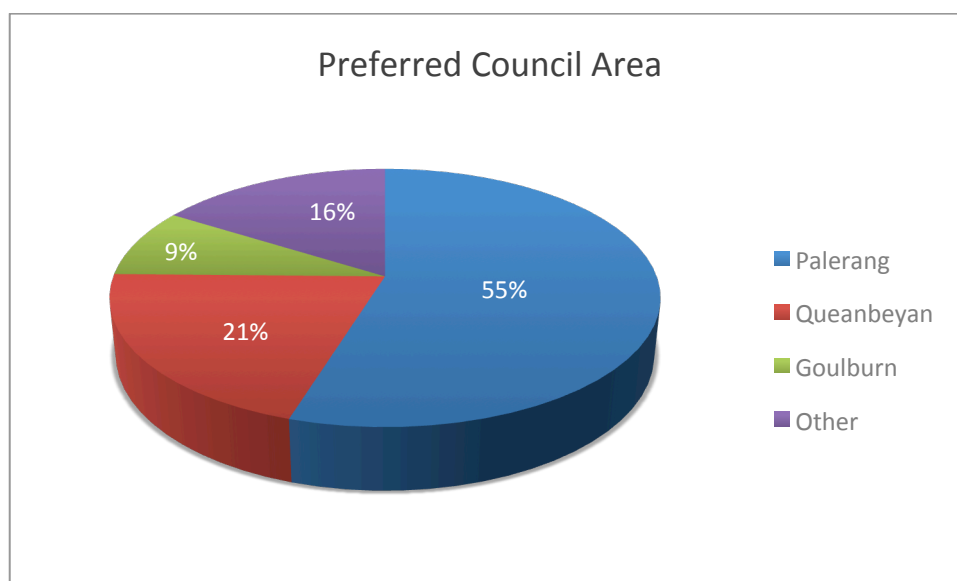


Figure 5-1 Preferred Council Area<sup>##</sup>

The 2015 Winton survey also included several questions designed to gauge the community's behaviours with regard to social and economic dependence on surrounding areas. These results are presented in Section 3 above.

Table 5-1 Views on Amalgamation

Q.G As you may know, the State Government is seeking to amalgamate various councils throughout NSW, and it has been suggested that Palerang Council be merged with Queanbeyan City Council. In your opinion, should Palerang Council:

	Total %	Area of		
		Braidwood	Bungendore	Captains Flat
Continue as an independent council in its own right	54.8	62.7	51.2	57.1
Amalgamate with Queanbeyan Council	20.5	17.3	20.9	28.6
Amalgamate with Goulburn Council	8.6	9.3	9.3	0.0
Amalgamate with Yass Valley Council	0.4	0.0	0.6	0.0
Amalgamate with some other Council/s	1.4	1.3	1.1	4.8
Be split up among adjoining Councils	8.3	5.3	9.4	9.5
Unsure	6.0	4.0	7.6	0.0

Table 5-2 Reasons for Responses

	n
<b>Why continue as an independent council in its own right [54.8% gave this response]</b>	<b>600</b>
City council wouldn't understand rural needs/chalk and cheese/mismatch	123
Current council good enough/anything else worse/if it ain't broke, don't try to fix it	99
We become junior partner/lose priority/lose our identity/fewer services/poor cousin	89
Bigger is not better/more bureaucratic/more impersonal/less friendly	71
Less control over who represents us/loss of local representation	57

<sup>##</sup> Percentages based on total expressing a preference (i.e. excluding 'unsure' responses)

	n
Less money/fewer services per household/more wasted on grandiose projects	56
More expensive/higher rates	27
We would inherit their debt/be worse off	26
Already amalgamated five years ago with negative consequences/don't repeat	22
Major local job losses/current council staff would lose jobs	17
Other councils poorly managed/not as good/politicised	14
<b>Why amalgamate with Queanbeyan Council [20.5% gave this response]</b>	<b>225</b>
Closest to us/our area/already our major local centre/we shop there anyway	76
Queanbeyan more efficient/progressive/modern/better managed/forward thinking	45
Would do more for us than Palerang/more resources	26
Would provide more rates per hectare overall so we benefit/more funds available to us	21
More/better services	15
Better deal for towns and villages other than Bungendore/put Bungendore in its place	15
Easier/more efficient land zoning and controls	12
Reduced rates/prices/fees	8
More like us than Goulburn/more connections	7
<b>Why amalgamate with Goulburn Council [8.6% gave this response]</b>	<b>95</b>
Rural oriented like us/better match/more compatible than Queanbeyan	45
Goulburn well-managed/efficient	15
Has similar history/heritage values	15
Would be more generous than others/more money	11
Better services	9
<b>Why amalgamate with Yass Valley Council [0.4% gave this response]</b>	<b>4</b>
Yass is rural like us/We have more in common with them/Less likely to ignore us/stronger voice	4
<b>Why amalgamate with some other Council [1.4% gave this response]</b>	<b>15</b>
Eurobodalla the main council mentioned, mainly because it is a similar collection of towns	15
<b>Why be split up among adjoining Councils [8.3% gave this response]</b>	<b>91</b>
Palerang has disparate communities/previous amalgamation didn't work as artificial mix/heterogeneous	41
Join like with like so that all towns and villages benefit and none get ignored	26
Shire too big as is/better to add bits to nearby councils rather than add whole shire to one council	24
<b>Why unsure [6.0% gave this response]</b>	<b>66</b>
Insufficient information/advice to make decision	66

The results of all of Palerang Council surveys, conducted over the past 10 years, are publicly available from both the Council and other community websites and, unlike the IRIS survey conducted on behalf of Queanbeyan City Council, none have ever received any negative commentary relating to the process employed.

## 6 Representation

### Legislative Criterion

*(e) The requirements of the area concerned in relation to elected representation for residents and ratepayers at the local level, the desirable and appropriate relationship between elected representatives and ratepayers and residents and such other matters as considered relevant in relation to the past and future patterns of elected representation for that area*

### 6.1 Effective Representation

The Palerang community has identified local representation as a major issue in the present case, where it is being proposed that a geographically large rural area with relatively low population be merged with a relatively small and fundamentally urban area with a relatively high population.

As has already been noted, a simple calculation reveals Palerang residents would comprise only 25% of the population of the proposed merged entity. As a result, the whole of the Palerang area would have the numbers to elect just two local councillors [on a nine-member Council] at best, maybe three if the cards fell their way at election time. This could hardly be considered effective representation for a demographic group that has very little in common with the predominantly urban Queanbeyan population.

Any level of effective representation would then be dependent on a shared community of interest with some other, larger sector of the new Council area. Once again, however, our community surveys reveal little in common between the Queanbeyan area and the majority of Palerang residents. Even so, with in excess of a 30-fold increase in area, it would not be a simple matter for any representative based in Queanbeyan to cover the new area based simply on the distances involved.

Comments on the scale and capacity of a new Council are provided elsewhere in this submission, but they apply equally to the role of councillors in any new Council. If individual councillors are obliged to travel much longer distances to apprise themselves and stay abreast of community needs, their capacity for effective representation can only be diminished.

It is also perhaps important to consider recent history here. In the amalgamation that created Palerang, the residents of the former Tallaganda Shire comprised only 25% of the population of the new Palerang council area. Their proportionate representation at a community level was reduced from 100% to around 25%, effectively from nine councillor representatives to just three. Today the area is represented by only two local residents.

We are now looking at a situation where this local community might not even rate representation by a single resident councillor.

### 6.2 Operating Model

There is a further dimension to this problem of local representation. As a rural council, Palerang works closely with community members spread across the 5,147 km<sup>2</sup> area of

the current LGA through more than 30 Council committees. This is both an operational exercise, in that these committees are instrumental in managing Council assets within rural communities, and part of Council's community liaison responsibilities. This task is shared between the nine councillors who work with individual communities within their general geographic area. Any reduction in the number of councillors drawn from the Palerang area will reduce rather than enhance the capacity of any new Council to effectively represent and serve these communities.

