

John Turner

Delegate

19 April 2016

Mr Bob Sendt

Chairman, Boundaries Commission

GPO Box 5341

Sydney NSW 2001

COUNCIL BOUNDARY REVIEW

Re: Merger Proposal: Palerang Council and Queanbeyan City Council

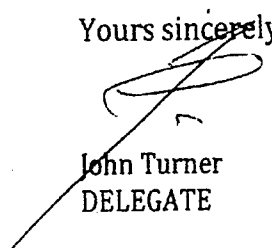
Dear Minister,

I am pleased to submit the report of my examination into the merger proposal for Palerang Council and Queanbeyan City Council.

This examination was carried out as per the Delegation issued to me under Section 218F of the NSW Local Government Act by the Acting Chief Executive of the NSW Office of Local Government, Mr Tim Hurst, on January 6, 2016.

The proposal was considered with full regard to those factors included in Section 263 (3) of the NSW Local Government Act and following detailed assessment of both written and verbal submissions from the public.

Yours sincerely



John Turner
DELEGATE

cc. The Hon Paul Toole, Minister for Local Government

Report –

**Inquiry into the Proposal to merge
Palerang Council and
Queanbeyan City Council**

John Turner – Delegate

April 2016

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Executive Summary

In January 2016, Palerang Council submitted a proposal to the NSW Local Government Minister for a merger of Palerang Council and Queanbeyan City Council.

The Minister referred the matter for consideration to the Acting Chief Executive of the New South Wales (NSW) Office of Local Government, Tim Hurst, who subsequently delegated the function of examining and reporting on the proposals to the appointed Delegate, Mr John Turner.

This report analyses the issues and opportunities that may be afforded by the proposed merger and assesses its potential impact on a range of the factors included under Section 263 (3) of the Local Government Act 1993.

Queanbeyan is a well-established metropolitan centre on the outskirts of Canberra. Palerang is a rural and rural residential area to the east of Canberra, which includes the towns of Bungendore and Braidwood, and a number of smaller villages. A large percentage of both populations work in Canberra and enjoy higher than average incomes and education levels. Canberra is also cited as the main community of interest for residents in Queanbeyan and Palerang for health, education, shopping and entertainment.

However, there is a marked difference in the residential lifestyles of each Local Government Area. The majority of Palerang residents choose to live on rural acreage and hobby farms or in rural residential centres. The Palerang Local Government Area (LGA) also covers a number of historic farming communities. In contrast, Queanbeyan is a designated city with a predominately suburban environment and higher residential density.

This is the second merger proposal to be assessed in relation to Palerang and Queanbeyan City Councils. The first proposal, put forward by the Minister to partition Palerang and merge the two parts with Queanbeyan City and Goulburn-Mulwarre respectively, was assessed separately and reports submitted to the Minister in March 2016.

In assessing this proposal, the Delegate met with the individual councils, conducted public inquiries in each LGA and considered written and verbal submissions. He also made an independent inspection of the areas proposed to be merged.

Queanbeyan City Council has expressed in principle support for the merger, dependent on conditions around staffing and financial issues being met. Palerang Council, despite submitting the proposal, is opposed to the merger and continues to support a stand-alone position.

The key concerns outlined in residents' submissions were the challenge of managing two different lifestyles and geographic areas within a single council, and issues around equity of electoral representation and services between rural and metropolitan residents.

In evaluating the proposal, the Delegate assessed 11 factors as prescribed under Section 263 (3) of the NSW Local Government Act. These included issues around financial impacts, communities of interest, history and tradition, resident attitudes, electoral representation and potential impacts on employment, rural areas, diverse communities and any other relevant factors. A full analysis of these factors is included in Chapter 5 of this report.

Having reviewed and considered all relevant information received regarding this proposal, and analysed the potential impact of each of the various factors, **the Delegate has recommended that the proposed merger should proceed.**

1. Background

In 2011, the NSW Government launched a major review of the local government sector. Entitled Destination 2036, the review began with a major three day forum in Dubbo, where representatives from all of NSW's 152 councils together with the State Government established a set of strategic directions and priority actions to better enable the local government sector to meet the needs and expectations of their communities. One of the key issues raised highlighted the need for improved financial sustainability of councils.

In April 2012, following an approach by Local Government NSW, an independent panel was appointed to conduct a detailed review of the local government sector and identify areas for reform. Chaired by Professor Graham Sansom, the Independent Local Government Review Panel (ILGRP) review sought to identify ways to build the scale and capacity of the NSW's 152 local councils to enable a more equal and genuine partnership in delivering services to communities. The Panel's Terms of Reference required it to investigate and identify options for governance models, structural arrangements and boundary changes for local government in NSW, as well as address issues arising out of the Destination 2036 project, including opportunities for collaboration. A comprehensive review of the 1993 Local Government Act was undertaken at the same time.

A key recommendation put forward by the ILGRP in their 2014 report, was the need for smaller councils to consider merging or amalgamating in order achieve a greater degree of scale and capacity. A full merger between Queanbeyan City and Palerang was listed as desirable in the final report of the ILGRP as an opportunity to "reflect close functional inter-relationships (eg 'overspill' development, commuter catchments, service provision) between a regional centre and adjoining council areas." ¹

The NSW Government's response, entitled Fit for the Future, invited councils to put forward their preferred options for merging or standing alone by June 30, 2015, outlining their own proposals for ensuring they could meet criteria around scale, capacity and financial sustainability. ²

Both Palerang Council and Queanbeyan City Council put forward proposals to stand alone. Queanbeyan City Council's proposal included a case to act as a regional service provider council. However the Independent Pricing and regulatory Tribunal (IPART) determined that they did not meet the required criteria around scale and capacity and assessed them as Not Fit.³ On December 18, 2015, the Minister for Local Government,

¹ ILGRP Report, *Revitalising Local Government*, October 2013, p 85

² IPART Report Assessment of Councils Fit for the Future Proposals, Oct 2015

The Hon. Paul Toole, MP (the Minister), announced 35 merger proposals to be sent to the Acting Chief Executive of the NSW Office of Local Government for assessment. These included a proposal to split Palerang Council and merge the western part with Queanbeyan City and the eastern part with Goulburn-Mulwarre.

In January 2016, the Acting Chief Executive of the Office of Local Government, Mr Tim Hurst, exercised his powers of delegation under Section 745(1) of the NSW Local Government Act (the Act) to appoint Mr John Turner as an independent Delegate to undertake a detailed assessment of the proposed partition and part merger of Palerang Council with Queanbeyan City Council as prescribed under Section 218F of the Act.

Another Delegate was appointed to conduct a separate assessment of the Minister's proposal to merge the other part of Palerang Council with Goulburn-Mulwaree Council. The two proposals concerning different parts of Palerang Council were conducted completely independently.

In response to the proposal for a partition and merger, Palerang Council submitted its own proposal to the Minister under section 218E(1) of the Act, for a full merger with Queanbeyan City. Palerang has stated that their intention is to continue to oppose a merger, and their preferred position remains to stand alone. However, the purpose of the alternate proposal for a full merger would be to provide a "Plan B" which would be preferable to a partition, in the event the mergers went ahead.⁴

The Minister referred Palerang's merger proposal for assessment and on Feb 17, 2016 the Acting Chief Executive of the Office of Local Government delegated to me the function of examining and reporting on the proposal to amalgamate the local government areas of Palerang and Queanbeyan. A copy of the instrument of Delegation is shown in Appendix C.

A formal public inquiry process was launched on February 25, 2016, which included a designated period of community consultation to inform the assessment of the Delegate. The Delegate met with both Palerang and Queanbeyan Councils, held public inquiries in the local communities and considered a total of 50 written submissions from Councils, residents and ratepayers in the Palerang and Queanbeyan local government areas, as well as other stakeholders.

This report summarises the deliberations and conclusions of the Delegate in his consideration of the proposal in relation to each of the 11 factors outlined under Section 263 (3) of the NSW Local Government Act.

⁴ Palerang Council, Letter to the Minister regarding merger proposal for referral, 29 January 2016, p1

2. The Process

On February 17, 2016 the Acting Chief Executive of the NSW Office of Local Government issued the instruments of delegation to the Delegate, Mr John Turner, as official appointment to examine and report on the proposal to merge Palerang Council with Queanbeyan City council.

On February 19, 2016 the Delegate wrote to the councils concerned, advising of the release of the proposal and that the proposal would be assessed according to the factors outlined in Section 263 (3) of the Local Government Act.

Those councils were invited to meet with the Delegate, to make written submissions and to give the opening keynote address at a public inquiry to be held in their LGA.

Advertisements were placed in local media, as required under Section 263 (2B) of the Local Government Act advising of the time and place for the public inquiries and inviting all residents and ratepayers to make a written submission to the inquiry.

The proposal was published on the www.CouncilBoundaryreview.nsw.gov.au website which provided full details of all the proposals under consideration, along with details of the public consultation process and how to make submissions. Members of the public were invited to register to attend and/or speak at the public inquiries, and to submit their comments electronically through the website.

Submissions were also accepted via the post, and 1300 number was set up through Service NSW to accept registrations and provide information on the Council Boundary Review process.

Two public inquiries were held on Wednesday March 16, 2016. The first was held at the Queanbeyan Golf Club from 1-4pm. There were 7 people registered to attend and 3 to speak. In the event, there were 10 attendees and 4 speakers addressed the Delegate.

