

Council Amalgamations

A
SEA

of

RED
INK



LIBS/NATS

**“NSW voters
will not forget
failed council
mergers”**

SMH
July 29-30, 2017





SAVE OUR COUNCILS COALITION (SOCC)

ANALYSIS

COUNCIL AMALGAMATIONS-
\$2 BILLION SAVINGS PROMISED.

NEARLY THREE YEARS LATER-

A SEA OF RED INK

1/-

Introduction

It's been nearly three years since the NSW State Government legislated the forced amalgamations of 44 NSW metropolitan, regional and country councils to create just 20 new local government bodies. Now as the State election approaches on March 23, 2019 it's an appropriate time to examine how the new mega councils are performing financially and to inform NSW communities about the Government's progress in implementing its state wide forced amalgamation plan.

At a media briefing, with then Local Government Minister, Paul Toole and Premier Mike Baird in March 2016, Mr Toole told journalists that mergers would save NSW \$2 billion over 20 years (now 17 years). So after nearly three years just how successful has the State Government financial saving process been, to date, in meeting its financial and community targets?

The NSW Government initially spent \$375 million of taxpayers' money to facilitate the hoped for success of the council amalgamation programme. Despite the huge dollar outlay it's certainly not been smooth sailing. After the first year and revelation of the level of taxpayers' dollars spent so far, financial data on the programme has been hard to find.

2/-

Save our Councils Coalition (SOCC) President, accountant and finance professional Brian Halstead says there is also “another striking element of the process.

“There has been virtually no reporting of the savings, costs and results of amalgamations by the councils nor any demand by the Office of Local Government for any reporting.” Halstead says he also notes that it is “scandalous” that merged councils are not delivering ongoing financial reports to show how and if they are meeting proposal results. “This is especially so given the claims made in the amalgamation process and the grants given to all the amalgamated councils,” he says.

“Without any explanation of the failure to deliver the amalgamation financial results, the proposals appear misleading and deceptive. Thus, those communities within forcibly amalgamated councils must be given a binding vote on whether they wish to de-merge.”

As a result, the forced merger decisions continue to anger affected communities and despite the time lapse between the merged council programme’s introduction in May 2016 and now in 2019, the amalgamation legislation is still a very unpopular issue with the community. It’s not surprising.

3/-

MAYOR, CLEAR OUT YOUR DESK!

Mergers were forcefully applied without even Mayors knowing how the process might play out. Some even went to their offices having no official information, or knowledge of the merger announcement only radio and TV reports. With communities unaware of the merger announcement until friends, business associates and neighbours voiced their anger, having heard the policy decision announcement through local media.

Communities felt “blindsided” as to how, when and where merger changeovers would take place. In fact, the merger policy was introduced immediately and suddenly and in cases of most smaller councils, Mayor and Councillors no longer had a community job.

Local government personnel described it as a “clear your desk out moment” and those that witnessed the demeanour of Mayors and Councillors, post- announcement, said local personnel were clearly shocked by the news. Communities were also strongly affected and felt abandoned and badly served by a Government, that displayed complete lack of consideration for council residents across NSW. It was a far from popular decision. The community considered the Government’s treatment as heavy handed, undemocratic and arrogant.

4/-

SOCC's view is that the NSW State Government completely misjudged the effects of the decision on local electorates. This view is reinforced by post amalgamation by-election results with large voting swings against the Government as high as 22 percent in some country electorates and 25 percent in Sydney.

The Government thought that it was enough that amalgamations would deliver savings to publicly justify this mammoth local government change and that support would be challenged initially but gradually accepted.

SOCC's contact with many state communities indicates this has not happened. As the March 2019 state poll approaches communities have been discussing whether a change of government would mean a better outcome for those who want demergers of councils to happen. Obviously this has yet to be determined, but all the signs are that there will be extensive State Government party effort in all merged electorates in an attempt to ensure the Liberal/National Coalition stays in power.

5/-

NSW MERGERS JUDGED “HALF BAKED”-WORST NSW/FED POLICY

Some communities have increased pressure to demerge their town's former council entity from their new amalgamated mega council. Key to this is the debate on mergers and how the new councils are performing.