This fact draws attention to another simple geographic reality that constrains capacity in the present case. Queanbeyan is located at one extremity of the proposed new LGA with often circuitous routes required to reach all but the closest Palerang localities (see map on p.9 above). For around three-quarters of the Palerang area, this would place the main Council offices a further 25 km away. For services removed from the Braidwood office, the additional distance would be 74km, and some residents are more than 50km further away than that from Braidwood.

The reality is that councils operating in geographically large rural areas must necessarily adopt a different operating model to an urban council. As a direct consequence, there are fewer opportunities for organisational consolidation when attempting to merge a rural council with an urban council. It may be that in situations where there is a mutual dependence at one level or another, acceptable compromises can be reached, but where there is little such interdependence, there is similarly little benefit to be derived at any level from merging entities. The real risk is that there is a loss of focus on one or the other side of the business, or worse still both, with disastrous consequences.

All of these factors contribute to that fact that, while the proposed new Council would be bigger, there is no indication that any increase in size would lead to an increase in capacity, at either an organisational or representational level. In fact, there is a very good case to suggest precisely the opposite.

### 6.3 Relationships

The current Palerang area covers around 5,147km<sup>2</sup> with a relatively low population density. As has been noted elsewhere in this submission, 56% of its work force travels to the ACT each day (see Section 3.1). These factors have created challenges for engaging with the area's diverse communities, challenges that have been met by a number of specific strategies.

With Queanbeyan located in one corner of the geographic area covered by the present proposal, the ability for the organisation, elected members and the community to interact would be compromised by the travelling distances involved.

The s.355 committees operated by Palerang Council help build a solid bond between Councillors, the organisation and the community they serve. Councillors, who are not necessarily from the area, are seen to be supporting the broader Palerang community. The committees also provide a clear line of communication between community members and the Council through the direct involvement of elected members and the presentation of all committee minutes at ordinary Council meetings.

Given that the overwhelming majority of councillors in a nine-member Council, quite apart from the independently elected Mayor, would be Queanbeyan based it is difficult

to see how just the current s.355 committees could be supported at a councillor level in a merged entity. Without this support, the proposal currently being examined would shatter these relationships, which are so critical for social cohesion and wellbeing.

## 7 Services & Facilities

### Legislative Criterion

*(e1) The impact of the proposal on the ability of the council to provide adequate, equitable and appropriate services and facilities*

#### 7.1 The Tyranny of Distance

For much of the Palerang population, under the present Proposal the distance to the main operational centre of the area would increase by around 25 km. This will make it more difficult or less economical to deliver any centrally located services than is currently the case.

Table 7-1 includes the distances between Braidwood, Bungendore and Queanbeyan, as an indication of the additional distance that would be involved for the majority of the Palerang area.

Table 7-1 Travelling Distances

Location	Distance	Additional Distance
Braidwood to Bungendore (PC Office)	49km	
Braidwood to Queanbeyan (QCC Office)	74km	25km
Bungendore to Bungendore	-	
Bungendore to Queanbeyan (QCC Office)	25km	25km

It is generally accepted that it is both more practical and economical to deliver services into more densely populated areas. However, the Proposal would increase the land area to be serviced out of Queanbeyan from just 172km<sup>2</sup> to 5,319km<sup>2</sup>, a more than 30-fold increase.

QCC appears to be under the misapprehension that it will be able to simply extend its capabilities from an area of only 172 km<sup>2</sup>, to an area which is three times larger than the entire Sydney metropolitan area. (The Sydney Metropolitan area is planned to be serviced after the proposed amalgamations by 25 Councils).

The addition of a sparsely populated rural area would further dramatically reduce the population density as previously noted. This quite clearly then cannot lead to any increase in efficiency of service delivery since both the area to be covered will increase and the population density will decrease. Rather, the present Proposal will surely diminish the new Council's capacity to simply maintain existing service levels.

As noted above and repeated in Table 7-2 below, the services provided by Palerang and Queanbeyan are quite distinct. As such, there will be little or no opportunity to achieve any economies of scale. However, with the operating loss as outlined in Section 2, there will be strong pressure to absorb the Palerang service delivery needs into the QCC structure. This will invariably lead to deterioration in the quality of rural service delivery.



This has certainly been the experience in Queensland where ill-considered mergers of rural Councils with urban Councils has resulted in a deterioration in rural services such as unsealed road maintenance and weed/pest control.

## 7.2 Urban vs Rural Services

One significant factor that appears to have been overlooked in the merger Proposals involving Palerang and Queanbeyan City Councils is the distinct nature of these two Councils. Palerang is a rural council that developed the capacity to deliver relevant services into its rural community, while Queanbeyan City is an essentially urban council that specialises in the delivery of quite a different range of services.

For purposes of comparison, some of the services offered by the two councils are presented in Table 7-2 below.

**Table 7-2 Council Services**

Service	Palerang	Queanbeyan
Gravel Roads	62%	2%
Urban Roads	6%	71%
Rural Roads	94%	29%
RMS Contract	\$8m (\$17m in 2016/17)	\$250k
Water & Sewerage Plants	Operated by Council	Water operated by Icon (formerly ACTEW) Sewer operated by Council
On-site sewerage management systems	Extensive	Minimal
Waste Collection	Day Labour (9 protected employee positions)	Contract
Parks & Gardens	Minimal , with few staff	Extensive, with sizeable workforce
Weed/Pest Control	Extensive	Limited
Libraries	Already amalgamated	Already amalgamated
Population Density	27Ha per capita	0.4Ha per capita

Furthermore, the following are lists of some of the skills available and services delivered with local resources within Palerang that are not widely available, or not available at all through Queanbeyan City Council.

### Engineering

- Advanced Road design
- Water and sewer infrastructure design
- Structural reinforced concrete design
- Latest GPS survey and machine control systems
- Road construction capabilities to multimillion \$ level (highways, large culverts and bridges)
- Pipe laying capabilities (water sewer drainage)
- Dedicated main roads officer for contract inspectorial duties

- Sewage pump station design and construction capabilities
- High level water treatment/process expertise across a wide range of applications
- Expertise in rural road construction and maintenance
- Unsealed road maintenance
- Gravel resheeting
- Telemetry installation, development and operation
- Roadside waste management collection (rural and urban)
- Waste transfer station construction and operation
- Saleyards operation
- Water supply head works design and operation (dams, off takes, bores etc)
- Stock control (impounding)
- Dedicated sewer CCTV unit

### *Rural Services*

- Rural services managed from Bungendore
  - Septic tank operation, monitoring and approvals
  - Weed management
  - rural bushland programs
- Strong noxious weed management program (around 10 times QCC's budget),
  - Regional weed management as Lead Agency for the South East Weeds Action Program (\$20M program over five years)
  - Weed mapping expertise (Winner of the NSW Local Government weed management award twice in the last three years)
  - Innovative use of drones for weed mapping, including contracting services to other agencies
  - Development of innovative online tools (interactive plant identification key, WeedSpotters portal developed in collaboration with ACT, interactive maps of weed inspection priorities under development)
  - Advanced inspection reporting software developed in-house with participation in Biosecurity Information System state-wide trials and working group
  - Leading research into weed control behaviour change programs, including as trial Council and region for DPI roll-out; Palerang research project on Gorse and casual employee undertaking PhD
- Advanced Geographic Information System capability, including
  - Advanced ArcGIS licence facilitating complex spatial analysis capability (industry-leading software not used by QCC)
  - In-house production of mandatory bushfire prone land maps (QCC previously used consultants)
  - In-house production of mandatory LEP maps across large rural areas

- Capture and analysis of ultra-high resolution aerial photography (Palerang is the first and currently only Council in Australia with CASA certification to operate unmanned aerial vehicles) for a range of natural and built asset management applications plus innovative weed inspection and reporting/engagement capacity
- In-house production of innovative natural resource management maps, such as native vegetation, farm dam and water pollution sources
- In-house development of GIS data capture software for a range of applications such as weed inspections, native vegetation type/condition, on-site sewage management systems, built assets
- Active involvement in regional State of the Environment Working Group, including assessment of applicable spatial datasets
- Use of unmanned aerial vehicles for weed mapping in reserves and potentially noxious weed surveys of private land as well as obtaining up to date aerial photography of small areas for Council projects or investigations
- Well established noxious weeds and on-site sewerage management systems inspection programs
- Rural strategic planning expertise

Given the area to be covered, the distances involved, and Queanbeyan's location within the geographic area under consideration, it would make little sense to attempt to manage the delivery of these rural services from Queanbeyan. This, however, would appear to be the natural corollary of any suggestion to reduce staff numbers in Bungendore. It would also indicate a failure to appreciate the difference between the two Councils and the fact that there is already very little overlap in staff functions.