A second public inquiry was held on the same day at the Bungendore War Memorial Hall from 7pm to 10pm. A total of 15 people registered to attend and 8 to speak. On the day, the total attendance was 25 and 10 speakers addressed the Delegate.

The verbal submissions to the public inquiry were recorded and transcribed. Verbal submissions were given equal weight in consideration of the impacts of the proposal as written submissions. All submissions were carefully assessed and played a key role in informing the Delegate in the decision-making process. Written submissions and transcripts of the verbal submissions from public inquiries will be made public in due course.

The Delegate will report back with recommendations on this proposal to the Government by the end of April 2016. Reports will then be submitted to the NSW Local Government Boundaries Commission for comment before being referred to the NSW Minister for Local Government for final determination.

3. Submissions

A total of 50 written submissions and 14 verbal submissions were received during the public inquiry process from councils, residents and ratepayers of both Palerang and Queanbeyan Councils along with other stakeholders.

Breakdown of written submissions by postcode areas	
Palerang	43
Queanbeyan	2
Other	5

For/Against	No. of Submissions
For	9
Against	33
Neutral/Not Applicable	8

Written submissions were assessed according to the factors to identify key areas of concern as follows:

Factor	No of Submissions
Community of Interest	37
Financial	34
Attitude of residents and ratepayers	33
Impact on services and facilities	27
Electoral representation	18
Impact on rural communities	18
Historical and Traditional values	15
Desirability or otherwise of establishing wards	13
Impact on employment of staff	12
Any other factors	10
Representation of diverse communities	9

Note: Sum totals may exceed total number of submissions as many submissions addressed more than one factor

All submissions and relevant information received by the Delegate regarding this proposal have been reviewed and considered. Written submissions and transcripts of the verbal submissions from public inquiries will be made public in due course.

4. The Proposal

The proposal under consideration is for a merger of Palerang Council with Queanbeyan City Council. This proposal was put forward by Palerang Council to the Minister under section 218E(1) of the Act, who subsequently referred it for investigation to the Acting Chief Executive of the NSW Office of Local Government (OLG). For legislative and other purposes it is deemed to be a Council proposal rather than a Ministerial proposal. A copy of the proposal is attached at Appendix B.

The Proposal is consistent with the 2013 ILGRP report which identified it as a high potential merger,⁵ and with the findings of the IPART's 2015 Fit for the Future assessments which noted that a combined council would meet requirements for scale and capacity.⁶

The proposed merger would see the two LGAs of Queanbeyan City and Palerang combined to form a new LGA covering 5,319 sq km, and with a combined population of 56,368. This population is expected to increase to over 76,000 by 2031.⁷

It is expected the new merged entity would have revenue in excess of \$191 million a year after 2025 and an asset base of approximately \$585 million.

	Palerang	Queanbeyan	New council
Operating revenue 2013/14	\$28.47m	\$64.6m	\$129.8 (projected 2019/20)
Operating result 2013/14	\$0.1m	\$11.3m	\$2.8m (projected 2019/20)
Asset base	\$150.0m	\$435.9m	\$585.9m
Infrastructure backlog	27%	1%	6%

Source: KPMG modelling as applied to Palerang Council's merger proposal.

By applying the methodology used by KPMG in preparing the original Ministerial proposals, the merger is expected to generate net savings of \$20.5 million over 20 years, realising a net benefit to residents of \$35.5 million.* (This latter figure assumes the \$15 million the Government had offered to assist councils who proceeded with mergers proposed by the Minister would also be made available to councils merging under Council proposals).

The financial analysis also expects the merger to generate savings of \$2 million a year on average after 2020.*

⁵ ILGRP Report, p 85

⁶ IPART Report Assessment of Councils Fit for the Future Proposals, Oct 2015, p86

⁷ Palerang Council proposal – quotes 2014 population figures sourced from Department of Planning.

The new proposal supports the statements of potential benefit outlined in the original Minister's proposal that these savings will be achieved primarily from:

- the redeployment of back office and administrative functions;
- streamlining of senior management roles;
- efficiencies from increased purchasing power of materials and contracts; and
- reduced expenditure on councillor fees.⁸

These savings will help reduce council reliance on rate increases to fund new and improved community infrastructure

Other benefits include simplified council regulations for residents and businesses, including a consistent approach to development approvals, health and safety, building maintenance, traffic management and waste management.

It would also provide opportunities to strengthen the role and strategic capacity of the new council to partner with NSW and Australian Governments on major infrastructure projects, addressing regional socio-economic challenges, delivery of services and focus on regional priorities.

The proposal states that a stronger, merged council could assist in:

- reducing the existing infrastructure backlog across the Palerang and Queanbeyan areas;
- improving liveability and boosting housing supply to meet population growth;
- delivering upgrades to road infrastructure and urban development in Queanbeyan; and
- supporting economic growth and regional development while enhancing the standard of living and rural lifestyle that local residents value.

In addition, the new council would be in a better position to support key initiatives outlined in the NSW Government's Regional Plan for South East NSW in relation to planning and managing the future population needs for housing, jobs, infrastructure and a healthy environment, such as:

- manage the coordinated development and servicing of new release areas at Googong and South Jerrabomberra;
- encourage the take-up of employment lands at The Poplars and North Tralee that will meet regional demands for business development opportunities associated with defence and other high technology activities in the Canberra region;

⁸ Palerang Council Merger proposal, p7

- address traffic congestion of roads going through Canberra through integrated planning and project development with Queanbeyan City council;
- improve environmental management of important native grasslands, as well as the water catchments of the Queanbeyan, Molonglo and Yass Rivers;
- enhance and further develop services for the ageing population of the region; and
- support vulnerable families and individuals by enhancing delivery of services for at-risk communities.

The financial benefits outlined in the merger proposal include net savings of \$20.5 million over 20 years* due to

- Streamlining senior management roles (\$5 million)
- Redeployment of back office and administrative functions (\$15.6 million)
- Efficiencies generated through increased purchasing power for materials and contracts (\$4.7 million) and;
- A reduction in the overall number of elected officials which will reduce expenditure on councillor fees (\$3.3 million)⁹ *

The Proposal suggests that these savings could be reinvested to

- Improve infrastructure, including renewal or capital works programs such as sewerage works upgrades or improving public amenities;
- Enhance service delivery – the Proposal suggests that redeployment of back office roles could provide an additional 11 staff for frontline services such as community health or parks maintenance;
- Reduce rate pressures – annual savings could be used to reduce the existing dependency on SRVs to fund community infrastructure and/or avoid future rate increases;

The Proposal notes there are strong connections in geographic and environmental features, as well as demographics. Queanbeyan City is a metropolitan area while most of Palerang LGA is comprised of rural or rural residential settlements, based around the

⁹ As noted in Palerang Council's submission, p21 these figures total more than the net savings which is presumed to allow for just over \$8 million in implied one-off costs.

* The savings figures quoted in the Proposal document, which Palerang Council calculated using KPMG methodology are different to – and in most cases lower than – those calculated by KPMG in response to the new proposal. A comparison and commentary on the two sets of figures is included in Section 5.1 Financial Impacts.

towns of Braidwood, and Bungendore and a handful of small villages. Despite the difference in lifestyle, the proposal notes there are strong similarities in the economy and demographics of each area, in relation to socio-economic and educational standards and in relation to the types of work and industry employment.

They also share similar challenges in the need to manage population growth and cater for future challenges including demand for housing and jobs growth and managing the needs of ageing communities.

In relation to electoral representation, the proposal suggests that the new council entity would have 10 councillors, based on the current size of Queanbeyan City Council and this would allow a representation ratio of one councillor per 5,637 residents, which it notes is similar in size to other regional NSW Councils such as Clarence Valley. The proposal asserts that as the new council will represent a significant share of the broader area's population and will have a stronger economic base, it will be able to advocate more effectively on behalf of its residents. Community engagement will continue through public forums, committees, surveys and strategic planning processes.

The following chapters considers the potential advantages of the merger as outlined in this proposal, and assesses them against each of the factors outlined in Section 263(3) of the Act, while also taking into account the views expressed in council and residents submissions, in addition to other relevant information and material.

5. Analysis of the factors

Under Section 263 (3) of the Local Government Act 1993, the merger proposal must be assessed against the following factors:

5.1 Financial Impacts

Section 263(3)(a) of the Act requires the Delegate to have regard to the “the financial advantages or disadvantages (including the economies or diseconomies of scale) of any relevant proposal to the residents and ratepayers of the areas concerned”.

The NSW Government engaged KPMG to develop a model for calculating the savings which could be generated as result of merging councils. The modelling used 2013/14 council financial data supplied to the Office of Local Government as part of Council reporting requirements and relied on a broad range of assumptions which were applied across the board.

In preparing this proposal, Palerang Council has sought to reproduce the KPMG modelling to calculate the savings generated from a full merger of Palerang and Queanbeyan City. In the interests of parity, the NSW Government also asked KPMG to apply their model to the new proposal. There is a small but significant variation in the results as noted in the table below:

	Palerang Proposal	KPMG
Estimated net savings over 20 years	\$20.5 million	\$22 million
Estimated annual net savings after 2020	\$2 million	NA
Gross savings over 20 years due to:		
Streamlining senior management	\$5.0 million	\$6 million
Staff redeployment	\$15.6million	\$16 million
Materials and contracts	\$4.7 million	\$5 million
Reducing councillor costs	\$3.3 million	\$3.9
Expected annual revenue of new merged entity by 2025	\$191 million	\$198 million
Asset base of new entity	\$585.9 million	\$586 million
Infrastructure backlog	\$35.154 million (6%)	\$45 million (7.7%)

The variation in results emphasises the difficulty faced in attempting to accurately quantify the potential savings that would be achieved in the event of a merger, and to obtain exact figures in relation to asset maintenance and infrastructure backlogs.

