

1. ATTACHMENTS

9.1. CONSIDERATION OF DE-AMALGAMATION BUSINESS CASE REPORT ATTACHMENT

1. Snowy Valleys Council - Evidence Regarding Advantages and Disadvantages of De-amalgamation Report

Attachment 1 - SVC - Final De-amalgamation Report



Snowy Valleys Council – Evidence Regarding Advantages and Disadvantages of De-Amalgamation

Report

12/05/2023

Report

About the Authors

Joseph Drew is Professor of Local Government Economics at the University of Newcastle's Institute of Regional Futures. Professor Drew is the leading local government finance scholar currently employed in the Southern hemisphere as demonstrated by his vast scholarly record in the best journals in the world. This includes several books published with the best academic publishing houses: (i) *Local Government in Australia*; (ii) *Reforming Local Government*; and (iii) *Saving Local Government*, and (iv) *Natural Law & Government*. Moreover, Professor Drew has consulted for a number of governments abroad on projects of national significance, as well as scores of local governments, state governments, and peak bodies in Australia.

Joseph works from his small farm in Moonbi, NSW, and is passionate about helping rural and regional local governments. He has been called on as an expert witness for several state and federal upper house inquiries and is frequently in demand by leading media outlets.

Professor Drew is a qualified accountant, economist, natural law philosopher, and accomplished mathematician as demonstrated by a host of national and international academic awards. This skillset is truly unique and means that Joseph has an unrivalled capacity to holistically understand the complex financial challenges facing local government.

Professor Drew holds several adjunct professorships at some of the most highly regarded universities in the world (Japan, Korea, Portugal) which is further testament to his unparalleled skills and the global esteem in which he is held.

Yunji Kim is an associate professor in the Graduate School of Public Administration, Seoul National University (Korea) – the top university in Korea and one of the leading public administration programs in the world.

Her research focuses on local government service delivery, public finance, community development, and community wellbeing indicators. She has published her works in both English and Korean in the best public administration and local government journals. She is also the co-author of *Local Autonomy: Politics and Policy* (in Korean) – a leading textbook on local government administration in Korea. Professor Kim has participated in large scale projects in the U.S. to collect local government service delivery and finance data to provide a more balanced assessment of local governments and their responses to fiscal stress, especially for rural communities. Yunji was also a member of a 10-year government funded project to collect community wellbeing data in Korea and around the world in collaboration with scholars from Australia, Canada, China, Germany, Mexico, Netherlands, Taiwan, and the U.S. She has also shared her research with hundreds of local government officials and practitioners through presentations and popular publications.

Diogo Ferreira is a mathematician who specialises in cutting-edge data envelopment analysis and full disposability hull analysis (used to empirically quantify efficiency). He is a leading academic in this field globally and is based at the leading university in Portugal.

Professor Ferreira has worked with Professor Drew on several Australian local government projects and also collaborated for various peer reviewed papers. Diogo has significant expertise in several complex mathematical techniques for analysing corporate and government performance and has published widely in European, South American, and Australian contexts.

NEWCASTLE | **CENTRAL COAST** | **SYDNEY** | **SINGAPORE**
NUSpace Cnr Hunter and Auckland Streets IRF@newcastle.edu.au T +61 2 4055 3300
Newcastle, NSW 2300, Australia CRICOS Provider Number: 00109J newcastle.edu.au

Report

The University of Newcastle acknowledges the traditional custodians of the lands within our footprint areas: Awabakal, Darkinjung, Biripai, Worimi, Wonnarua, and Eora Nations.

We also pay respect to the wisdom of our Elders past, present and emerging.

© **The University of Newcastle 2022**. Apart from any use as permitted under the Copyright Act no part may be reproduced by any process without the permission of the publishers.

Disclaimer: The information contained herein is believed to be reliable and accurate. However, no guarantee is given as to its accuracy or reliability, and no responsibility or liability for any information, opinions, or commentary contained herein, or for any consequences of its use, will be accepted by the University, or by any person involved in the preparation of this report.