The suggestion by QCC that staff positions in Bungendore not be preserved also completely ignores the contribution that the culture of an organisation makes to its service delivery capability. The development of a successful and effective service delivery organisation is not just a matter of collecting together a group of individuals, even appropriately skilled individuals, and assigning them a task. True excellence in effective service delivery is very much more about organisational culture than it is about size.

### 7.3 Service Delivery Impact

Of course, the impact of any change on service delivery will depend on the service being delivered. If the service were generally delivered from a central location, any benefit would clearly be limited due to the increased distances involved. If the service were delivered locally, there would be no fundamental change and hence, once again, little benefit.

Nothing in the present Proposal identifies how service levels would or even could improve under the prevailing circumstances, and the significant additional distance to the Council Head Office would adversely impact both on the ability of Council to provide services, and residents to avail themselves of these services.

Any potential to achieve economies of scale would diminish if more staff were required to address the issue of distance. There would be a similar impact if staff time were wasted travelling to a remote location. Such economies can only be achieved if services

can be delivered within an existing sphere to more residents with minimal increase in costs. Such is clearly not the case in the present Proposal.

It is also important in this context to recognise the reputation that Palerang Council enjoys with respect to some of the services it currently delivers. This is another case where there appears to be an assumption that both partners in the proposed relationship deliver, or could easily be adapted to deliver the same range of services. A scan of the services and capabilities listed in Section 7.2 above should reveal the folly of such an assumption.

Palerang, for example, regularly wins awards for the work undertaken by its environmental services division. It was recently appointed as the lead agency for the \$20 million SE Weeds Action Program. Similarly, Palerang's road engineering crew is widely regarded as the best in the region, regularly being awarded RMS contracts. This is an outstanding achievement and it is essential that it be recognised that, in dissolving the Palerang Council organisation, even just in destroying its culture as would be inevitable in a merger scenario where staff positions were not protected, this capability would be lost, to the detriment of the entire Palerang community.

The independent financial analysis provided in Section 2 above further indicates that a new Council would have a reduced financial capacity and thus be in no position to support the deployment of any additional resources that might be required to maintain existing service levels in an expanded council area.

The potential lack of electoral representation of the Palerang area, as discussed in Section 10 below, will also compound the problem by significantly reducing the likelihood of equitable representation of real community need.

With consideration of these facts, it quickly becomes apparent that, rather than providing greater capacity, the present Proposal will in fact cripple the new Council from the outset.

## 8 Council Staff

### Legislative Criterion

#### *(e2) The impact of the proposal on the employment of the staff by the council*

All Palerang staff in the area impacted by the present Proposal are employed in rural towns with populations of fewer than 5,000 and as such these positions are protected under Section 218CA of the Local Government Act. The relevant staff numbers and associated costs are presented in Table 8-1 below.

Table 8-1 Staff Numbers and Costs

	FTE Staff	Annual Cost
Bungendore	81	\$7,100,000
Braidwood	46	\$3,644,145
Captains Flat	2	\$146,913
Nerriga	1	\$32,379
<b>Total</b>	<b>130</b>	<b>\$10,923,447</b>

This situation will have an impact on a new Council's ability to find efficiencies through staff reductions within the current Palerang area. Any staff reduction would need to be found in the existing QCC organisation and that in turn would impact on a new Council's ability to simply maintain service levels in the current QCC area, let alone expand service capabilities to take in any new area.

However, we understand that QCC is lobbying to have Bungendore declared as an urban town, and not subject to the protections under s218CA. They propose that the Bungendore office would be shut down and used for an expanded library and Rural Fire Service office. The Queanbeyan office does not have the capacity to absorb the 82 staff currently located in Bungendore, and this would be where they would intend to find the 63.4 FTE staff savings identified but not documented by LKS. In other words, there is likely to be a loss of over 60 jobs in Bungendore. We strongly contend that Bungendore is currently defined as a rural town for the purposes of s218CA. However, QCC seems determined in its submissions to overturn this situation so that it can decimate the Bungendore office and use the staff savings for services in Queanbeyan and to overcome its poor financial situation.

Clearly then, the present Proposal will have a negative impact on the employment of council staff, which will also have flow on effects within the wider community.

### 8.1 Potential to Convert Staff to Lower Paid Front Line Positions

Of the \$22m potential savings claimed by KPMG, \$16m are from reduction in employee costs. KPMG acknowledges that rural Councils must maintain staff positions in rural towns, but claim that savings are possible in converting higher paid managerial and corporate positions into front line service delivery roles. This is phased in over 4 years, but Orion modelling shows that annual savings of \$1.9m after year 4 would be needed to create the claimed \$16m in savings.

However, this completely ignores the fact that Palerang has a lean structure already with a focus on front line service delivery.

An analysis of the Palerang wages structure is presented in Table 8-2.

**Table 8-2 Potential Savings from Corporate/Management Staff converted to Front Line**

	<b>Actual Annual Salaries</b>	<b>Savings Potential</b>
Outdoor Staff (Front Line)	\$5,396,281	
Indoor – Front Line	\$576,383	
Indoor- Technical (esp Rural)	\$2,647,678	
Indoor - Managerial	1,135,816	\$425,044
Indoor - Corporate	\$1,167,288	\$126,697
<b>Total</b>	<b>\$10,923,446</b>	<b>\$551,741</b>

The data presented in Table 8.2 show that the maximum potential savings from converting corporate and management positions to front line service delivery roles after a 4 year period would be \$552,000 per year. This would be in addition to the General Manager's role which is addressed elsewhere by KPMG, but amounts to \$250,000 per year after redundancy costs, not the \$6m assumed by KPMG.

Examples of Palerang staff who provide services not provided by QCC include:

Palerang currently has 10 staff + contractors involved in weed management, comprising:

- Coordinator ~30% fte Grade 24 \$101,000
- Project Officer x 2 Grade 18 \$85,000
- Snr Weeds Officer Grade 14 \$73,000
- Weeds officer x 2 Grade 13 \$71,000
- Weed controller x 3 Grade 5 \$49,000
- Project Officer Grade 14 casual
- Multiple contractors (weed control, regional weeds workshop facilitator)

Draft noxious weeds budget for 2016/17 is \$735,000, which is significantly greater than QCCs budget for this service.

Resources for 2016/17 draft budget include approximately (including overlap with weeds budgets above):

- Coordinator ~20% fte Grade 24 \$101,000
- Snr Environmental Officer ~25% fte Grade 14 \$73,000

Excluding overlap with weeds program:

- Coordinator ~5% fte Grade 24 \$101,000
- Snr Environmental Officer ~10% fte Grade 14 \$73,000

Queanbeyan currently provides its waste collection service with contractors, whereas this is an in-house service provided by Council staff in Palerang. QCC officers have

indicated that a merger of Queanbeyan and Palerang would result in all of these services being provided by contract would further impact on projected staff levels.



## 9 Rural Communities

### Legislative Criterion

#### *(e3) The impact of the proposal on any rural communities in the resulting area;*

Given that the Palerang LGA is entirely rural in nature, any impact on Palerang residents is an impact on a rural community. The most unfortunate aspect of the present proposal is that all the impacts on Palerang residents are negative, as have been expanded on in other Sections of this submission.

Contrary to claims made in the various proposals, independent analysis indicates that any form of merger will result in a net financial loss to the new entity.

Given the imbalance in population between Palerang and Queanbeyan, a loss in democratic representation for Palerang communities is inevitable.