Furthermore, both councils have questioned the accuracy and relevance of KPMGs modelling and assumptions. Queanbeyan City Council, in particular seeks further substantiation of KPMG's estimate that the new entity will have annual operating revenue of \$191 million by 2025, when the combined operating revenue of the existing councils in 2013/14 was just \$93 million.

Palerang Council states that the difference in savings from materials and staff redeployment can be attributed to rounding but challenges KPMGs assumptions around the potential to save money by redeploying staff. This issue is discussed further below.

Both Councils further argue that the projected savings of \$22 million over 20 years, equates in reality to an annual saving of about \$1.1 million a year – which is around 1% of the projected merged council's total annual budget. They note even if the full amount was allocated to the existing Palerang LGA, this amount is enough to pay for around 1km of sealed road, or if allocated proportionately to population, around 250m of sealed road. In Palerang's view, this level of saving does not justify the costs and potential problems of merging and that "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".¹⁰

NSW Treasury Corporation Assessments

In considering the financial impacts of the proposal, the Delegate also reviewed the 2013 assessments of the Councils' financial sustainability carried out by the NSW Treasury Corporation (T-Corp). These reports measured Council's financial activities against established benchmarks to determine the Financial Sustainability Rating (FSR) and a projected short term outlook. The key figures are summarised in the Table below.

It found Palerang Council had a Moderate FSR with a Negative outlook¹¹. This was largely attributed to the Council's infrastructure backlog which in 2012 was reported to be \$30.4 million, representing 22% of their total infrastructure asset value of \$141 million. T Corp noted that 51% of the backlog related to public roads and 25.3% related to bridges and other structures. As a rural LGA, Palerang has over 1400km of sealed and unsealed roads, and 119 bridges. T Corp found that asset renewals and maintenance had been below the benchmark with more resources allocated to major capital works for roads and bridges. While Palerang had been operating at a surplus from 2009-12, T Corp noted that Council would be operating in a deficit position from 2012, but could expect improvement from -16.8% in 2013 to -6.9% in 2022. Rates revenue was forecast

¹⁰ Palerang Council Submission, p 14.

¹¹ T Corp Report: Financial Sustainability of the New South Wales Local Government Sector April 2013, p17

to rise by 5% as a result of the forecast 1.5% projected population growth over the forecast period.¹²

Queanbeyan was assessed as having a Weak FSR with a Neutral outlook¹³. T Corp noted Queanbeyan operating performance had decreased over the preceding years and that outstanding borrowings had increased from \$1 million in 2009 to \$8.9 million in 2012 which represented 1.6% of net assets. In 2012 Council also reported an infrastructure backlog of \$76.7 million which represented 19.7% of total infrastructure asset value of \$389.7 million. T Corp also noted that Queanbeyan is already carrying significant levels of debt, which is affecting its capacity to take on more debt to fund additional maintenance and capital works. It further noted that Queanbeyan had been operating at a deficit over the previous four years 2009-12.¹⁴

Summary of T Corp findings

	Palerang	Queanbeyan
FSR	Moderate	Weak
Outlook	Negative	Neutral
2012 Total Infrastructure value	\$141 million	\$389.7 million
2012 Infrastructure backlog	\$30.4 million	\$76.7million
Percentage	22%	19.7%
Operating results 2012	\$417,000	-\$9.7million

Fit for the Future – IPART Assessments

The Delegate also considered the determinations provided by the IPART in 2015 which measured the councils against the NSW Government's Fit for the Future criteria. Councils were invited to put forward a response to the ILGRP preferred option of a merger between Queanbeyan City and Palerang. Both Councils had submitted proposals to stand alone and both were deemed to be Not Fit as they did not meet the threshold Scale and Capacity criteria.^{15 16}

¹² T Corp Report – Palerang Council: Financial Assessment, Sustainability and Benchmarking Report, June 2013

¹³ T Corp-Report-Financial-Sustainability-of-the-New-South-Wales-Local-Government-Sector-April-2013, p 17

¹⁴ T Corp Report – Queanbeyan City Council: Financial Assessment, Sustainability and Benchmarking Report, April 2013

¹⁵ IPART: Queanbeyan Council –Fit for the Future Assessment Summary

¹⁶ IPART: Palerang Council –Fit for the Future Assessment Summary

F2TF Criteria	Palerang	Queanbeyan
Scale and Capacity	Does not satisfy	Does not satisfy
Financial Criteria	Satisfies overall	Satisfies overall
- Sustainability	Satisfies	Satisfies
- Infrastructure and service management	Satisfies	Satisfies
- Efficiency	Satisfies	Satisfies

Despite both councils meeting the financial sustainability criteria determined by IPART, it is clear that in the event of a merger, the new entity will inherit a number of financial challenges, including a substantial infrastructure backlog and significant debt.

In their submission to the inquiry, Queanbeyan City Council included a report by Percy Allen & Associates which projected the key performance indicators for the new council over the next 10 years.¹⁷

Key performance indicators – continuation of existing policy

Indicator	Prudent Limit	2014/15 Actual	2015/16 Estimate	2016/17 Projection	2017/18 Projection	2018/19 Projection	2024/25 Projection
Operating balance ratio a	0% min	-1.8%	-5.9%	-11.2%	-7.2%	-7.6%	-5.2%
Debt Service ratio	10% max	3.3%	3.4%	3.4%	3.1%	4.8%	3.7%
Net Financial Liabilities ratio	40% max	11.3%	21.0%	32.0%	11.4%	4.2%	-31.0%
Annual renewals ratio b	100% min	92.5%	105.9%	84.0%	80.3%	53.3%	45.8%
Infrastructure backlog ratio b	2% max	2.8%	2.4%	2.4%	2.3%	2.8%	5.9%

Source: Queanbeyan Council Submission - Percy Allen & Associates' Report.

a Excludes the impact of any extraordinary items. **b** Estimate.

Infrastructure

As the T Corp analysis reveals, both Queanbeyan and Palerang have substantial infrastructure backlogs, estimated at more than \$45 million according to KPMG, and these will prove a challenge for a new council in the event of a merger.

Under the terms of the original Minister's proposal, councils who proceeded to merge would be eligible to receive a Government grant of \$15 million, comprising \$5 million to pay for the costs associated with a merger (signage, branding, harmonising IT systems

¹⁷ Queanbeyan City Council Submission, Appendix D: Financial Sustainability Analysis, Percy Allen & Associates, March 2016

etc) and a further \$10 million infrastructure grant to put towards addressing the backlog.

Palerang Council has estimated that the actual merger costs would be closer to \$8.9 million, taking into account ICT and transition costs as well as staff entitlements and other costs.¹⁸

Queanbeyan City Council has stipulated that, as a condition of their support for the full merger, the NSW Government should grant \$10 million to the new Council to cover merger costs and \$20 million towards addressing the infrastructure backlog. This extra \$15 million is the amount that had been allocated under the Minister's original proposal to split Palerang council, in support of the part merger of the eastern part of Palerang with Goulburn Mulwarre Shire Council. Queanbeyan City reasons that, in the event of the full merger with Palerang, the grant to Goulburn Mulwarre for the eastern half of Palerang should be allocated towards the full merger.¹⁹

However, it is not certain that councils who amalgamate as part of a Council-proposed merger will be eligible for a grant at all. The original \$15 million grants were expressly tied to the proposals put forward by the Minister and to date, there has been no official commitment to funding associated with council-proposed mergers.

Given the financial challenges faced by councils merging under Council-led proposals are the same as, if not greater than, those merging under Ministerial proposals, as the Delegate charged with investigating this proposal, I strongly recommend that the Government consider extending the original \$15 million grant to support this proposal in the event it does proceed.

Staffing

A reduction in staffing costs accounts for net savings of \$16 million over 20 years according to the KPMG modelling. However, this figure is strongly disputed by both Queanbeyan City and Palerang for a number of reasons.

Both councils already operate well below the staff average for their population range and are already realising efficiencies from shared services such as libraries.²⁰

	Palerang	Queanbeyan
No of staff	130	270
Population	15,510	40,858
Population per FTE staff	119	150

¹⁸ Palerang Council submission, p21

¹⁹ Queanbeyan City Council submission p2

²⁰ Queanbeyan City Council submission p1

Achieving the \$16 million savings (which equates to \$1.8 million annually), through redeployment of non-senior staff will require workforce reduction of 11FTEs, according to modelling carried out by consultants for Queanbeyan City Council²¹. However, the opportunity for staff cuts is limited, as Palerang Council staff at both Braidwood and Bungendore are currently protected under section 218CA of the Act.

Queanbeyan Council has argued that Bungendore should not be classified as a rural town, for the purposes of Section 218CA.²² Palerang Council claims this is evidence that Queanbeyan City plans to cut staff from Bungendore which will impact on the new council's ability to provide adequate rural services.²³

However, if the new council was established at Bungendore, this would allow greater flexibility for the new merged entity in making decisions around staffing and service provision across the whole LGA. It would also allow the new council to take advantage of Palerang's purpose-built facilities, and potentially free up valuable council property assets in Queanbeyan.