NEWCASTLE | CENTRAL COAST | SYDNEY | SINGAPORE
NUspace Cnr Hunter and Auckland Streets IRF@newcastle.edu.au T +61 2 4055 3300
Newcastle, NSW 2300, Australia CRICOS Provider Number: 00109J newcastle.edu.au

Report

Contents

Executive Summary	v
1 2016 Amalgamation	1
2 Summary of Key Findings from Analysis by Deloitte on the Financial Implications	3
3 2021 Boundaries Commission Majority Report	7
4 2021 Boundaries Commission Dissenting Report	11
5 The Financial Context for Snowy Valleys Council	21
6 Financial Advantages and Disadvantages; Economies of Scale and Diseconomies of Scale Summary	50
6.1 Additional Staff Costs	51
6.2 Additional Councillor Costs	52
6.3 Additional Assurance Costs	52
6.4 Travel Savings	53
6.5 Possible Savings from Other Reduced Technical Inefficiency	53
6.6 Previous Commission Review of Section 263(3)(a)	54
7 Community of Interest and Geographic Cohesion	56
8 Historical and Traditional Values	59
9 Attitudes of Residents and Ratepayers	61
10 Representation of Residents and Ratepayers	70
11 Adequate, Equitable and Appropriate Services and Facilities	74
12 Impact on the Employment of the Staff	76
Other Staff Matters	83
13 Impact on Rural Communities	87
14 Other Factors	90
Conclusion	92
References	93

Tables and Figures

Table 1. Multiple Regression Results – Unit Revenue and Population Size, 2013-2022	13
Table 2. Multiple Regression Results – Financial Sustainability and Population Size, 2013-2022	19
Table 3. Rural Council Cohort Multiple Regression Results – Subset of Financial Sustainability Ratios and Population Size, 2013-2022	19
Table 4. Rural Council Cohort Multiple Regression Results – Infrastructure Ratios and Population Size, 2013-2022	19
Table 5. Comparative Cohort	31
Table 6. Contestable Reasons for Agreement	62
Table 7. Contestable Reasons for Disagreement	63
Table 8. Reasons Given for Concerns in the Event of a De-Amalgamation	66
Table 9. Domicile of Previous Councillors in the Former Tumbarumba and Tumut Local Government Areas	71
Table 10. Reasons Given for Concerns in the Event of a De-Amalgamation	79
Figure 1. Salaries (deflated by operating revenue), 2012-2022	5
Figure 2. Total Staff Costs Excluding Capitalised Items (deflated by operating revenue), 2012-22	5
Figure 3. DEA and FDH Models	15
Figure 4. Full Disposal Hull Results, All Rural Councils, 2013-2022	16
Figure 5. Data Envelopment Analysis Results, All Rural Councils, 2013-2022	17
Figure 6. Operating Results (\$'000)	22
Figure 7. Major Revenue Components (\$'000)	23
Figure 8. Financial Assistance Grants	24
Figure 9. Major Expenditure Components	25
Figure 10. Salaries (deflated by operating revenue)	26
Figure 11. Workers Compensation (deflated by operating revenue)	26
Figure 12. Training Costs (deflated by operating revenue)	27
Figure 13. Total Staff Costs Excluding Capitalised Items (deflated by operating revenue)	27
Figure 14. Value of Infrastructure, Property, Plant & Equipment	28
Figure 15. Borrowings	29
Figure 16. Cash by Category	30
Figure 17. Interpreting Box and Whisker Plots	32
Figure 18. Operating Ratio	33
Figure 19. Own Source Revenue Ratio	34
Figure 20. Unrestricted Current Ratio	35
Figure 21. Debt Service Cover Ratio	36
Figure 22. Outstanding Rates and Charges	37
Figure 23. Cash Expense Cover Ratio	38
Figure 24. Building and Infrastructure Renewal Ratio	39
Figure 25. Infrastructure Backlog Ratio	40
Figure 26. Asset Maintenance Ratio	41
Figure 27. Deviation from Budget- Revenue	42
Figure 28. Deviation from Budget- Expenditure	43
Figure 29. Gross Depreciation Rate	44
Figure 30. Staff Expenditure per Property Assessment	45
Figure 31. Externally Restricted Cash	46
Figure 32. Internally Restricted Cash	47
Figure 33. Unrestricted Cash	48
Figure 34. Internally Restricted and Unrestricted Cash	49

Executive Summary

The University of Newcastle was tasked with the job of providing an evidence brief regarding the advantages and disadvantages of pursuing a de-amalgamation. The choice is not an easy one, and either way the Council will face some imposing challenges in the near future.