Given the different nature of the two organisations—Palerang Council being a rural Council and Queanbeyan City Council being an urban Council—there is no reason to believe that there will be any improvement in any of the services being delivered into rural communities. In fact, there is every reason to believe that there will be a steady decline in the standard of these services. The current Queanbeyan City Council structure has no capacity to deliver the style of services required by the Palerang community. Any maintenance of current service levels will be entirely dependent on the degree to which the current Palerang Council culture can be incorporated into the organisational structure of the new entity. Unfortunately for Palerang residents, mergers invariably result in the adoption of the culture of the dominant partner, which in this case is Queanbeyan City Council, at the expense of that of the minor partner, which in this case is Palerang Council.

Given the distances involved there is no reason to believe that any services delivered through an urban delivery model in Queanbeyan will be more accessible or relevant to Palerang residents.

The present Proposal must necessarily reduce the focus of a new Council on local rural issues by the mere fact that a significantly larger majority of the population will be located in the urban centre of Queanbeyan and the operations of the Queanbeyan City Council organisation would logically focus on the areas most likely to maximise returns on organisational investment.

## 10 Wards

### Legislative Criterion

#### *(e4) The desirability (or otherwise) of dividing the resulting area or areas into wards*

Wards are generally seen as a mechanism for guaranteeing a level of representation from different areas within a Local Government Area. In the present case, however, they would likely have little impact in this regard.

The entire Palerang area, whether or not a ward system was in place, would comprise around 25%<sup>§§</sup> of the population of the new Council. As a consequence, the new Council would be dominated by the interests of the urban population of Queanbeyan. As such, wards would not help to improve the representation of the rural segment of the community.

Nonetheless, under a three-ward system, the only configuration possible with a nine-member Council as proposed, with a population less than one-third that of the new council area would not even comprise a single ward in its own right—even the ward containing the entire Palerang area, would need to include part of the current Queanbeyan area to satisfy the requirement to include one third of the population.

In fact, it may be argued that, without wards, a representative from the Palerang area might be able to draw support from a wider constituency and thus be in a better position to be elected. It remains an inescapable fact, however, that no matter what system was in place, Palerang residents would have little control over policies that impacted them.

---

<sup>§§</sup> Based on population estimates in the present Proposal.

## 11 Diversity

### Legislative Criterion

#### *(e5) The need to ensure that the opinions of each of the diverse communities of the resulting area or areas are effectively represented*

For the reasons outlined elsewhere in this submission, due to the populations involved, this is largely not possible at the councillor level unless individual Palerang communities share views with those of the more highly populated and thus dominant urban areas. Given our earlier discussion on the nature of the Palerang demographic, this is unlikely to be the case.

Simply by virtue of the size of the population groups involved then, the present Proposal cannot guarantee that the opinions of the Palerang communities involved would be effectively represented. The fact that there is no broader community of interest that embraces the impacted populations leads one once again to the conclusion that the present Proposal does not protect the interests of Palerang residents.

## 12 Other Factors

### Legislative Criterion

*(f) Any other factors relevant to the provision of efficient and effective local government in the existing and proposed new areas*

#### 12.1 Organisational Capacity and Service Delivery

We have seen that the financial benefit to Palerang residents is minimal at best, even if they could be realised. The sorts of savings being forecast are simply not going to have any long term impact on infrastructure backlog because, in the present case, as is the case with most rural councils, this is the result of the long term failure of the State's funding model for regional infrastructure. Until the State addresses that funding issue, anything else will be a short term fix at best that will not resolve the underlying funding problem.

Any increase in capacity, therefore, would have to come through internal efficiencies, and this brings us to another flaw in a proposal to merge a geographically large rural LGA, with a relatively small but more densely populated urban council.

It is generally recognised that efficiencies in service delivery correlate well with population density—increases in population density lead to improved efficiencies in service delivery. But what the present proposal would have us believe is that we will gain efficiencies by merging Queanbeyan City with a sparsely populated rural area 30 times its size and with a population density 80 times lower.

There are problems here for both parties in this Proposal. Most notably, however, in the case of the Queanbeyan LGA we are proposing to significantly reduce its overall population density. The logical conclusion then is that this will make it less practical and more difficult, and hence more expensive, to deliver services throughout the new area.

Many issues, however, come into play here, not least of all staffing and travelling distances. There can be no economies of scale if more staff are required to address the issue of distance or staff time is wasted travelling to a remote location. Such economies can only be achieved if services can be delivered within an existing sphere to more residents with minimal increase in costs. In the present situation, this is clearly not the case.

From the perspective of current Queanbeyan residents, there would certainly be no perceived benefit in broadening the Council's outlook to embrace the needs of rural residents. These rural residents are not economically dependent on Queanbeyan at any level, and as we have noted, bring little economic benefit to Queanbeyan.

From the perspective of Palerang residents, merging with a significantly larger, urban council must necessarily change the focus of the new Council to a more urban outlook. This is the only way any economies of scale can be achieved.

The risk to Palerang residents then is that a new Council would have little incentive to do anything more than increase the level of services provided in its urban centre. This might be acceptable for urban residents, but is of no benefit whatsoever to most

Palerang residents. As has been noted in Section 3, Canberra is the primary external centre of interest and will remain the urban focal point for the large majority of Palerang residents whatever happens.

The reality is that those Palerang residents who are in true need of improved services, those who are unable to avail themselves of services in Canberra, will be the ones who suffer most from this service degradation. If they cannot travel to Canberra, they certainly will not be able to travel to Queanbeyan either. They will simply have to go without.

It is important to note again at this point that both the Palerang and Queanbeyan Council organisations have been recognised by IPART in this whole process as being financially viable, 'financially fit' in the current vernacular. Their 'not fit' status arises purely and simply because the two councils, through their own independent assessment efforts, determined that, contrary to the Minister's assertions, there was nothing to be gained by merging.

The two organisations, however, are in fact fit for different purposes—one is fit as a rural council, the other as an urban council, and the focus of each is clearly quite different.

One is structured to deliver relevant services into a more sparsely populated rural area, and the other to deliver relevant services into a more densely populated urban area. The essential services are different and the delivery model is different, so there is very little duplication of resources, and thus little opportunity to further reduce staffing levels.

We are not talking about two adjacent metropolitan councils, with effectively identical operational characteristics. We are dealing here with a rural council and an urban council, and moreover a rural council that has no dependence on the urban council in question.

As such, merging the two Councils in any way, contrary to the fundamental goal of this whole exercise, will clearly only have the potential to degrade the performance of both. The bigger partner might manage to hold its ground, but that just means that the smaller partner will suffer more.

Efficiencies that can be gained in the present environment through collaboration or cooperation are either already being achieved through existing arrangements between the two Councils, or can be more appropriately provided within the context of the Canberra Region Joint Organisation of councils to which we will refer more in a moment.

Clearly then a merger offers no benefit with regard to improving the capacity of either Council, in fact quite the contrary.

## 12.2 Strategic Planning

The various merger Proposals make reference to improvements that might be made in strategic planning. The bottom line, however, is that if the strategic planning or economic development is not directed specifically into the Palerang area, it will be of little benefit to Palerang residents, because, as we have seen, Queanbeyan is simply not a major focus for the large majority of Palerang residents for anything much more than

grocery shopping, which in itself will reduce with the opening of a major supermarket in Bungendore later this year.

As noted in Section 3, our resident surveys indicate that:

- Twice as many people go into Canberra for educational purposes as go into Queanbeyan;
- Around three times as many people do non-supermarket shopping in Canberra
- More than four times as many people seek health care in Canberra
- More than seven times as many people seek entertainment in Canberra

As a consequence, enhancing business opportunities or service delivery options in Queanbeyan offers very little benefit to Palerang residents at all.

If we are talking about improving more general, regional capabilities, however, then there are perhaps two issues that must be considered here. First, how are the region's interests and priorities managed in the current environment, and second, how will they be better managed as a result of the proposed change.

At a regional level, both Palerang and Queanbeyan Councils belong to the Canberra Region Joint Organisation (CBRJO). Under this umbrella, both work collaboratively with the ACT government and other councils in the region. Through initiatives such as the Capital Region Living campaign, the Canberra Region branding and promotion, and joint meetings with State and Federal Ministers, the CBRJO has established itself as the voice of the region. No merger or boundary adjustment involving Palerang and Queanbeyan Councils would change anything at this level.