Queanbeyan City Council have stated in their submission that their support for the merger proposal would be conditional on the head office of the new council being established at the largest population centre. However, in addition to the flexibility around staffing and built asset management, there are numerous other benefits in terms of equity of access to services and representation which could be achieved if the new Council headquarters was located in Bungendore, which will be discussed later in this Report.

RMS Contracts

Palerang Council currently employs around 20FTE staff associated with Roads and Maritime Services contracts which also provide additional income of \$6.9 million.²⁴ Palerang has raised concerns that in the event of a merger, these contracts may be cancelled which has the potential to seriously impact the new council's financial viability through lost income and redundant staff.²⁵

Salaries

The KPMG modelling assumes savings of around \$6 million over 20 years by reducing executive salaries. However, there is only one senior executive in Palerang, which is the current General Manager. As a result, all but one position is protected for at least three

²¹ Queanbeyan City Council Submission p 3

²² Queanbeyan City Council submission p 10

²³ Palerang Council submission p 16

²⁴ Palerang Council submission p 16

²⁵ Palerang Council submission p 25

years. In addition, Queanbeyan City Council pays its staff on average 10.2% more than Palerang and staff salaries would have to equalise from the outset. Palerang council estimates this will add an extra \$830,000 to annual staff costs.

Rates

The impact on rates is similarly difficult to accurately assess. The current rate base varies widely between Queanbeyan and Palerang Councils due to the substantial difference in dwelling density and classification.

Council	Residential rating assessments		Business rating assessments		Farmland rating assessments	
Palerang	6,520	84.4%	223	2.9%	985	12.7%
Queanbeyan	15,355	93%	1,042	6%	49	<1%
Merged Council	21,811	90%	1,287	5%	1051	4%

Source: NSW Government merger proposal; Palerang Council supplied figures

Palerang Council had been in the process of seeking a 9.5% Special Rate Variation (SRV) starting in 2016/17 and cumulative over five years (total 24%) which had been a key component of their long term financial planning.²⁶ In the event of a merger, the Government has decreed a four year freeze on rates. However it is unclear whether the standard Local Government Cost Index (LGCI) rate pegging arrangements set by IPART will continue to apply. Queanbeyan has stated that they expect a rate differential will apply following the merger but that would be a matter for the new council.

Conclusion

Despite the modest projections for saving and financial benefits outlined as part of the KPMG analysis, it is likely that local factors will have a significant impact on the financial outcomes of this particular merger proposal.

A new council entity will inherit a significant infrastructure backlog, and be required to deliver a wide range of metropolitan and rural services across a vast area with a relatively low rate base.

For this reason, it is recommended that the Government consider extending the grant of \$15 million to support council-proposed mergers as well as Ministerial proposals.

A merger would also make the new council eligible for T Corp loans at favourable interest rates – an issue of particular interest to Queanbeyan City Council who is already carrying high levels of debt and has ambitious plans for new infrastructure projects and capital works.

²⁶ <http://www.palerang.nsw.gov.au/srv>; Palerang Council Long Term Financial Plan 2014-24

Savings from staff redeployment, at least from the existing Palerang Council, will be restricted by protections under Section 218CA, and there is the potential that the new entity will have to carry up to 20 additional redundant staff if RMS contracts are lost.

However, if the new Council head office was established in Bungendore it would go a long way towards improving flexibility around staff management and potentially free up valuable council building assets in Queanbeyan which could be repurposed or sold.

5.2 Communities of Interest

Section 263(3) (b) of the Act requires the Delegate to have regard to “the community of interest and geographic cohesion in the existing areas and any proposed new area”.

The merger proposal describes the region as “characterised by a mix of rural and metropolitan environments in close proximity to Canberra.”

“The Palerang and Queanbeyan region incorporates rural zones with agricultural economies, residential centres such as Bungendore, Jerrabomberra and Queanbeyan. Queanbeyan is relatively suburban in its residential character, functioning as part of the broader Canberra housing market, while Bungendore and its surround rural lifestyle areas of Wamboin, Bywong and Captains Flat provide rural lifestyle opportunities within close proximity of the Canberra job market.” – Palerang Council Merger Proposal, p 15

The proximity to Canberra means a high proportion of residents in both areas commute to the capital on a daily basis. Palerang Council states in its submission that 62% of the working population of Queanbeyan and 56 % of the working population of Palerang cross the border to work in Canberra each day²⁷ and this is reflected in the demographics which show higher than average education and household income levels and lower unemployment.²⁸

	Palerang	Queanbeyan	NSW Regional Average
Average household income	\$104,629	\$98,104	\$65,168
Unemployment	1.3%	1.8%	5.4%
Employment growth	0.3%	0.0%	0.6%
Educational Attainment*	63%	57%	53%

* the proportion of residents holding a post-school qualification

Source: ABS Figures quoted in Palerang Council merger proposal

Palerang Council area also has the lowest level of socio-economic disadvantage of any region in NSW, according to the 2011 SEIFA rankings and Queanbeyan is not far behind.²⁹

But while both Councils’ residents share key demographic similarities, they differ widely in choice of lifestyle. This broad overview of the general area provided in the KPMG analysis fails to recognise the polarising nature of the existing council boundaries. The

²⁷ ABS Statistics cited in Palerang Council submission: p32

²⁸ Palerang Council merger proposal p 15

²⁹ Australian Bureau of statistics (ABS) SEIFA Index 2011

area covered by Queanbeyan City Council is almost exclusively a metropolitan/suburban centre while Palerang Council is primarily rural and rural residential.

The difference is evident in their rate base - Palerang Council's farming rate base comprises almost 13% of their overall rate base, compared to less than 1% for Queanbeyan. Residential density is also markedly different with Palerang having just 6,520 rateable residences spread across 5,147 sq kms, compared to Queanbeyan Council's 15,355 over 172sq km.³⁰

"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 life style blocks to low intensity and specialist hobby farming". –

Palerang Council Submission, p 39

Accordingly the focus for each council is on supporting quite different lifestyles and facilities. Queanbeyan City Council has a strong urban focus on development codes and new housing developments while Palerang Council has developed areas of expertise in rural road maintenance and noxious weed management.

The challenge of balancing the contrasting demands of a suburban metropolis and a rural-residential hobby farm precinct is likely to pose significant, but not insurmountable, challenges for a merged council.

As noted above, the key community of interest for both LGAs is Canberra.

While Palerang and Queanbeyan residents do share a number of services and activities including sporting, media, arts and cultural groups and library and health services, Councils' surveys show most Palerang LGA residents nominate Canberra as their main metropolitan service centre and community of interest, well ahead of Queanbeyan.³¹

Palerang Council surveys indicate that about half the residents do their grocery shopping in Queanbeyan, but for anything else, the majority use services provided in Canberra:

- Twice as many people went into Canberra for educational purposes
- Around three times as many people did non-supermarket shopping in Canberra
- More than four times as many people sought health care in Canberra
- More than seven times as many people sought entertainment in Canberra

³⁰ Figures supplied by Palerang Council, Queanbeyan figures from NSW Government merger proposal

³¹ 2015 Community Survey, conducted on behalf of Palerang Council by Winton Sustainable Research Strategies, 5 July 2015, cited in Palerang Council submission p 41

- 10% of Palerang residents work in Queanbeyan – 56% work in Canberra³²

Small Communities

The traditional farming communities in the eastern part of Palerang have expressed concerns that their main urban centre and community of interest lies with Goulburn not Queanbeyan and Canberra.

Burra, Royalla, Tinderry

These villages lie on the southern side of Queanbeyan and have been geographically isolated from the rest of Palerang LGA since the new council was formed in 2004. Most submissions from these areas support the merger proposal and seek reunification with Queanbeyan as their main town centre.

“Because of our proximity to Queanbeyan, all the major decisions affecting our area are made by Queanbeyan City Council, so it’s extremely important that residents are able to vote and engage in the decision making process for Queanbeyan. However, that isn’t possible while our area is still included within Palerang Council.” – Wendy Bell, Burra Urila Residents’ and Ratepayers’ Association, Submission No 21

Conclusion

Palerang council is correct in noting the difference between the lifestyles and priorities of the two Councils and their residents. However, as each Council has stressed, there is a strong fundamental community of interest for both LGAs which is Canberra.

Palerang and Queanbeyan Councils are responsible for managing areas which are in effect, supporting regions for the Capital. Their LGAs provide dormitory accommodation for workers, and, as Canberra grows, the Councils will be responsible for supporting that growth through providing housing, managing new land release centres, developing and managing industrial and business parks and facilitating economic and jobs growth.

There will always be demand for different types of lifestyles and residential options and from this point of view, a single council may be better placed to develop an overarching regional strategy that balances the competing demands and ensures each community is valued as part of a comprehensive whole.

While there is successful precedence for these types of rural/metropolitan mergers, including Tamworth Regional Council with surrounding villages of Barraba, Somerton,

³² Palerang Council Survey prepared by Winton Sustainable Research Strategies, as part of Fit for the Future submission to IPART, June 2015

Dungowen, Manilla, and Nundle, there are specific considerations regarding equity of service provision and priority which will need to be addressed by any new council entity.

Under the Act, Councils work with their communities to develop and implement their own LEPs and are obliged to ensure that the needs of diverse communities are met. A single council, taking a holistic approach to regional planning, would be able to balance the needs of the rural and urban residents and develop a regional strategic plan that incorporates the demand for growth with the need to maintain a choice of lifestyles.