Support for this plan to make councils independent again increased substantially when two highly skilled academics, with knowledge of the processes that the construction of such policies as council amalgamations entailed, analysed the merger processes and found them wanting.

Independent research into what constitutes good policy making in Australia by two think tanks The Institute of Public Affairs and Per Capita Australia, produced some startling results that found the Council Amalgamation policy severely lacking in major areas.

The Institute and Per Capita benchmarked 20 Federal and State Government, policies against 10 steps that good decision making should follow. According to Professor Ken Wiltshire AO, Professor of Public Administration at University of Queensland Business School, the benchmark reveals that in the study's view, the worst policy and decision making of the 20 significant policies investigated was the NSW Local Council Amalgamations policy (with 2.5/10). Professor Percy Allan AM another leading academic involved said, “Governments lose support because of half-baked policies foisted onto an unwitting public which provokes a backlash.”

6/-

Elsewhere, even as the March poll approaches and the nearly three year time gap between the amalgamation policy introduction and the State election, it's clear communities are ready for an anti-Government electoral backlash and fulfilling the media edict "NSW voters will not forget failed council mergers" (SMH Editorial July 29-30, 2017). As a result demergers, approved by plebiscite votes are becoming the favourite tool to regain local government independence, but State Government has shown no signs of giving in to this demand.

SOCC has prepared a five point demerger plan that can be used by communities wishing to demerge. Together with the demerger plan there are comments relevant to new legislation and a draft petition to be considered by a new government after the election. (For copies contact SOCC. See details back cover.).

7/-

PREMIER SAYS MERGERS ARE SHELVED BUT MINISTER UPTON WON'T RULE THEM OUT

Premier Berejiklian says Council mergers have been shelved. But many un-merged communities, whose councils escaped through legal challenges do not trust the State Government to stick to that promise.

In fact, twice, Local Government Minister Gabrielle Upton has left the prospect of future council mergers on the table with supporting comments, in the NSW Lower House, during a debate on the Local Government Amendment (Amalgamation Referendums) Bill 2017.

At that time the Minister said she would not support the bill because to do so would establish “a roadblock to future merger proposals.” The Upper House bill was subsequently voted down by the Coalition in the Lower House. Then during a Budget Estimates Hearing the Minister when asked about Council mergers said: “Let me put it another way. I won't rule them in, I won't rule them out. There are no plans at this time.”

8/-

Elsewhere in the political arena there was much heavy handed determination by the Government to continue to push mergers through. But then it abandoned all council amalgamation challenges in the courts. This was because legal cases were being lost, negative publicity on the issue was dominating news outlets, public rallies were continuing unabated, and voter support was declining considerably. In addition two Coalition seats were lost, (Orange and Wagga) and anger continued and persisted in those areas where councils were forcibly merged. This is why it is important that the results, so far, are now brought into focus and examined in detail.

CAN YOU TRUST THE GOVT ON NO MORE AMALGAMATIONS?

Merged communities that are angry at their amalgamation status feel not only deceived by the State Government but also robbed of actual local representation and loss of governance while being exposed to the judgement of councillors they scarcely know. Their view is that their local issues get little or no consideration in mega councils dominated by councillors from bigger communities.

They believe smaller towns, that once had their own councillors to consider their interests, now have only one or two local councillors in a new mega council structure and that they are constantly out voted with decision making biased towards the interests of the larger towns. In addition, their view is that these councillors do not respect or have detailed knowledge of smaller communities and

9/-

they make decisions that are not fit for local purpose and show little or no affinity or sympathy for former small council towns.

Before the mergers, councillors on smaller councils provided, on request and through local communications, detailed knowledge of issues to ratepayers, in an atmosphere of openness, knowledge and trust. Now with continuing difficulties based on distance from mega council offices and big town councillors with a lack of knowledge of more distant town conditions, smaller townspeople feel they are now being governed by “out of touch” local government management and that council mergers are a failed social and financial concept.

MONETARY TARGETS-MILLIONS LOST

The government went into this amalgamation process with a belief that “bigger is better.” Subsequent events now point to something else entirely, resulting in continuing community anger as the negative financial and community outcomes are revealed. The high expectation set by the Government was that, in the future, these mega councils would jointly improve their performances by billions of dollars, aided by the expectation that “bigger is better.”