To fulfil the university's remit, we have engaged the best local government scholars in the world to provide the most sophisticated and robust evidence possible. Because of the complexity of the matter before us there is no substitute for a careful reading of the entire report. Attention should also be given to consulting the scholarly references where appropriate.

Our work has uncovered the following key facts:

- *The level of negativity bias is significant, and theory predicts that it will become further entrenched when Snowy Valleys Council (SVC) takes the measures necessary to assure financial sustainability.*
- *The earlier work of KPMG and Deloitte was not fit for the purpose of making important boundary decisions. We provide sophisticated and robust evidence that stands in stark contrast to the guesswork of earlier commercial consultants.*
- *Econometric evidence clearly demonstrates that there is no good reason to believe that significant economies of scale were ever possible for rural local governments.*
- *Econometric evidence is also at odds with the assumption that small local governments can't be financially sustainable – indeed, our robust work indicates the opposite.*
- *Data envelopment analysis and free hull disposability analysis demonstrate that efficiency has reduced since amalgamation.*
- *The recent changes to legislation – whereby the state government has taken on the responsibility of funding de-amalgamation – significantly improve the calculus regarding the fiscal effects of de-amalgamation.*
- *The ongoing fiscal implications of de-amalgamation span a range less than three-quarters of a percent either side of current level of operational expenditure. The precise outcomes are unknowable and will depend on decisions made by the current executive and Councillors as well as future decision-makers.*
- *There is no good reason in law – or otherwise – to unduly preference the financial factor, which is indeed just one of eleven factors that must be considered.*
- *In this regard, it is important to remain mindful that the sole source of legitimacy for any government is the common good.*
- *Heterogeneity is the core problem affecting SVC efficiency and effectiveness.*
- *Communities of Interest have very few intersections between the north and the south of SVC. This is important because neo-classical economic theory clearly predicts that this is a driving force of heterogeneity and hence lower efficiency.*
- *SVC cannot be considered financially sustainable at present – indeed, it is clear that sustainability has declined since amalgamation. It will require significant intervention to redress a wide range of challenges at SVC.*
- *The geographical vastness of SVC poses structural risks to the health and safety of staff and representatives.*
- *Indeed, the perceived stress scale included in our survey of staff indicates that over three in every twenty staff are suffering high levels of stress.*

Report

- *Well over a third of staff report that they are often or very often concerned about potential boundary change.*
- *Over half the staff believe that SVC should be de-amalgamated. Around a fifth of staff are undecided. It is likely that provision of information to staff – especially information that addresses prevalent misconceptions regarding who bears the cost of de-amalgamation – would alter this result in important ways.*

In the appendix to this report, we include a long list of actions that should be taken, as soon as possible, to improve financial sustainability.

We conclude our report with a recommendation regarding whether the Councillor body should pursue a de-amalgamation given the balance of evidence.

1 2016 Amalgamation

The Boundary's Commission (2021, p. 3) was at great pains to underline the fact that 'its role was not to review the 2016 merger'. Indeed 'it specifically made this clear at the beginning of every public inquiry session held in Tumut and Tumbarumba' and seems to have been quite perplexed that residents continued to bring the matter up nonetheless (Boundaries Commission, 2021).

However, what happened in 2016 is important to current boundary deliberations notwithstanding the efforts of some to place these matters firmly in the past. First, had it not been for the events of 2016 then there would not presently be any boundaries contention. Second, a feature of the 2016 amalgamations was poor quality work, principally conducted by commercial consultants, but nevertheless accepted by Boundaries Commissions and their delegates, according to the enabling legislation. Subsequent poor outcomes must cast some shadow on present deliberations. Third, the literature has shown that when large gaps emerge between the promises of amalgamation architects, compared to subsequent lived experience, then de-amalgamation activism is likely to be both heightened and sustained (Drew, 2022). This is referred to as negativity bias and there is significant evidence to support its application to de-amalgamation events (see Drew, Razin and Andrews, 2017).