At an important level, the strength of councils in SE NSW lies in acknowledging the influence of Canberra and the ACT on the region, addressing the unique needs of their respective communities, and working together under the banner of regional cooperation to harness those individual benefits for the good of the broader region.

The present Proposal does indeed note membership of the Canberra Region Joint Organisation (CBRJO), but fails to acknowledge that most, if not all of the supposed benefits of merging are already being realised through Palerang's and Queanbeyan's respective involvement with this regional organisation. The claim that a merger will provide these benefits 'without relying on voluntary collaboration' is a nonsense, since it is proposed that Joint Organisation membership will indeed be compulsory—not that such an approach has ever been necessary for the CBRJO member councils to cooperate and work together constructively.

It has been the position of Palerang Council throughout the Fit For the Future process that working within a regional JO provides the greatest opportunity to both satisfy the unique local government needs of rural and urban residents in our region and provide a viable interface for higher levels of government, including our neighbours in the ACT.

Also, as noted elsewhere in this submission, Palerang Council is highly regarded as a regional partner with external agencies such as RMS and the NSW Department of Environment. In this context, Palerang Council provides capabilities that are not available in neighbouring Councils. Dissolving the Palerang Council organisation at any level will severely diminish these capabilities, if not destroy them altogether, and they

will be lost to the entire region. In the case of RMS contracts, there is every possibility that these would be lost to local government entirely.

Quite contrary, therefore, to the claim of building a more effective partner for other levels of government, the present Proposal fails to recognise the financial reality facing the proposed new Council. It completely ignores the significant regional benefits in retaining the Palering Council organisation and its existing capabilities, and the flow-on benefits of existing structures within the SE NSW region.



## 13 Data Analysis

### 13.1 Replication of KPMG Figures

The following are the data and assumptions used to model the financial details presented in this submission. The model has been verified by replicating the figures provided by KPMG and then used to produce a more accurate forecast of the financial condition of the proposed merged entity.

#### 13.1.1 Materials and Contracts

Table 13-1 Assumptions: Materials and Contracts

Materials and contracts expenditure - savings	KPMG Assumption	ORION Model
Assumed percentage of population transferred to Queanbeyan	100%	100%
Savings applied to	100% of Palerang budget forecast, 100% of Queanbeyan budget forecast	100% of Palerang budget forecast, 100% of Queanbeyan budget forecast
Annual budget growth beyond Council forecast	Not stated	1.9%
Efficiency savings	Up to 3%	1.9%
Scale efficiency (how many of the budget items can achieve savings)	80%	80%
Phase-in of savings	Year1&2: one-third Year3: two-thirds Year4: full savings	Year1&2: one-third Year3: two-thirds Year4: full savings
Discount rate (to calculate today's value of future payments)	9.50%	9.50%
Net present value of savings		<b>\$4,743,885</b>

1. Assuming 1.9% annual growth in materials and contracts for both Palerang and Queanbeyan beyond Queanbeyan's forecasting period (2023). This equals the forecast long-term population growth ratios and was chosen due to Queanbeyan budget forecast using fluctuating annual growth rates making it difficult to apply their methodology to the forecast period beyond the official budget forecast.
2. Savings are applied to 100% of the Palerang budget for materials and contracts reflecting the full merger scenario
3. Savings are applied in full to the Queanbeyan budget
4. A gross annual savings rate of 1.9% is assumed
5. Savings are phased in as detailed in *KPMG financial evaluation assumptions* paper, with  $\frac{1}{3}$  savings in years 1 and 2,  $\frac{2}{3}$  in year 3 and full savings by year 4.
6. The savings are only applied to 80% of the costs as per KPMG paper
7. Discount rate of 9.5%\*\*\*

\*\*\* Local Government Reform, Merger impacts and analysis, NSW Government, December 2015 (p.9)

## 8. Net present value calculation on savings cash flow:

Modelling outcome:

Discount rate	9.50%
<b>NPV</b>	<b>\$4,743,885</b>

**KPMG outcome: \$5m**

## 13.1.2 Employee Benefits

Table 13-2 Assumptions: Employee Benefits

Salaries and wages expenditure - savings	KPMG Assumption	ORION Model
Assumed percentage of population transferred to Queanbeyan	100%	100%
Savings applied to	100% of Palerang budget forecast, 100% of Queanbeyan budget forecast	100% of Palerang budget forecast, 100% of Queanbeyan budget forecast
Annual budget growth beyond Council forecast	Not stated	2.8%
Efficiency savings (regional councils)	3.7% to 5.0%	3.7% for Palerang 5.0% for Queanbeyan
Scale efficiency (how many of the budget items can achieve savings)	100%	100%
Phase-in of savings	Year 1-3: Voluntary attrition Year 4 and forward: reducing back office duplication	Year 1-3: Voluntary attrition (1.9%) Year 4 and forward: assumed efficiency savings rate (3.7% & 5.0%)
Discount rate (to calculate today's value of future payments)	9.50%	9.50%
<b>Net present value of savings</b>		<b>\$15,562,804</b>

9. Assuming 2.3% annual growth in employee benefits for both Palerang and Queanbeyan beyond Queanbeyan's forecasting period (2023). This equals the forecast salary increase used by KPMG.
10. Savings are applied to 100% of Palerang budget for employee benefits reflecting the full merger scenario.
11. Savings are applied in full to the Queanbeyan budget
12. Assumed 1.9% savings in each of the first three years to account for the "voluntary attrition" outlined in KPMG technical paper. The 1.9% was chosen because this is the annual rate of growth in population and natural attrition implies no hiring, therefore achieving efficiencies equal to population growth rate.
13. A gross savings rate of 3.7% for Palerang and 5.0% is assumed for Queanbeyan from 2019 (fourth year), both within the ranges detailed in KPMG technical paper
14. Discount rate of 9.5%<sup>†††</sup>

<sup>†††</sup> Local Government Reform, Merger impacts and analysis, NSW Government, December 2015 (p.9)

## 15. Net present value calculation on savings cash flow:

Modelling outcome

Discount rate	9.50%
<b>NPV</b>	<b>\$15,562,804</b>

**KPMG outcome: \$16m**

## 13.1.3 Other

16. Savings of one General Manager and two Tier 3 staff at 75% of GM salary is assumed as per KPMG assumptions
17. 38 weeks assumed for redundancy payments (KPMG methodology page 7, "Council-reported GM salaries and an assumption of two (2) tier 3 equivalent employees being made redundant at 85 percent of the GM's wage". KPMG methodology page 7, "Redundancy packages entitling these employees to 38 weeks salary".) Assumed GM salary \$260K
18. \$380,000 per year plus 2.3% annual salary increase is assumed as savings from less councillors

## 13.2 Statistical Analysis

## 13.2.1 Methodology

For the purpose of this analysis, time series data from the New South Wales Office of Local Government (OLG) was used. The most recent data released by OLG is for the 2013/14 financial year.

Each council is identified by OLG as belonging to one of the following classifications:

- Metropolitan
- Metropolitan Fringe
- Regional Town/City
- Rural
- Large Rural

Due to similarities of the councils within some of these classifications, we have grouped 'Metropolitan' and 'Metropolitan Fringe' into one group and the remaining three categories into a second group. We will refer to these groups as 'Metro' and 'Rural' in the discussion that follows.

Councils responsible for the provision of water and sewerage services will have additional specialist staff that are not required by councils that do not carry responsibility for these services. As this could distort the outcome of any staff related analysis, the two groups ('Metro', 'Rural') were further divided into those that provided water services and those that did not.

The groups analysed are therefore:

- Rural providing water (95 councils)
- Rural not providing water (14 councils)

- Metro providing water (3 councils)
- Metro not providing water (40 councils)

Goulburn, Palerang and Queanbeyan are all included in the group 'Rural providing water'.

### 13.2.2 Analysis

The category 'Metro providing water' only has a sample size of three, which is considered too small for any further analysis. As this category is not relevant to the Palerang Proposals it did not receive any further attention.