Despite the existence of other key issues such as planning and development changes, service delivery and State Government issues such as cost shifting to councils of \$820 million still exist. Government appears to have put those issues to one side, to concentrate on mainstream finances, proudly proclaiming financial targets in the billions would be met.

10/-

For the new mega councils, the State Government set out, in their proposals financial results that should be achieved. But those results are not being met and across NSW amalgamated metropolitan, regional and country mega councils, planned results are already tens of millions of dollars in the red. What is even more damning is that the monetary targets proposed and supported by the \$375 million grants, have still not achieved widespread positive surpluses. The outcome is still tens of millions of dollars behind results achieved by former stand-alone councils before amalgamations took place in 2014/15.

Financial gains were at the forefront of the promises made in that initial media briefing in March 2016 with Minister Toole and Premier Baird and subsequently supported by Premier Berejiklian.

FAILURE IN REPORTING

Record keeping and new financial mega council data is certainly hard to find, especially in comparisons with previous years and the amalgamation proposals.

Public companies are expected to deliver scrutinised data of annualised financial and corporate results, especially the results of mergers and the belief is that the same treatment should be ongoing in large local government bodies. But reporting, in this respect, appears to have not met community or business standards. With so much financially at stake it's important that detailed reporting is maintained so that the public along with relevant business and political circles can examine the results.

11/-

Now after nearly three years it's time to judge whether the process is on track to deliver a new innovative and financially secure local government system delivering the financial surpluses to meet Minister Toole's \$2 billion saving target over the next 20 (now 17) years' time.

In this analysis, SOCC tables details of what financial position the amalgamated councils have achieved since the merger took place in 2016. It shows the 2018/19 results (set by council budgets) compared with what results the State Government originally proposed.

The SOCC analysis shows that the metropolitan amalgamated councils in their 2018/19 joint budgets have a figure \$114 million below the results the government set when they started the amalgamation process and established proposed financial targets. It's more than surprising that in the pre amalgamated results in 2014/15 stand-alone councils as a whole delivered a surplus of \$32 million greater than the results in the Councils latest budgets.

12/-

PRE MERGER COUNCILS BETTER OFF

The question is why did the State Government merge councils at all? The full KPMG Report that was the model outline for the council amalgamation strategy may hold the answers, but the Berejiklian Government will not release it and it is being treated by the Coalition as highly confidential. What it contains is a matter of speculation.

The answer may well be that state control over a small number of larger councils would be simpler and more financially beneficial than dealing with many smaller, community driven local government entities. But with the financials showing millions lost by the bigger councils that replaced them, it is concerning why the State Government proposed forced amalgamations of councils at all.

This is all the more so, given that the courts viewed the amalgamations as flawed and communities all over NSW are treating the issue as a public concern and using their votes to condemn it. In the country, council results are still showing General Fund deficits in eleven of 13 councils. Combined consolidated results are again \$48 million behind actual results for stand-alone country and regional councils in 2014/15 before amalgamations took place.

13/-

FINANCIAL RESULT COMPARISON

As no council has provided detailed information on the savings and the costs of the amalgamations, it is not possible to make a comparison with the amalgamation proposals of those items.

The only comparison that can be made is total operating results before capital grants. The councils have had nearly three years to make changes and so a comparison of the planned results in the year 2018/19 can be made.

Metropolitan Councils

In the metropolitan areas there were seven amalgamated councils formed out of 15 councils. Five were a straight combination of old councils while two were formed by splitting councils and re-combining them. In metropolitan areas amalgamated councils were compared with the proposal results and where possible in the five cases with the results of stand-alone councils four years earlier.