It is thus apposite to review the long list of benefits promised to the community back in 2016, by various parties. Accordingly, we quote at length from the conclusion to the Ministerial proposal (2015, p. 20):

- A \$20 million total financial benefit over a 20-year period that may be used to deliver better community services, enhanced infrastructure and/or lower rates;
- NSW Government funding of \$15 million to meet costs and provide a head start on investing in services and infrastructure that savings from mergers will ultimately support;
- Greater efficiencies through the redeployment of back office and administrative functions, increased purchasing power of materials and contracts, and reduced expenditure on councillor fees, all of which are expected, on average, to generate savings of around \$600,000 every year from 2020 onward;
- Greater capacity to effectively manage and reduce the \$7.2 million infrastructure backlog¹ across the two councils by maintaining and upgrading community assets;
- Reducing the reliance on rate increases through SRVs to fund local community infrastructure projects and services;
- Better integrating strategic planning and economic development to more efficiently respond to the changing needs of the community;
- Building on the shared communities of interest and strong local identity across the region;
- Providing effective representation through a council with the required scale and capacity to meet the future needs of the community; and
- Being a more effective advocate for the region's interests and better able to deliver on priorities in partnership with the NSW and Australian governments.

The benefits promised to the Tumut and Tumbarumba communities focussed principally on financial outcomes and largely mirrored projected benefits across the state (see also, Baird, 2014). However, the crude 'financial analysis' by KPMG (2015), which formed the foundation of the Snowy Valleys proposal, was based largely on assumptions that stood in stark contrast to extant sophisticated peer-reviewed

¹ Notably, a lot of work had already commenced on redressing the bulk of this backlog at the time of the proposal.

Report

scholarly work (see, for example, Drew, Kortt and Dollery, 2014; Drew and Dollery, 2014; Drew and Dollery, 2015a; Drew, Kortt and Dollery, 2015a; Drew, Kortt and Dollery, 2015b; Drew and Dollery, 2015b; Drew and Dollery, 2015c; Drew, Kortt and Dollery, 2015c). Nevertheless, 'the Delegate considered that the conservative estimates of savings as modelled by KPMG are significant enough' and the '[Boundary] Commission's view [was] that the Delegate adequately considered the issues' (Boundaries Commission, 2016, p. 4).

Sophisticated peer-reviewed empirical work has since demonstrated that the amalgamation program, predicated on the work of KPMG, failed to achieve its stated intent in terms of both efficiency and financial sustainability² (see, for instance, McQuestin, Miyazaki and Drew, 2020; Drew, McQuestin and Dollery, 2021; Drew, McQuestin and Dollery, 2023). Indeed, far from improving matters, the program has led to significant fiscal distress.

It is not surprising to scholars that these disappointing results emerged because the truth of the matter is that the 'modelling' of KPMG was nothing more than guesswork. Remarkably no analysis appears to have ever been done by the amalgamation proponents to empirically demonstrate potential economies of scale which were heavily relied upon to produce the promised savings. Indeed, extant peer-reviewed evidence that staff costs had actually increased in Queensland, as a result of its forced amalgamation program a few years earlier, was ignored (see, for instance, Drew et al., 2016 which was first published online 31 January 2014). It is hard to understand how the legislated boundaries process could confidently place full reliance on assumptions of a commercial consulting house – without requiring any robust evidence – and at the same time ignore the large corpus of peer-reviewed work.

We believe that it is important for people to understand the wider failure of the *Fit for the Future* amalgamation program. Doing so places recent Boundaries Commission reviews into potential de-amalgamation into better context. It also tacitly refutes claims that disappointing outcomes in particular communities principally arose because of community resistance, poor management, restrictions on redundancy and other non-reform matters (see Boundaries Commission, 2021; 2022). Certainly, these factors may have played a small part in the failure of particular amalgamated communities to realise the promises made prior to 2016 – but equally certainly basing decisions on mere guesswork was not a recipe for success. The fact that some decision-makers cling to assumptions first promulgated by commercial consulting houses in 2015 sans any evidence is thus a concern that we will need to redress in this report. However, before doing so it is timely to assess the work of yet another commercial consulting house – Deloitte – commissioned by the Boundaries Commission in 2020 to investigate the financial advantages and disadvantages of de-amalgamation.

² Indeed, the outcomes realised in NSW and Snowy Valleys were broadly consistent with forced amalgamation programs elsewhere in Australia (Drew, Kortt and Dollery, 2016; McQuestin, Drew, and Dollery, 2017; McQuestin, Drew and Iboshi, 2021) as well as abroad (Allers and Geertsema, 2016; Blom-Hansen et al., 2016; Andrews, 2013; Roesel, 2017; Gaffney and Marlowe, 2014).