While the rural residential and hobby farmers may have concerns about merging with Queanbeyan, there is the potential to recognise the needs and demands of both groups through comprehensive strategic planning in Local Environmental Plans (LEPs) and the enhanced Integrated Planning and Reporting (IPR) functions which are central to the Local Government Act.

Furthermore Palerang Council's concerns that the proposed merger will amount to a "takeover" by Queanbeyan City Council could be mitigated by locating the head office of the new council in Bungendore.

This would ensure that all councillors, including those elected from Queanbeyan, have the opportunity to regularly visit the rural areas and keep in touch with the concerns of all their constituents.

5.3 Historical and Traditional Values

Section 263 (3) (c) of the Act requires the Delegate to have regard to “the existing historical and traditional values in the existing areas and the impact of change on them”.

The area which now encompasses Palerang and Queanbeyan began as farming settlements in the 1830s and grew rapidly once gold was discovered in the 1850s. When Queanbeyan was gazetted as a town in 1838 with a population of 50, Goulburn was already the major farming and wool-growing centre in NSW, with a population of 1,200 by 1841. The township of Braidwood had its first courthouse by 1840, and the district population grew to over 10,000 during the gold rush. Bungendore, meanwhile, was still a village of 30 people and seven buildings in 1848, and only really became established as a town after the railway arrived in 1885.

Queanbeyan was proclaimed a municipality in 1885, covering 5700 acres and attained city status in 1972. The nearby farming communities which comprise Palerang were originally part of the Yarrawlumla Shire which was constituted in 1906 and also had its offices in Queanbeyan. Around the same time Braidwood was established as the centre of Tallaganda Shire. Both Queanbeyan and Yarrawlumla were required to surrender land to the Commonwealth in 1911 for the establishment of the ACT.

Palerang Council was proclaimed on 11 February 2004, following an amalgamation of all of Tallaganda Shire Council, 44% of Yarrawlumla Shire Council and parts of Mulwaree, Gunning and Cooma-Monaro Councils. Council’s head offices were moved from Queanbeyan to Bungendore and Braidwood was retained as the new council’s eastern office.³³

In 2007 the Burra community brought a Boundaries Commission hearing to ask that Burra, Urilla and part of Royalla be incorporated with Queanbeyan as its closest town. The petition was denied. Queanbeyan Council launched a similar petition in 2012 which was deferred pending the outcome of the Independent Local Government Review Panel findings.³⁴

³³ Wikipedia – Queanbeyan, Palerang, Braidwood

³⁴ Burra Urilla Residents and Ratepayers Association:
<http://www.burra.org.au/issues/boundary.htm>

As noted in several submissions, Canberra is now the dominant force in the region providing employment, entertainment, retail, health and education services to residents.

Conclusion

There is a strong and cohesive history of colonial settlement, farming and gold rush towns across the region. However, since the establishment of Canberra and the growth of Queanbeyan as a city, a separation has occurred between the traditional farming communities, the new lifestyle hobby farmers and rural residential commuters and the urban residents of Queanbeyan.

The development of Canberra as the main community of interest for residents of both LGAs is a continuation of the strong historic and traditional links these communities share.

5.4 Resident and Ratepayers Attitudes

Section 263(3)(d) requires the Delegate to have regard to “the attitude of the residents and ratepayers concerned”.

The attitude of residents and the relevant councils were varied depending on their viewpoints and locations. Despite submitting the proposal, Palerang Council maintains a strong position of wanting to continue to stand alone. Queanbeyan Council has offered in-principle support for the merger, dependent on the Government meeting conditions around funding, employment flexibility and the location of the new Council’s head office.

Of the 50 written submissions received, the majority (33) were against the proposal. Another nine were in favour. The other eight were ambivalent or did not specifically address the merger proposal.

Palerang Council’s own survey of 1100 residents carried out in 2015 as part of their Fit for the Future proposal³⁵ found a slim majority wanted to remain as an independent council and that there was a wide range of views around the potential for mergers:

Palerang Council Survey July 2015

Resident view		Percentage
Remain standalone Council		54.8%
Merge with another council		31.9%
Merge with	Queanbeyan	20.5%
	Goulburn	8.6%
	Yass	0.4%
	Other council	1.4%
Split up among adjoining councils		8.3%
Unsure		6.0%

Source: Winton Sustainable Research Strategies Pty Ltd 2015, Report on the 2015 Community Survey.

Queanbeyan City Council included two resident surveys – one of Palerang residents and one of Queanbeyan residents - as part of its submission to this merger proposal.³⁶ It’s survey of Queanbeyan residents found 62.7% supported the proposal (and as reported 37.3% were opposed). The main reason given for supporting the merger (66.5%) listed efficiency and cost savings. The main reason given for opposition (59.1%) cited increased expenses/disparity between the areas and distance. Their survey of Palerang residents found that 58.8% supported the merger, with 41.2% opposed. The main reason for supporting the merger was efficiency and cost savings (64.8%) and the main

³⁵ *Palerang Council Submission, pp 41-43 Winton Sustainable Research Strategies Pty Ltd 2015, Report on the 2015 Community Survey.*

³⁶ *Queanbeyan City Council submission, Appendix 2 and 3 IRIS Research Surveys.*

reason for opposing the merger was increased expenses/disparity between the areas and distance (24.1%), closely followed by incompatibility between urban and rural (21.2%). It is noted that Palerang Council strongly disputes the findings and methodology of these surveys.³⁷

Palerang Council is a relatively new entity, having been established through a series of mergers and boundary changes in 2004, and has faced challenges in getting established. Among the submissions were several strong statements against the management of the current council. One such group, the Bungendore Residents Group included the results of a letterbox survey of 1220 Bungendore residents in their submissions which found that while only 18% supported Palerang Council as a stand-alone entity, 64% preferred a merger with Goulburn-Mulwarre Shire Council and 18% wanted to merge with Queanbeyan City Council. The group concluded:

“The 64% indicates a lack of support for or faith in the current Palerang council administration and overwhelming support for a merge with GMC. -Bungendore Residents Group Submission No 96

A preference for maintaining a connection with Goulburn was also noted in a small number of submissions received from the traditional farming communities in the eastern part of Palerang LGA.

Conclusion

Despite Palerang Council’s strong protest against its own merger proposal, the notable feature in assessing community attitudes is the relative lack of comment. Only 50 written submission were received from a combined population 56,368. Only 35 people attended the public meetings and only 14 made verbal submissions.

Given that this is the second merger proposal put forward for community consultation, it is possible the relative lack of response may be due to some element of submission fatigue.

However, it is also notable that without the galvanising issue of the partition included in the first merger proposal, the response to the proposal of a merger in general is significantly muted in comparison.

So although the concerns and viewpoints raised in submissions are legitimate and valid, it would appear that there is relatively little community opinion on the merger one way or the other.

³⁷ Palerang Council submission pp 40-41

5.5 Elected representation issues

Section 263 (3)(e) of the Act requires the Delegate to have regard to “the requirements of the area concerned in relation to elected representation for the residents and ratepayers at the local level, the desirable and appropriate relationship between elected representatives and ratepayers and residents and such other matters that are considered relevant in relation to the past and future patterns of elected representation for that area”.

The current Palerang Council has nine councillors including the council-elected mayor. Queanbeyan Council has ten councillors and a popularly elected mayor. While noting that the composition of a new council will be up to the community, the proposal under consideration has assumed the new entity will also have ten councillors. It does not address the issue of whether this includes the mayor, or how that position will be elected.

Palerang Council has a relatively low resident to councillor ratio of 1:1,723, while Queanbeyan’s is much higher at 1:4086. In a new merged entity this will increase significantly to one councillor per 5,637 residents (1:5637). This is not uncommon in similar sized regional areas including Wagga Wagga, or Clarence Valley.³⁸

Council	No. of Councillors	No. of residents (2014)	Residents per councillor
Palerang	9	15,510	1723
Queanbeyan	10	40,858	4,086
Merged Council	10*	54,352	5,435
Wagga Wagga City	11	62,149	5,650
Clarence Valley	9	51,043	5,671

**Suggested number included in merger proposal. Final number to be determined by community.*

However, given the difference of opinion, lifestyle and corresponding concerns of current Palerang and Queanbeyan residents, it is understandable that a significant number of submissions raised questions as to the adequacy of electoral representation this would provide, especially for those in the minority.

As Palerang Council noted in their submission, residents of Palerang who are involved in the present proposal would comprise only 25% of the population of a new Council, which would remain fundamentally urban.

“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

³⁸ Palerang Council Merger submission; KPMG report in response to submission.

considered effective representation for a demographic group that has very little in common with the predominantly urban Queanbeyan population. –
Palerang Council Submission, p 44

In listing its conditions for supporting the merger, Queanbeyan City Council proposes the new entity should have 13 councillors, including a popularly elected mayor. This would reduce the councillor to population ratio to 1:4,336, which is similar to level of representation currently enjoyed by Queanbeyan residents. They further note that given the current population distribution, this would likely give Palerang residents four councillors, to Queanbeyan's nine.³⁹

This may increase the numerical representation of the Palerang residents (if not the proportion) but it is also likely to impact on the assumed annual savings of \$380,000 outlined in the merger proposal to be achieved by reducing the number of councillors in the new entity.⁴⁰

Palerang Council has also raised concerns regarding the distances that councillors will need to travel in order to keep in touch with all their constituents.