Table 13-3 Analysis Data

	Rural providing water	Rural w/o water	Metro w/o water
<b>Number of Councils</b>	95	14	40
<b>FTE per 100 capita</b>	1.44	0.85	3.06
<b>Density capita/km<sup>2</sup></b>	13	166.4	2868
<b>Road length per '000 capita</b>	215.3	93.6	3.8

In line with the proposition that providing water necessarily involves higher staff levels, it can be seen that rural councils providing water have an FTE per 100 capita of 1.44 while rural councils not providing water services has an FTE of 0.85. In comparison, metro councils not providing water have an FTE per 100 capita of 3.06, more than double that of rural councils providing water.

## 13.3 Regression Analysis

### 13.3.1 Staff Ratio – Rural providing water

A simple plot of Full Time Equivalent (FTE) council staff against population shows (Figure 13-1) a linear relationship between the two for rural councils providing water services.

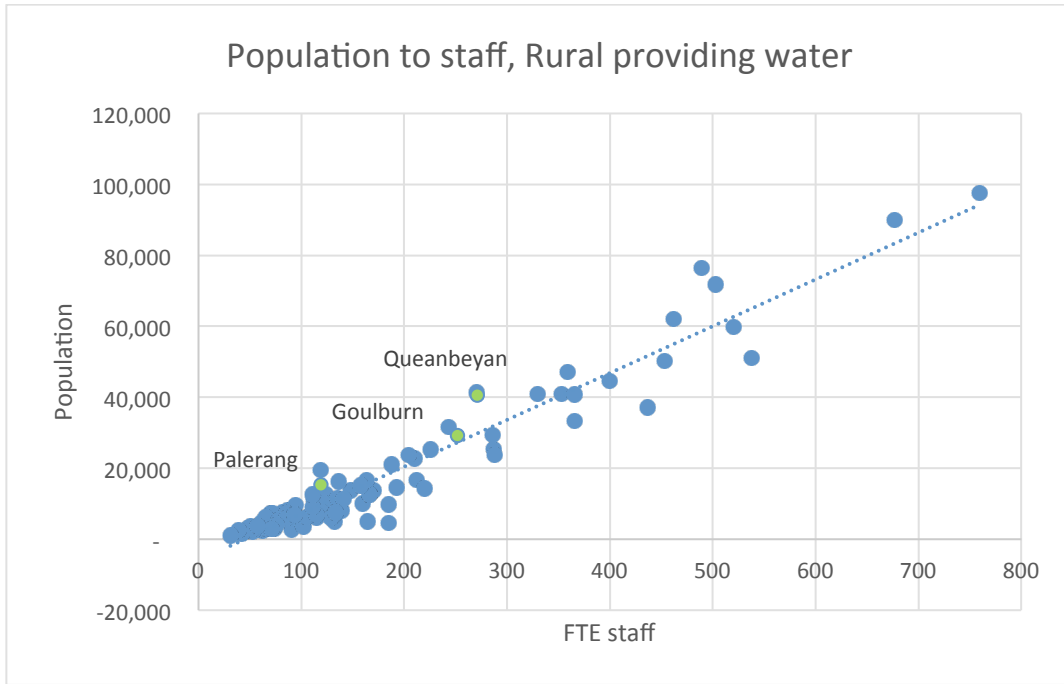


Figure 13-1 Population vs FTE Staff (Rural providing water)

A regression analysis can be conducted to measure how accurately population levels can provide an indicator of the number of FTE staff in a given council. The adjusted R-square of the regression analysis was 93% with a statistical significance, meaning that the regression model fits for 93% of the data. Goulburn, Palerang and Queanbeyan Councils all have ratios higher than the regression line, indicating that they service higher population numbers per employee (a sign of efficiency).

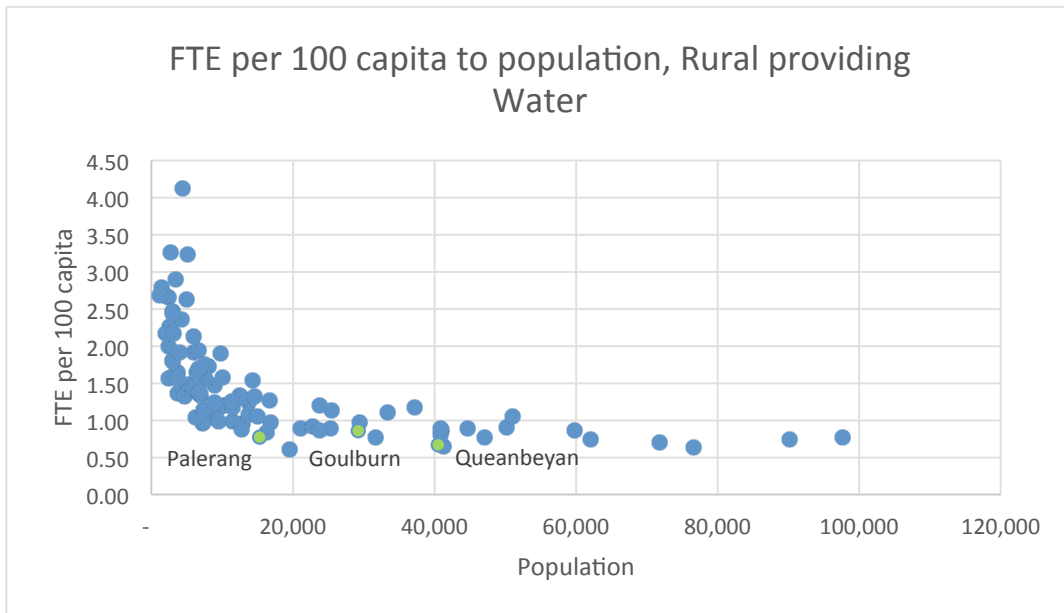


Figure 13-2 FTE per 100 Capita vs Population (Rural providing water)

Plotting the number of FTEs per 100 capita against population shows a decreasing relationship, with some economies of scale savings being possible for councils with a low population and high FTE per 100 capita. This graph shows FTE employees per

population, and is therefore the inverse of the previous graph. The lower FTE per 100 capita is a sign of efficiency. As illustrated in Figure 13-2, Palerang is in the lower end of FTEs per 100 capita (below Goulburn and similar to Queanbeyan), providing limited room for staff savings from Palerang to be realised. It should be noted that these FTE numbers for Palerang include 20 FTE staff working on RMS contracts. Therefore the Palerang staff providing services to the Palerang community would be even lower.

13.3.2 Staff Ratio – Rural not providing water

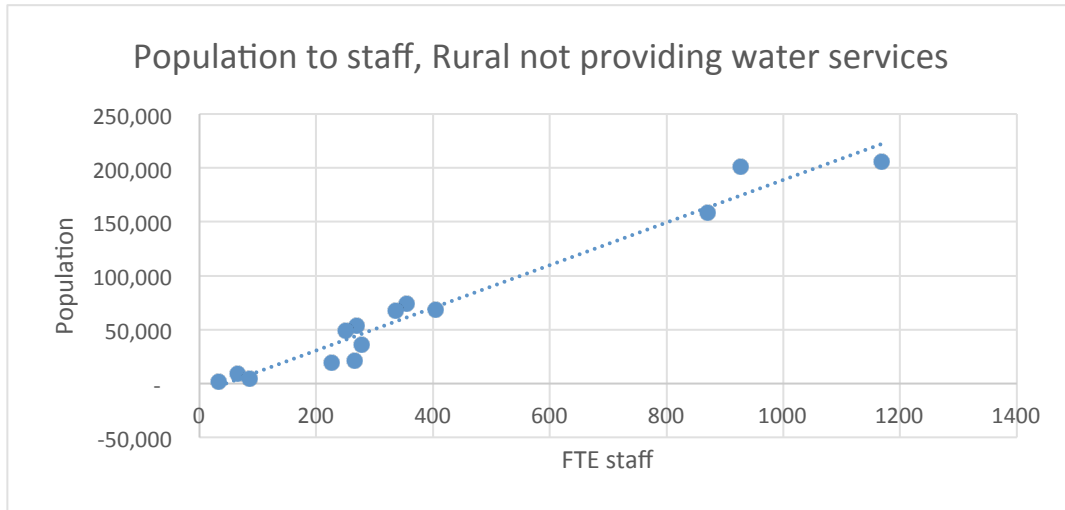


Figure 13-3 Population vs FTE Staff (Rural not providing water)

The regression analysis for rural councils not providing water services produced an adjusted R-square of 90% and can be considered a good fit.