2 Summary of Key Findings from Analysis by Deloitte on the Financial Implications

The Boundaries Commission provided advice to the Minister for Local Government in February 2021 with respect to a proposal to de-amalgamate Snowy Valleys. To do so they commissioned the commercial consulting house, Deloitte, to produce a report on the financial advantages and disadvantages which 'had a significant impact on the Commission's overall assessment of the Proposal' (Boundaries Commission, 2021, p. 4). Unfortunately, Deloitte's work was also largely based on assumptions and was thus not a suitable basis for decision making.

The basic approach of Deloitte was to take draft financial statement data from 2020 as well as the long-term financial plan (LTFP) and use this – in conjunction with the previous three years' financial results – to try to divine the outcomes for Snowy Valley, a demerged Tumut, and a demerged Tumbarumba in 2025. To do so they needed to make assumptions regarding the amount of revenue that each council would be able to collect, the required expenditure, and the amount of cash that each emerging council would be allocated. As we will see, Councils are rarely able to come close to accurately predicting financial outcomes a year in advance (see Figures 27 and 28) when they know their rate revenue, recurring expenses and cash at bank with comparative certainty. It is thus quite difficult to understand why anyone would place any reasonable belief in predictions five years hence when none of the key parameters could be known.

Notably, Deloitte was instructed to perform their work over a five-year horizon. The KPMG work that the Boundaries Commission accepted in 2016 was based on a twenty-year business case (KPMG, 2015: NSW Government, 2016). Moreover, local government planning in NSW is largely conducted on a ten-year horizon. Thus, one is left to wonder at the reasons for Deloitte's instructions. Notably, shortening the time horizon will generally make a business case of this kind seem far less compelling.

We fundamentally question the idea of trying to project outcomes for each of the demerged entities – especially given the significant uncertainty acknowledged by Deloitte – surrounding revenues, expenses, and the allocation of assets.

With respect to revenues, we do not believe that Deloitte were in anyway accurate in their work. Indeed, some of the matters that they canvassed – such as a need for Snowy Valleys to pursue 'a 10-15% average increase in rates and charges' along with a '\$3-4m uplift in annual income from grants and third-party contracts and/or cost savings' – were problematic on a number of fronts. First, Snowy Valleys – apparently acting on poor advice – did in fact have a SRV approved by IPART of 35.95% over two years, inclusive of the rate cap (IPART, 2022). Notably, the independent regulator approved considerably more than was suggested by Deloitte and in doing so implicitly expressed disagreement with the commercial consultants. Moreover, it is clear that the approved SRV is unlikely to be sufficient for the Council to become financially sustainable. Second, Deloitte seems to misapprehend basic accounting conventions and economic realities. The quantum of suggested additional income from grants and third-party work was never likely to materialise for the existing Snowy Valleys entity – most extant grants are tied and also often relate to capital expenditure³ and hence would do very little for the bottom line. In addition, extra income from third party work would almost certainly involve extra expense in the absence of a party willing to suddenly pay considerably more for no additional work Third, Deloitte continues to labour under a

³ The main exception to this is the financial assistance grants but these monies are supposed to be allocated according to formula and legislation and thus would be extremely unlikely to increase by such a large margin.

Report

misapprehension that potential economies of scale exist for the amalgamated entity (see our econometric evidence on this point later in this report). This misapprehension was first expressed by the Independent Local Government Review Panel (2013) and repeated by KPMG (2015). However, the commentary regarding potential economies of scale were matters of opinion only and never supported by any rigorous empirical evidence (indeed, the scholarly papers we referred to earlier indicate otherwise). In this regard, it is important to be mindful that repeating an unfounded assumption multiple times is not sufficient to conjure it into existence.