"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" - **Palerang Council submission, p 44**

Conclusion

Electoral representation, and equity of access to decision making was raised in a significant number of submissions from Palerang residents. There is no doubt that given the disparity in population numbers and the difference in the nature of the current councils there may be some substance to their concerns.

In the event the partition/merger goes ahead, careful thought should be given to the representational and governance structures of the new council to ensure equity of participation in decision making is available to both urban and rural constituents.

If the new Council was based in Bungendore, it would assist all councillors to maintain contact with their rural, as well as their metropolitan constituents. It would also ensure the new council was located more towards the geographic centre of the LGA which would improve equity of access for all residents.

Electoral representation and community participation can take many forms and the Act allows for Section 355 committees to be established to address key projects or particular community concerns. There are existing S355 committees in place which provide a clear line of communication between community members and the Council

³⁹ Queanbeyan City Council submission, p 14

⁴⁰ Palerang Council merger proposal p10

through the direct involvement of elected members and the presentation of all committee minutes at ordinary council meetings. It is recommended that these committees be retained and, where necessary, enhanced, to assist in providing equity of access to all constituents.

In regards to the structure of the new council, given the unequal distribution of the electorate between urban and rural constituents, it is recommended that the Mayor be elected by the council from among its own members.

5.6 Service delivery and access

Section 263(3)(e1) of the Act requires the Delegate to have regard to the “impact of any relevant proposal on the ability of the councils of the areas concerned to provide adequate, equitable and appropriate services and facilities”.

The services provided by Palerang and Queanbeyan councils are quite distinct, in reflection of their disparate geography and constituent base. Under the current merger proposal the new council entity will have to combine the skills and expertise of each of the existing councils in order to meet the diverse needs of its expanded local government area.

The difference in services provided by the existing councils is outlined in the following table provided as part of Palerang Council’s submission.

Service	Palerang	Queanbeyan
Gravel Roads	62%	2%
Urban Roads	6%	71%
Rural Roads	94%	29%
RMS Contracts	\$8 million (\$17m in 2016/17)	\$250,000
Water and 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 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

Source: Palerang Council submission, p 48

Palerang Council has raised concerns that the proposal is significantly increasing the area that must be serviced and reducing the overall population density without increasing any financial capacity to support this expansion.

“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 172km² to 5,319km², a more than 30-fold increase. - Palerang Council submission, p47

Palerang Council also has areas of rural expertise, including road maintenance contracts with the Roads and Maritime Services and weed management which not only provide additional council income and staff positions, but will also be important in the continuation of rural service delivery.

Queanbeyan City Council has committed to maintaining the Roads and Maritime Services contracts for the first four years, and the new entity could take on Palerang Council's role as lead agency for the \$20 million South East Weeds Action Program.

It will be up to the new entity to plan and manage services across the new local government area, however it will be important to maintain at least some of the existing rural expertise to avoid a deterioration in the quality of rural service delivery to former Palerang constituents.

Access to services is another potential issue, especially for those residents in rural villages away from the town centres. The ILGRP recommended that in the event of a merger between a rural LGA and a regional centre, the time taken to access to the main service centre by residents and the distance staff have to travel to deliver to more remote rural or village centres, should not exceed 60-90 minutes.⁴¹ Under the current partition proposal, a few villages such as Snowball are potentially outside this limit and others such as Majors Creek and Araluen are on the limits.

Without a present commitment from what is now Queanbeyan City Council to maintain the existing offices and depots at Bungendore in a new entity, any benefit from economies of scale would be limited due to the increased distances involved. However, Queanbeyan City Council argues in their submission that if the service is delivered locally by retaining existing depots and staffing levels, then the opportunity to cut costs and make savings is diminished.

However, this issue would be in part overcome if the new council's head office was established in the more central location of Bungendore.

Conclusion

There is the potential for competing demands from diverse constituents of the new council entity to impact on the overall types and standard of services provided by the new council thus perhaps diminishing some services.

Incorporating the existing areas of specialisation and best practice from each council to the new entity must be a priority if the merger goes ahead.

⁴¹ ILGRP Report, p 76

Establishing the new council's head office in Bungendore, which is more geographically central, would help offset some of these issues of access, service delivery and the potential dominance of metropolitan interests.

5.7 Employment Impacts

Section 263 (3)(a) of the Local Government Act requires the Delegate to have regard to “the impact of any relevant proposal on the employment of the staff by the councils of the areas concerned”.

The estimated savings outlined in the current proposal rely heavily on staff redeployment and streamlining. KPMG modelling asserts that a merger would save the new council \$16 million over 20 years through “achieving efficiencies across council operations, for example , the redeployment of duplicated back office roles and administrative functions”.⁴² This equates to about \$1.8 million a year, or as Queanbeyan City Council has calculated in their submission, approximately 11 FTE positions.⁴³

Workforce planning is an important requirement of the Integrated Planning and Reporting (IPR) provisions which are a key component of the current Local Government Act (1993). Under a discussion paper released following the recent review of the Act, IPR could be elevated to form the central plank of the Act and a key cornerstone of council operations. The merger of Palerang Council with Queanbeyan City Council poses some particular challenges associated with employment.

Each council has very different skills and capabilities, reflecting the diverse demands of their constituents. While Palerang Council represents a largely rural and rural residential area, Queanbeyan City council manages a highly urban, medium density community, with the typical demands of any town on the outskirts of a major metropolitan centre. As a result, there are fewer opportunities to eliminate duplication in service delivery areas.

	Palerang	Queanbeyan
No of FTE staff	119	270
No of offices	3	1

Source: Palerang and Queanbeyan Council submissions

In addition both councils already operate well below the staff average for their population range and are already realising efficiencies from shared services such as libraries.⁴⁴

⁴² KPMG report on Palerang Council's merger submission, p2

⁴³ Queanbeyan City Council submission p 3.

⁴⁴ Queanbeyan City Council submission p 4.

	Palerang	Queanbeyan
No of staff	130	272
Population	15,510	40,858
Population per FTE staff	1:119	1:150

In any case, there are detailed guidelines and protections enshrined under the Act around managing the impact of potential mergers on council staff. These impacts can also be mitigated under relevant awards and enterprise agreements. Key among them is the provision that if a merger proceeds, there will be continuity of employment for all transferred non-senior staff.

Senior staff, such as the General Manager, Executive Managers and other senior staff who are employed under contracts that are performance-based and have a maximum term can have their employment terminated or their positions changed in according with their contract, before or after any merger.

KPMG's modelling of the merger proposal estimates that \$6 million could be achieved by streamlining senior management positions, although Palerang Council currently only has one position, that of the GM, which would fall into this category.

In fact, as noted by Palerang Council, there are more likely to be additional costs, rather than savings, if the workforces of the two councils are merged. Queanbeyan Council currently pays its staff a loading of about 10% in order to compete with Canberra salaries. In the event of a merger, salaries would have to be equalised at the higher rate, which Palerang Council estimates will cost an additional \$830,000 a year.⁴⁵

The ability to achieve staff cost savings and the potential for workforce redistribution is also limited by other protections listed under Chapter 11, Part 6 of the Act, which protects non-senior staff involved in mergers for at least three years.

The importance of local councils as major employers in rural areas is also recognised under Section 218CA of the Local Government Act which requires that non-senior council positions in town centres with populations under 5,000 are protected in perpetuity (Section 354B).⁴⁶

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.

⁴⁵ Palerang Council submission p 18

⁴⁶ NSW Local Government Act 1993

In the event of a merger going ahead , there are additional provisions under Chapter 11, Part 6 of the Act for protection of staff and jobs during the implementation phase including:

- Any staff member whose employment is transferred from an existing council to a new merged entity is protected from involuntary redundancy or termination for three years.
- All staff employed by merging councils will have their employment transferred to the new entity with the same terms and conditions of employment.
- There must be continuity of employment for all transferred staff and their length of service with the previous council will be recognised and carried over to the new council entity.
- Permanent, non-senior staff positions cannot be advertised for three years following the transfer of staff to a newly merged entity if the General Manager is satisfied that one or more of the transferred staff is qualified to fill the position. Existing staff must be notified and given the opportunity to apply.
- For three years following the transfer of staff to the new council, if a position is available and a transferred non-senior staff member was, immediately before being transferred to the new council, performing substantially the same duties for their former council then:
 - the position must not be externally advertised
 - existing staff must be notified and given reasonable opportunity to apply
 - preference must be given to any non-senior staff member who performed substantially the same duties for their former council; and
 - in instances where there is more than one non-senior staff member who performed substantially the same duties, merit-based selection would apply.
- Staff cannot be required to transfer to a work base outside the boundaries of their former council area for three years if the transfer would incur “unreasonable hardship”. The definition of unreasonable hardship may include:
 - the mode of transport used to get to work
 - the available modes of transport to the staff members home from the new location
 - the extent of the change in travel time and cost (Section 354I of the Act)

There are also provisions under existing employment awards and enterprise agreements that cover issues around financial compensation in the event that a resident staff member is required to travel outside their original LGA to work in a newly merged entity.

However, Queanbeyan Council has argued that if the new council entity is to be financially viable, the township of Bungendore should be reclassified from rural to outer metropolitan on the basis of its close proximity and community of interest with Canberra. In this case, Section 218CA employment protections would not apply and non-senior staff could be transferred or reassigned as required by the new council.

Conclusion

The protections under Chapter 11, Part 6 of the Act, and in particular Section 218CA, ensure that non-senior staff are protected in the event of a merger for at least three years, and in the case of Section 218CA in perpetuity.