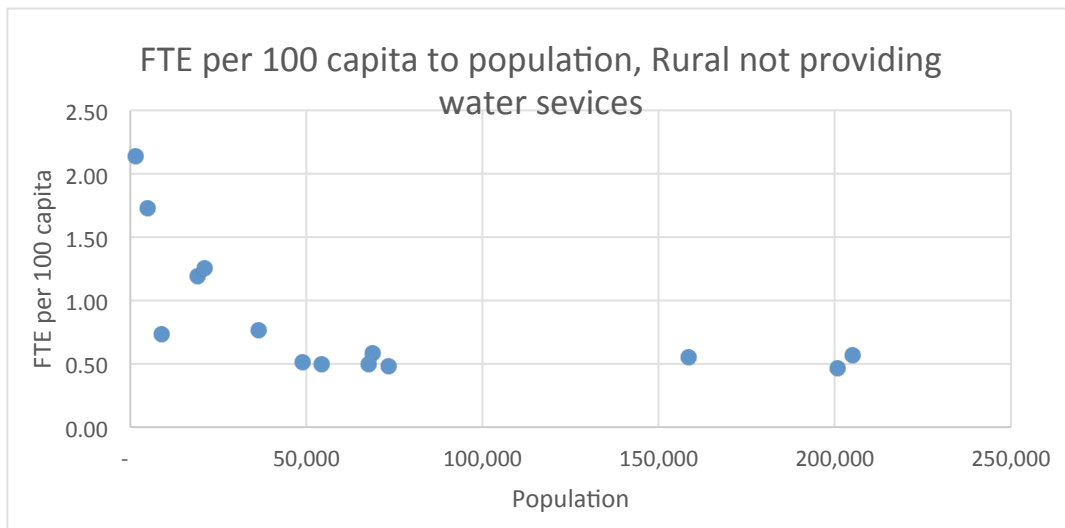


Figure 13-4 FTE per 100 Capita vs Population (Rural not providing water)

A declining FTE per 100 capita can be observed as the population increases for rural councils not providing water services. Again it could be argued that some economies of scale would be possible for low population councils with high FTE per 100 capita.

13.3.3 Staff Ratio – Metro not providing water services

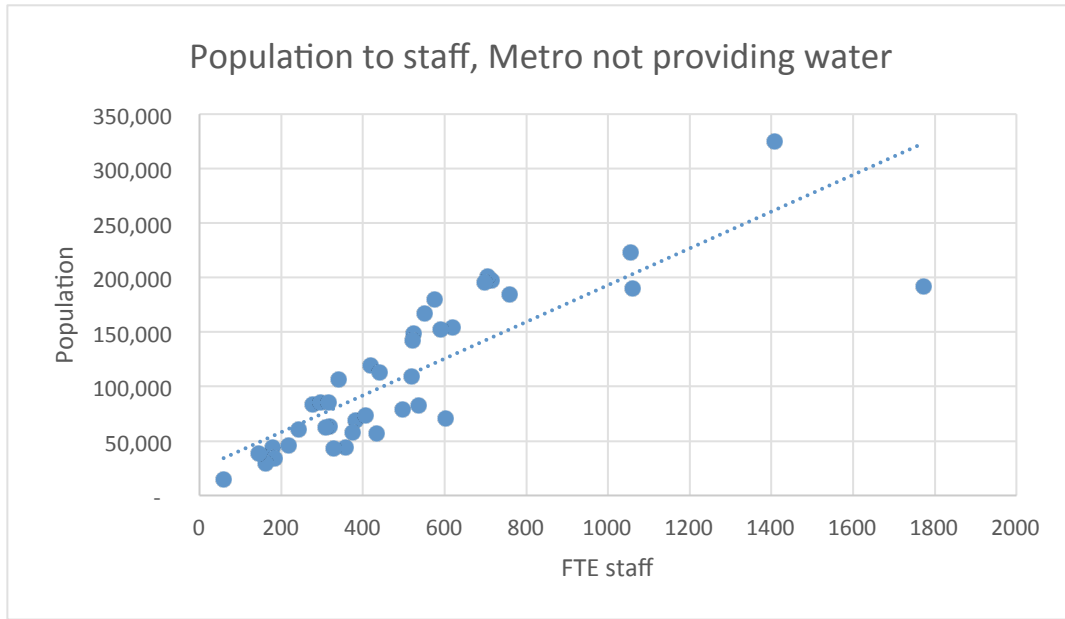


Figure 13-5 Population vs FTE Staff (Metro not providing water)

Councils in this category also have a strong fit for the population to FTE staff relationship. Adjusted R-square for this group is 88%.

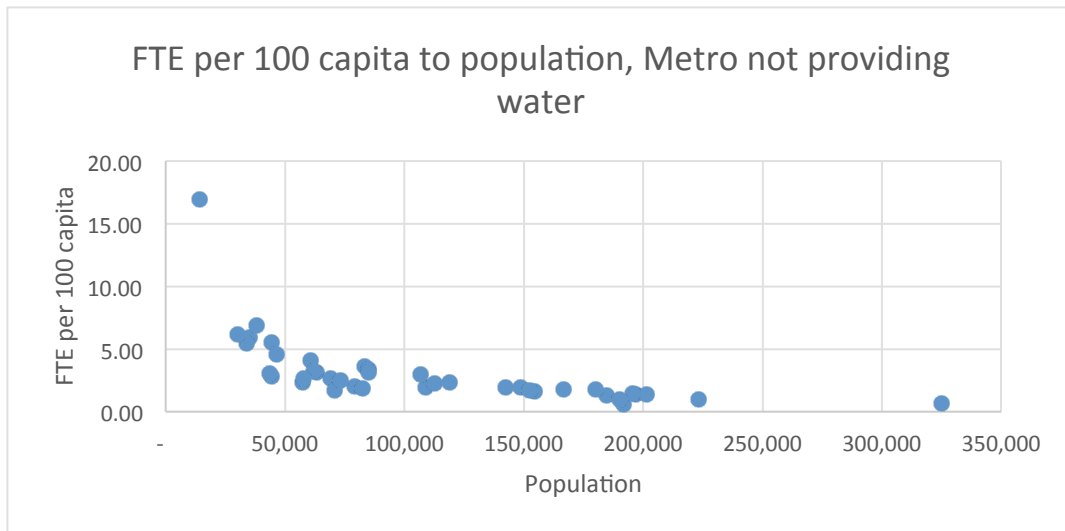


Figure 13-6 FTE per 100 Capita vs Population (Metro not providing water)

The ‘Metro not providing water’ group also shows a decreasing relationship between FTE per 100 capita and population. In general, Metro councils tend to have a higher FTE per 100 capita, most likely due to additional services being provided to the urban population that are not being provided by rural councils.

13.3.4 Conclusion

According to the outcomes of the regression analysis, population is a good indication of the FTE staff level that might be expected for all of the council groupings investigated. For all groupings, there seems to be a decreasing relationship between FTE per 100



capita and population, with low population councils generally having a higher FTE per 100 capita than larger Councils. However, some councils (like Palerang) already have a low FTE per 100 capita compared to the size of its population. Savings on staff related expenditure are therefore less likely to be realised.

### 13.4 Operating Expenditure Regression Analysis

#### 13.4.1 Methodology

This analysis investigates the proposition that the size of a council and the number of FTEs are good predictors for the ongoing operating expenditure for a council.

Ideally the group to which Goulburn, Palerang and Queanbeyan belong would be compared to Metro councils providing water services. As previously discussed, however, the sample size for the latter is too small. Comparison with Metro councils not providing water services is therefore the second best option.

#### 13.4.2 Analysis

A regression analysis using population, road length and FTEs as variables to estimate the operating expenditure of councils provided the outcome presented in Table 13-4.