It is difficult to know precisely how Deloitte thought about these matters because – just like the KPMG work in 2016 – the public have not been provided with a full copy of the reports. However, it seems that Deloitte have overlooked the likelihood that grants would increase subsequent to a de-amalgamation. With respect to the Financial Assistance Grants (FAG) it is likely that the sum of the de-amalgamated allocations would exceed what the Snowy Valleys community currently receives. This is a function of the extant formulas, vertical fiscal imbalance (VFI) floor, and how averages behave when distributions are split. Indeed, this is why on the 7 February 2006 the relevant federal minister was obliged to proclaim under Section 6(4) of the Act (1995, CTH) a protection such that the general component of the allocation for an amalgamated entity could be no less than what would have been provided had the constituent Councils remained separate, for a period of four years. Moreover, there are several state government grants – such as library grants and disaster relief – that would be increased in total were the communities separated again.

With respect to expenditure there are also a number of serious problems with the work which suggests that it is was not a suitable basis for Boundaries Commission decision-making. As we have already noted, Deloitte was suffering under a misapprehension that economies of scale were still possible. Indeed, they noted that ‘SVC has not realised economies of scale or net savings as a result of the merger’ but state that ‘this is not inconsistent with the pre-merger modelling which assumed minimal if any savings in the first four years due to integration activities and staffing protections in place under the Act’ (Deloitte cited in LGBC, 2020, p. 4). This statement is fundamentally wrong on many levels. In the first place, the NSW Government (2015, p. ii) document *Local Government Reform Merger Impacts and Analysis* clearly declares ‘3 years payback period when benefits will exceed merger costs’. Second, the statement ignores what was known already at that time – that staff costs had gone up significantly (McQuestin et al., 2020) following amalgamation and that experience in Queensland suggested that they would not suddenly reverse course (McQuestin et al., 2017; Drew et al., 2016). Third, it should have been made more clear to people that before net economies could be realised that it would first be necessary to reverse the significant increases to the cost base that have arisen since amalgamation.

Indeed, it is rather curious that much is made of some savings achieved by SVC without this being put into the context of the scale of the prior significant increases to costs. To illustrate this point, in Figure 1 we have plotted salaries from the period 2012 to 2022. To enable fair comparisons in an intertemporal sense we have combined salaries from the constituent entities for the years prior to amalgamation, and also deflated costs by operating revenue (the standard scholarly approach to negate changes to the time value of money and scope of operations). This graph clearly shows that far from saving money in this area, costs actually increased, albeit marginally, over time.

Report

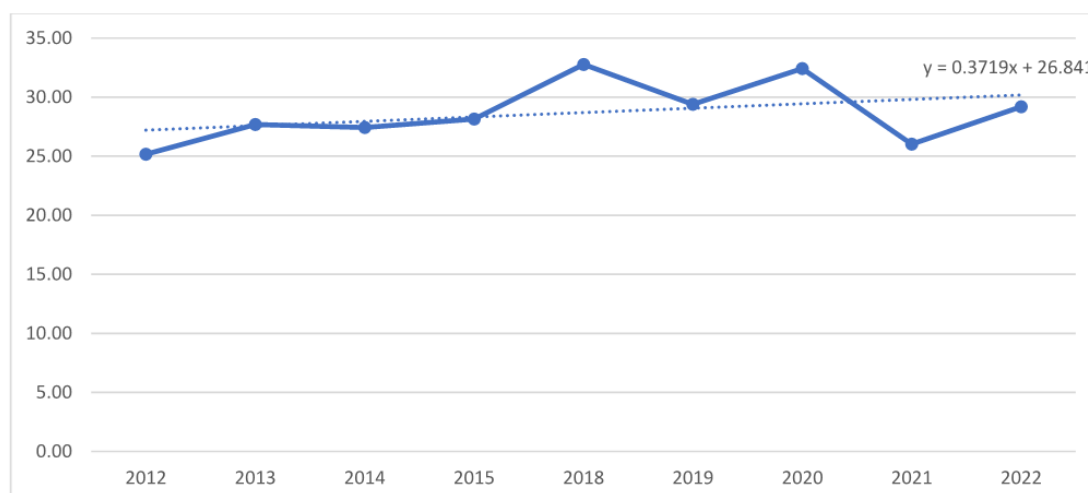


Figure 1. Salaries (deflated by operating revenue), 2012-2022⁴

Even when we exclude capitalised staff expenses – which is important to do in view of the large capital works program instigated shortly after amalgamation – there were clearly no nett savings. Indeed, the lauded projected savings of \$0.4 million for the 2021 restructure have since largely been eroded and we are now seeing a reversion to the upwards sloping mean. Notably, these results occur despite an extraordinarily high level of unfilled staff vacancies.