These are important provisions designed to provide job security and certainty for staff involved in mergers, but also a strong degree of continuity and stability for councils and their residents as the new entity is established.

In the case of Palerang and Queanbeyan, given the disparate needs and skills required to manage the two different council LGAs, and the distances over which services need to be delivered, there will be limited opportunities to achieve the predicted staff savings without seriously impacting the standards of service delivery.

Further, if Queanbeyan City Council's proposal is adopted to reclassify Bungendore so that the protections under 218CA would not apply, there will likely be significant job losses among staff whose current focus is on meeting the needs of rural constituents, which would have an inequitable impact on one sector of the community, to the advantage of another.

For this reason, in the event of a merger, the new entity will need to ensure that community needs dictate the make-up and distribution of the workforce, even at the expense of achieving the predicted cost savings.

Establishing the head office of the new council at Bungendore, would give the new Council increased flexibility in options for reorganising the workforce to meet the diverse needs of its constituents, without being unduly constrained by the important protections enshrined in the Act.

5.8 Impact on Rural Communities

Section 263(3) (e3) requires the Delegate to have regard to “the impact of any relevant proposal on the rural communities in the areas concerned”.

The merger proposal seeks to combine a predominately rural area with a heavily urbanised metropolitan centre. A number of submissions raised concerns that rural issues may be neglected if the new merged council entity was dominated by the interests of the urban community.

There may be some validity to these concerns.

The Palerang population is expected to comprise only around 25% of the total population of the new council and will likely have only 2-3 elected representatives on a council of 10 or 11 as proposed. Furthermore, there is a major difference in the focus on services and priorities exhibited by the two existing council operations as noted in the table below.

Service/Characteristic	Palerang	Queanbeyan
No of rateable farming properties	985	49
Percentage of total ratebase	12.7%	<1%
Percentage of rural roads	94%	29%
Noxious weeds	Extensive	Limited
Population density	27 Ha per capita	0.4 Ha per capita

Source: Palerang Council submission, p 48

Palerang Council is a rural-focussed council, and the majority of its workforce is involved in rural management issues such as maintaining roads and managing noxious weeds, etc.⁴⁷

Under Section 218CA of the Local Government Act, these positions should be protected in perpetuity in the event of a merger as Bungendore is currently deemed to be a rural centre with a population of less than 5000.

However, Queanbeyan City Council’s request that the Government reclassify Bungendore as a non-rural centre would remove any obligation to maintain these staff positions and is likely to affect the continuing provision of services to Palerang Council’s rural and rural residential communities.

Maintaining rural roads is a key focus for the current Palerang Council which currently manages 1400 km of roads of which 700km is unsealed.⁴⁸ The council has built up their

⁴⁷ Palerang Council submission p 48

skills and equipment in this area to bid successfully for RMS road maintenance contracts, and which now provide an income stream for the council, assessed at \$6.9 million in 2013/14 – and is expected to increase to over \$17 million in 2016/17.⁴⁹ Palerang Council employs 20 staff who are engaged almost exclusively on these RMS contracts. Queanbeyan City Council has committed to maintaining these contracts for four years.

Distance is also an issue for many rural residents of the proposed new entity. The ILGRP recommended that in the event of a merger between a rural council and a metropolitan council, ideally no resident should be more than 60-90 minutes away from their council base.⁵⁰ Queanbeyan city sits at the most southwestern point of the proposed new council territory, more than 100km from some rural communities such as Majors Creek and Araluen. Travel times to these towns could be up to 90 minutes as there are no direct roads.

Conclusion

Given the highly divergent focus of the two councils, there is a the possibility that the rural constituents of the new entity may find themselves disenfranchised through lack of electoral representation and that maintaining rural services may be given a lower priority as a result.

This situation could be ameliorated to some extent if the newly merged council established its head offices in Bungendore.

This would allow the existing skills and experience of Palerang Council staff in managing rural issues to be retained, while at the same time ensuring that rural issues and concerns remained a key component of the new council's service delivery.

It would also ensure that the new council's headquarters were moved closer to the geographic centre of the new LGA which would improve electoral communication, and reduce travel times and service delivery issues for residents in more distant villages and properties.

⁴⁸ Palerang Council submission p14

⁴⁹ Palerang Council submission, pp 14,18

⁵⁰ Independent Local Government Review Panel Final report, Revitalising Local Government, October 2013, p 76

5.9 Wards

Section 263 (3) (e4) of the Act requires the Delegate to have regard to “in the case of a proposal for the amalgamation of two or more areas, the desirability (or otherwise) of dividing the resulting area or areas into wards”.

The proposed merger does create a significant imbalance in equity of representation between rural and metropolitan constituents. However, neither Palerang Council nor Queanbeyan City Council supports the introduction of wards. In fact, as noted in several submissions, attempting to define electoral representation according to geographic boundaries could make the situation worse as it restricts the ability of councillors to develop a broad rural-metropolitan support base and to be able to take a stand across a variety of issues.

“Implementation of Wards would ensure rural representation, but in turn would cement the under-representation of the non-urban (former Palerang) residents and ratepayers.”
– **Clr Peter Marshall, Braidwood Greens Submission No 44**

“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.” - **Palerang Council Submission, p 56**

Conclusion

There are issues around equity of electoral representation that will need to be given careful consideration by the community in establishing a new council entity in the event that the proposed merger goes ahead.

However, a ward system is not recommended as a solution as it has the potential to enshrine inequality and limit the capacity of councillors to represent a broad range of interests and concerns.

5.10 Diverse Communities

Section 263 (3)(e5) of the Act requires the Delegate to consider “in the case of a proposal for the amalgamation of two or more areas, the need to ensure that the opinions of each of the diverse communities of the resulting area or areas are effectively represented”.

The definition of “diverse communities” is open to interpretation but is generally assumed to mean culturally or ethnically diverse communities, or groups with special needs.

The demographics of Palerang and Queanbeyan LGAs reflect a predominately Anglo/European-centric population with relatively small communities of local indigenous residents. As is typical of metropolitan areas, there is greater diversity in Queanbeyan LGA, with a significantly higher population of those who speak a language other than English speakers, than in Palerang LGA.

	Palerang	Queanbeyan
Indigenous population	1.6%	3%
Language spoken other than English	4%	14.3%

Source: Queanbeyan City Council/Palerang Council - NSW Office of Local Government reports

However, none of the submissions made reference to these groups or raised any issues in the proposed partition/merger which could affect them. No submissions were received from any groups which could be properly defined as diverse communities, such as local indigenous land councils or Culturally and Linguistically Diverse (CALD) migrant groups.

Conclusion

In the event that the proposed merger goes ahead, careful consideration should be given to developing governance arrangements that ensure all constituents have equal electoral representation.

However the proposed merger between Palerang Council and Queanbeyan City Council is unlikely to have any impact on the small proportion of residents who identify as culturally or linguistically diverse.

5.11 Other Matters

Section 263(3)(f) of the Act requires that the Delegate has regard to “such other factors as it considers relevant to the provision of efficient and effective local government in the existing and proposed new areas”.

Boundaries

Queanbeyan City Council has flagged a potential review of boundary adjustments with Goulburn-Mulwarre and Cooma-Monaro councils. However this falls outside the remit of the current proposal and would be a matter for the NSW Government and the Local Government Boundaries Commission at a later date.

Queanbeyan City Council conditional support

I note Queanbeyan City Council has placed a number of conditions on its support for the merger, and in the event that the proposed new funding arrangement is not agreed, that they resolve to support a partition/merger as previously proposed by the Minister.

I further note that support for the previous partition/merger proposal is also dependent on the other conditions being met.

6. Recommendation

The Delegate has examined the proposal put forward by Palerang Council to merge with Queanbeyan City Council.

Having considered the projected benefits and outcomes of the merger, and having given due and diligent consideration to all submissions from councils and members of the public and the affected communities received during the course of the public inquiry, and having regard to the factors set out in Section 263 (3) of the Local Government Act 1993, **the Delegate has determined a recommendation that the merger proposal should proceed.**

Additional comments

Although there is some question as to the accuracy of the projected savings outlined in the proposal, it is expected that a new larger entity will, in the medium to long term, be able to capitalise on its increased scale and capacity to deliver better value to its rate payers.

A larger local government entity will also be able to take a more strategic approach to regional planning and economic development while also providing a more effective voice for their constituents.

Additional recommendations

Grant funding

Given the financial challenges faced by councils merging under Council-led proposals are the same as, if not greater than, those merging under Ministerial proposals, as the Delegate charged with investigating this proposal, I strongly recommend that the Government consider extending the original \$15 million grant to support this proposal in the event it does proceed.

Location of new council

I recommend that the new council be established at Bungendore for the following reasons:

- It would allow greater flexibility for the new merged entity in making decisions around staffing and service provision across the whole LGA.

- It would allow the new council to take advantage of Palerang's new purpose-built facilities, and potentially free up valuable council property assets in Queanbeyan.