Table 13-4 Operating Expenditure Regression Outcome

	<b>Rural providing water</b>	<b>Metro not providing water</b>
Adjusted R-square	97.9%	95.0%
Statistically significant?		
Population	Yes	No
Road length	Yes	No
FTEs	Yes	Yes

As previously demonstrated, FTE and population are closely related for both Rural and Metro councils, however in this case adding population to the regression analysis provides more accurate predictions than when leaving it out for rural councils.

For rural councils the size of the population, total road length and number of FTEs are all statistically significant in determining the operating expenditure of a council. For Metro councils only the FTEs were statistically significant in predicting council operating expenditure.

With an average road length per 1,000 capita of 215km for rural councils compared to 3.8km per 1,000 capita for Metro councils, it is no surprise that road length is statistically significant in explaining the operating expenditure of rural councils.

As illustrated in Figure 13-7 below, there is some evidence that diseconomies of scale exist in the relationship between road length and density per capita for rural councils. Councils with a low density tend to have more kilometres of roads per capita than high-density councils. Smaller Councils therefore have larger responsibility when it comes to road maintenance.

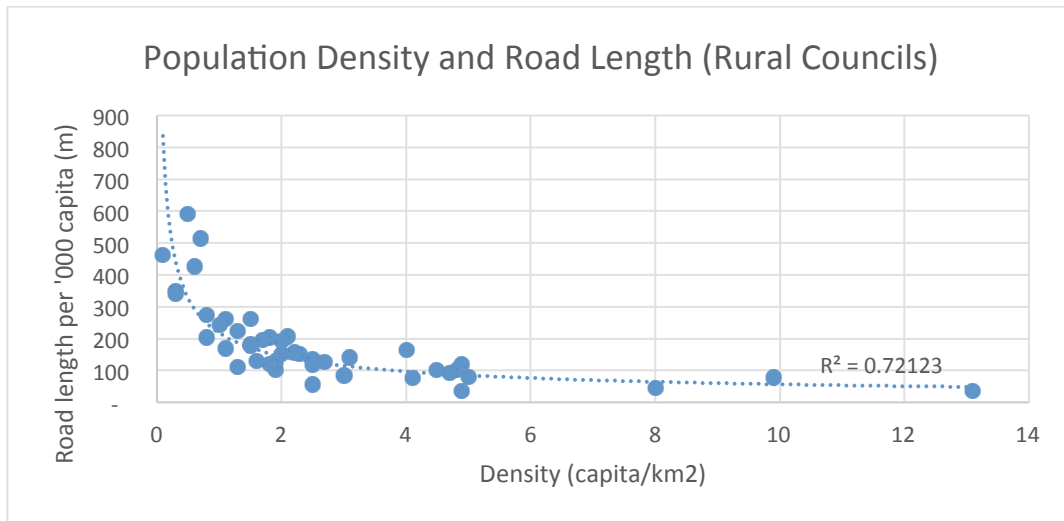


Figure 13-7 Population Density and Road Length

The higher reliance on FTE for Metro could be an indication of metro councils providing additional services that require high levels of frontline staff. This is also confirmed by comparing the level of FTEs, with the Metro councils having an average of 3.06 FTEs per 100 capita, more than double that of Rural councils at 1.44 FTEs per 100 capita.

Table 13-5 Operating Expenditure Regression Outcome

	<b>Rural providing water</b>
	99.0%
Adjusted R-square	97.9%
Statistically significant?	
Population	Yes
Road length	Yes
FTEs	Yes

The regression results (with the parameters summarised in Table 13.5) indicate that Palerang has operating expenditure which is \$360,832 less than what is predicted by the model, indicating that Council is operating more efficiently than the other councils in the sample. Similarly, Queanbeyan operating expenditure is below the predicted operating expenditure by \$1,046,087.

Combined, the two councils (P&Q) are operating at \$1.5m below the operating expenditure the regression analysis predicted.

Palerang currently have 119 Full Time Equivalent (FTE) staff, equating to 0.78 staff per 100 capita. This is well below the FTE average for Large Rural Councils with population between 10,000 and 20,000 which is 1.12 FTE. If Palerang was to operate with the same level of FTEs per capita as the average Council their size, Palerang would have to add an additional 53 FTEs.

The implication of this analysis is that if a merged Council becomes a generic service provider operating as an average Council, operating costs will revert to the average and increase by around \$1.5m.

### 13.4.3 Conclusion

The regression analysis indicates that the underlying cost drivers for Rural and Metro councils are different. The assumption that efficiency savings can be derived from the same cost drivers for both Rural and Metro councils seems to be guided by a poor appreciation for the difference in underlying costs applicable to the two different groups.

This analysis therefore indicates that the only statistically significant variable in predicting the operating expenditure of Metro councils in the present context is the number of FTE staff, while the operating expenditure for Rural councils is also closely related to their population and the length of road for which they are responsible.

### 13.5 Financial Assistance Grants

Financial Assistance Grants (FAGs) actually comprise two components—the General Purpose Grant (GPG) and the Identified Roads Grant (IRG). The GPG is distributed on a complex formula that is heavily dependent on population, while the IRG is dependent on the length of local roads in a given LGA.

The total FAG can therefore be estimated using a multiple regression formula that includes population and road length as variables.

The results of a regression analysis of the OLG data for 2015–16 are presented in Table 13-6 below.

**Table 13-6** FAG Regression Outcome

Adjusted R-square	92.50%		
	<b>Lower 95%</b>	<b>Estimate</b>	<b>Upper 95%</b>
Population variable	\$56.42	\$63.32	\$70.21
Road variable (km)	\$2,285.31	\$2,513.32	\$2,741.32

The 2015-16 FAG can thus be estimated for any given council using figures of \$63.32 per capita and \$2,513.32 per kilometre of road. On a 95% confidence interval, the 'lower 95%' and 'upper 95%' values can be used to estimate the range of the FAG.

## 14 Acknowledgements

This submission was prepared with the assistance of David Spearritt, Director ORION Consulting Network (Email: david@ORIONco.net Web: www.ORIONco.net).

Mr Spearritt has 38 years Local Government experience and nearly 25 years experience in Council boundaries and amalgamations. He worked at Brisbane City Council (Australia's largest Council and once an amalgamation of 20 Councils) for 15 years including Director, Policy and Coordination, and Director of Treasury.

He is formerly Deputy Local Government Commissioner in Queensland, and managed the reviews that led to the 1990's amalgamations around Cairns, Mackay, Gold Coast, Ipswich, Cooloola (Gympie) and Warwick. He also prepared the guidelines on the apportionment of assets and liabilities associated with boundary changes.

Following the 1995 Ipswich City/Moreton Shire merger (135,000 population), he was appointed Finance Director/CFO with Ipswich City Council and led reforms to achieve amalgamation savings, reducing corporate overheads by over 20%. He also managed major boundary reviews and adjustments with neighbouring Councils. (This particularly related to rural and rural residential communities, which preferred to transfer to rural Councils rather than the urban focussed Ipswich Council).

Mr Spearritt was appointed Independent Review Facilitator for 5 Council regions covering 24 Councils, during the Size, Shape Sustainability reviews from 2005 to 2007. He prepared submissions to the Local Government Reform Commission (2007) on behalf of the Local Government Association of Queensland and numerous Councils.

The Queensland Government engaged Mr Spearritt to develop the draft guidelines on the allocation of assets, liabilities and staff involved in split Councils in these 2007 reforms, and prepared the proposed allocation for the split of Taroom Shire.

Since the 2007 Queensland Local Government reforms, he has assisted a wide range of Councils in implementing the mergers and boundary changes, and achieving operational savings. He also prepared submissions for de-amalgamation of ill-conceived Council amalgamations, and conducted the due diligence on the asset split for the Noosa, Tablelands and Livingstone de-amalgamations.

The statistical analysis presented in Section 13 was prepared by Thomas Bidstrup, Economist & Senior Consultant, ORION Consulting Network.

Palerang Council also acknowledges the assistance of Queanbeyan City Council and their willingness to share their data and time during the development of this submission.

Finally, Mr Turner, Council would like to thank you for taking the time to read the submission to this point and for the spirit in which you have undertaken this inquiry.