14/-

Metro councils operating results before capital grants

Merged Councils	Council Operational Plan 18/19	State Govt Proposal 18/19	Variation of plan from Govt Proposal	Old Councils Actual Result 14/15	Variation 18/19 Plan from 14/15
	\$000	\$000	\$000	\$000	\$000
Bayside	3,437	3,800	(363)	(2,099)	5,536
Canterbury Bankstown	(12,352)	15,000	(27,352)	3,244	(15,596)
Georges River	(10,732)	5,500	(16,232)	2,570	(13,302)
Inner West	(3,053)	22,000	(25,053)	366	(3,419)
Northern Beaches	8,739	16,107	(7,368)	14,174	(5,435)
City of Parramatta	1,932	17,500	(15,568)		
Cumberland	1,422	24,000	(22,578)		
Total Metro	(10,607)	103,907	(114,514)	18,255	(32,216)

15/-

SOCC's Halstead says the variations are "staggering" with the seven councils \$114 million behind the amalgamation proposals in just the 2018/19 year. When the 2018/19 plans were exhibited SOCC asked the councils involved to explain why their plans differed from the Government's amalgamation proposals. Their answers were less than encouraging:

- Not the purpose of the plan. We are looking forward based on community's needs.
- Do not know how the proposal figures were prepared.
- Consult the State Government about the differences.

It is not surprising that the councils have difficulty in 18/19 knowing where figures in amalgamation proposals come from as the Government still refuses (despite requests through the courts) to release the KPMG report referred to in the proposals. Only one Council made any attempt to explain part of the differences with a change, in accounting for depreciation.

Where there is a direct comparison the new amalgamated council's surpluses are \$32 million behind the council's surpluses before amalgamation. So here we are three years on (with all the failed promises of the financial benefits from amalgamations) yet behind the surplus achieved by the individual councils in 2014/15.

16/-

Metropolitan Conclusions

It appears that the amalgamation proposal financial results have not been achieved by significant amounts and it therefore appears the proposals were unrealistic and misleading.

COUNTRY/NON METRO COUNCILS

In the country areas, there were 13 amalgamated councils formed out of 29 councils. These were a straight combination of old council areas into larger councils. The results on page 17 show the grants received, the annual savings estimated from proposals, the results in the 2018/19 plan and these results compared to the 14/15 results prior to amalgamation.

17/-

Country and Non Metro Council Operating Results Before Capital Grants

Merged Councils			General Fund	Consolidated Fund
	Total Govt Grants	Proposal Savings Per annum	Council Operating Plan 18/19	Operating Plan 18/19 variation from actual 14/15
	\$000	\$000	\$000	\$000
Armidale Regional	15,000	700	(3,458)	(3,804)
Cootamundra – Gundagai	15,000	400	(6,725)	(2,527)
Snowy Valleys	15,000	600	(3,794)	(1,309)
Snowy Monaro	20,000	1,200	(8,311)	892
Dubbo	15,000	1,500	1,543	2,466
Edward River	15,000	500	(1,915)	(3,064)
Federation	15,000	300e	(825)	(419)
Hilltops	20,000	1,000	(2,740)	(2,502)
Murrumbidgee	15,000	300e	(995)	(7)
Murray River	15,000	500	(1,681)	(4,378)
Queanbeyan-Palerang	15,000	1800e	1,851	2,779
Central Coast	20,000	10,000	(4,853)	23, 306
Mid Coast	20,000	4000e	(16,423)	(12,339)
Total	215,000	16,400	(48,326)	(47,518)

18/-

Country Conclusions

There appear to be little or no savings in terms of what has been planned in the latest budgets as the General Fund results are mainly deficits. The Consolidated Results in 18/19 for the amalgamated councils show a large shortfall of \$47 million against the last set of results four years ago in 14/15 before the councils were amalgamated.

Clearly there have been some changes in operations, but the councils should report on the impact of the amalgamation on the results compared with the proposal especially given the \$215 million in grants. Without this explanation, the community cannot review the performance of the amalgamated council or it would appear the proposals were unrealistic and misleading.

19/-

OVERALL RECOMMENDATIONS

That given the Government's amalgamation proposals were misleading, the communities in amalgamated councils have a right to return to their old Councils under the following guidelines:

- The right be given for a petition of 10 percent of the old council voters who wish to hold a referendum to de-amalgamate.
- A majority of those voting in the referendum (plebiscite) support the de-amalgamation.
- The government fund the reasonable costs of the referendum (plebiscite) and any de-amalgamation.
- That the Auditor General audit the process and the results of amalgamations.