Electoral representation

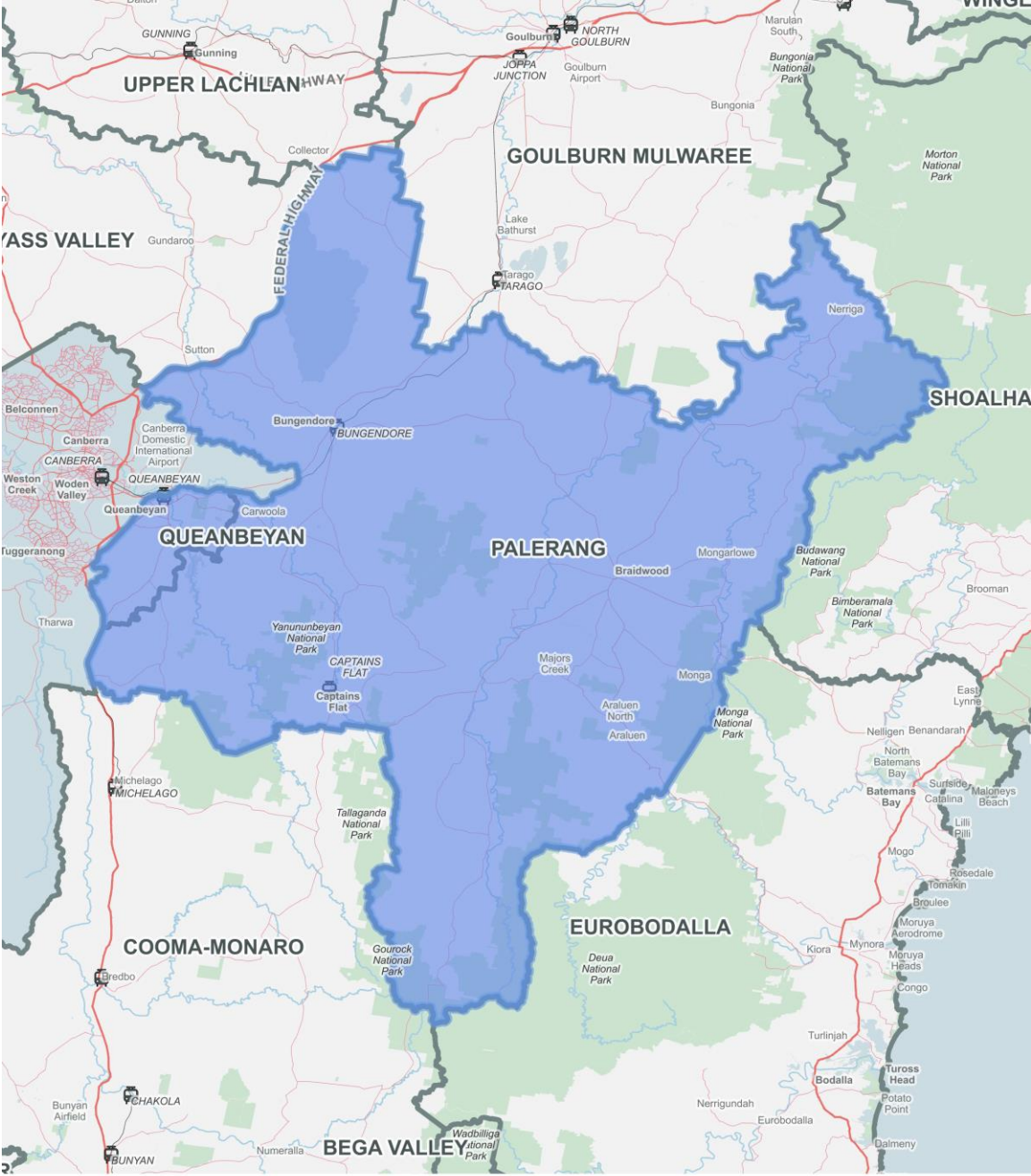
In regards to the structure of the new council, given the unequal distribution of the electorate between urban and rural constituents, it is recommended that the Mayor be elected by the council from among its own members.

Equity of access to electoral representation can be further enhanced by retaining existing Section 355 committees and, where necessary, introducing new ones, to assist in providing equity of access to all constituents.

However, a ward system is not recommended as a solution as it has the potential to enshrine inequality and limit the capacity of councillors to represent a broad range of interests and concerns.

Appendix

Appendix A - Map of Proposed Merger Area



Proposed merger: Palerang and Queanbeyan 2

Data sources: Land and Property Information
Datum and Projection: GDA94



- Proposal Area
- Current LGA Boundaries
- Suburbs
- Waterbodies
- Open space
- Roads
- Rivers

Appendix B - Copy of Merger Proposal

To come

Appendix C – Instrument of Delegation

INSTRUMENT OF DELEGATION

Pursuant to s. 745(1) of the *Local Government Act 1993* (the "*LG Act*"), I, Tim Hurst, Acting Chief Executive, Office of Local Government, delegate to the persons listed in Part A in respect of the proposals listed opposite in Part B the following functions conferred on me by the LG Act:

1. Examination of and report on the proposals referred by the Minister under s. 218F of the *LG Act*; and
2. Any function that is incidental to the function of examining of and reporting on proposals under s. 218F of the *LG Act*.

Signed:  Date: 17/2/16

A/Chief Executive
Office of Local Government

Part A	Part B
Tim Stubbs	Proposal made by Jerilderie Council to amalgamate the Jerilderie and Murrumbidgee local government areas
John Turner	Proposal made by Palerang Council to amalgamate the Palerang and Queanbeyan local government areas

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Appendix D - Local Government Act 1993 Section 218F

Referral of proposal for examination and report

- (1) On making or receiving a proposal, the Minister must refer it for examination and report to the Boundaries Commission or to the Departmental Chief Executive.
- (2) Sections 263, 264 and 265 apply to the examination of a proposal by the Departmental Chief Executive in the same way as they apply to the examination of a proposal by the Boundaries Commission.
- (3) For the purpose of examining a joint proposal of 2 or more councils for the amalgamation of two or more areas under section 218A, the Boundaries Commission or Departmental Chief Executive, as the case requires, must seek the views of electors of each of those areas:
 - (a) by means of:
 - (i) advertised public meetings, and
 - (ii) invitations for public submissions, and
 - (iii) postal surveys or opinion polls, in which reply-paid questionnaires are distributed to all electors, or
 - (b) by means of formal polls.
- (4) The period over which the views of electors are to be sought as referred to in subsection (3) must be a period of at least 40 days.
- (5) Part 3 of Chapter 4 applies to a formal poll taken by the Boundaries Commission or Departmental Chief Executive in the same way as it applies to a council poll referred to in that Part.
- (6) If a proposal that is not supported by one or more of the councils affected by it, or that is an amalgamation proposal, has been referred to the Departmental Chief Executive under subsection (1):
 - (a) the Departmental Chief Executive must furnish the Departmental Chief Executive's report to the Boundaries Commission for review and comment, and
 - (b) the Boundaries Commission must review the report and send its comments to the Minister.
- (7) The Minister may recommend to the Governor that the proposal be implemented:
 - (a) with such modifications as arise out of:
 - (i) the Boundaries Commission's report, or
 - (ii) the Departmental Chief Executive's report (and, if applicable, the Boundaries Commission's comments on that report), and
 - (b) with such other modifications as the Minister determines, but may not do so if of the opinion that the modifications constitute a new proposal.
- (8) The Minister may decline to recommend to the Governor that the proposal be implemented.

Local Government Act 1993 - Sect 263

Functions of the Boundaries Commission

(1) The Boundaries Commission is required to examine and report on any matter with respect to the boundaries of areas and the areas of operation of county councils which may be referred to it by the Minister.

(2) For the purpose of exercising its functions, the Boundaries Commission:

(a) may hold an inquiry if the Minister so approves, and

(b) must hold an inquiry if the Minister so directs,

but may not hold an inquiry otherwise than as referred to in paragraph (a) or (b).

(2A) Despite subsection (2), the Boundaries Commission must hold an inquiry for the purpose of exercising its functions in relation to a proposal for the amalgamation of two or more areas that has been referred to it in accordance with section 218F.

(2B) Reasonable public notice must be given of the holding of an inquiry under this section.

(3) When considering any matter referred to it that relates to the boundaries of areas or the areas of operations of county councils, the Boundaries Commission is required to have regard to the following factors:

(a) the financial advantages or disadvantages (including the economies or diseconomies of scale) of any relevant proposal to the residents and ratepayers of the areas concerned,

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

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

(d) the attitude of the residents and ratepayers of the areas concerned,

(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 it considers relevant in relation to the past and future patterns of elected representation for that area,

(e1) the impact of any relevant proposal on the ability of the councils of the areas concerned to provide adequate, equitable and appropriate services and facilities,

(e2) the impact of any relevant proposal on the employment of the staff by the councils of the areas concerned,

(e3) the impact of any relevant proposal on rural communities in the areas concerned,

(e4) in the case of a proposal for the amalgamation of two or more areas, the desirability (or otherwise) of dividing the resulting area or areas into wards,

(e5) in the case of a proposal for the amalgamation of two or more areas, the need to ensure that the opinions of each of the diverse communities of the resulting area or areas are effectively represented,

(f) such other factors as it considers relevant to the provision of efficient and effective local government in the existing and proposed new areas.

(4) The Boundaries Commission is not entitled to examine or report on any matter relating to the area of operations of a county council constituted or proposed to be constituted for the supply of electricity.

(5) The Boundaries Commission must allow members of the public to attend any inquiry held by the Commission under this section.

(6) The Boundaries Commission may continue with an examination or inquiry even though a commissioner or acting commissioner replaces another commissioner during the course of the examination or inquiry.

(7) The Supreme Court may not make an order in the nature of prohibition in respect of, or an order for removing to the Court or quashing, any decision or proceeding made or conducted by the Boundaries Commission in connection with the exercise of its functions.