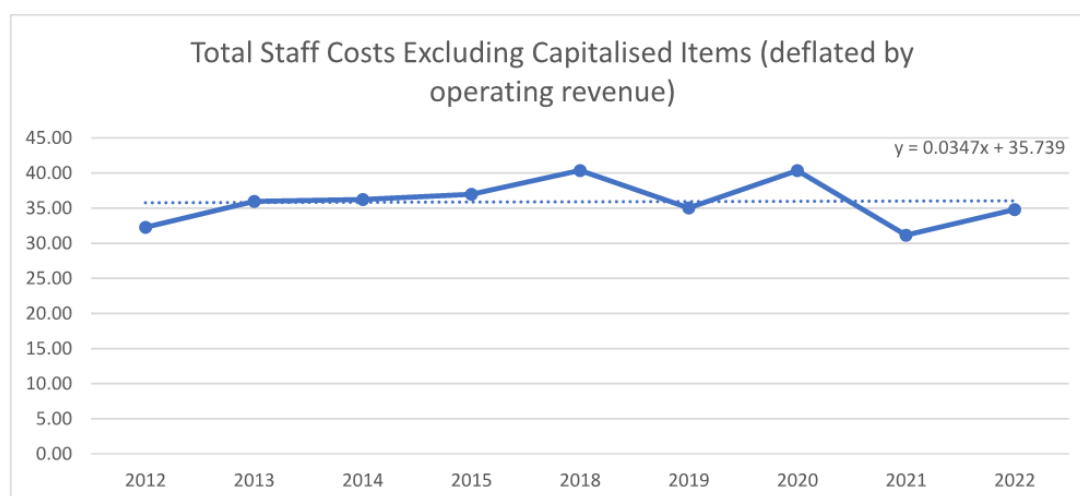


Figure 2. Total Staff Costs Excluding Capitalised Items (deflated by operating revenue), 2012-22

The lack of distinction between projected savings and actual realised nett additional expenses (see our much more detailed examination of staff costs in Section 5) is subsequently imputed into the later 'modelling' that there would be 'recurring costs connected with re-establishing Councillor and Executive

⁴ For Figures 1 and 2 we have omitted the 2016 and 2017 data. This is because the 2016 year was somewhat shorter than usual (ending in May instead of June) because of the timing of the amalgamations. In similar vein the 2017 data year was somewhat longer than usual.

Report

Leadership team structures, effectively reversing the gross savings realised on merger....estimated in to be in the range of \$0.4m to \$0.7m per annum for each council’.

A feature of the work which the Boundaries Commission relied upon – both in 2016 by KPMG and more recently from Deloitte – is a rather unidimensional approach to the matter of detailing financial implications. Any reasonable person can see that there will be both advantages and disadvantages to local government boundary reform in a fiscal sense. Moreover, these advantages and disadvantages will be characterised by considerable contingency risks. Yet reading the Deloitte reports one could be misled into thinking otherwise. The additional costs arising from de-amalgamation are conveyed with an air of certainty, whilst savings – which we might suspect were deemed to be inconvenient – were largely neglected. Transport costs – to travel to and from the centres – is clearly one substantial saving that would occur following de-amalgamation (see our later work which quantifies this substantial cost). Another is the potential to reverse some of the significant wage harmonisation expense over time. Yet another is the improved efficiency known to be a feature of a more transparent and homogenous operating environment (Drew et al., 2023; Oates, 1999). The palpable neglect of these matters raises many questions.

We also note that a ‘key factor’ included by Deloitte (2021, p. 7) with respect to the financial sustainability of a demerged entity was ‘a higher level of discretionary community services provided in Tumbarumba including childcare and aged care...’. This statement is also problematic on at least two fronts. First, it is incorrect to label these services as ‘discretionary’ because they are indeed interventions required to redress market failure (more on this later). Second, both services ought to break even, if managed carefully, and we note that the 2022-23 Operational plan has each projected at break-even.

Before closing the matter of expenditure, we must say a few words on Deloitte efforts with respect to one-off de-amalgamation costs. What they appear to have done is taken the midpoint of actual costs incurred in the de-amalgamation in Queensland without any regard for the entirely different legislative and functional environment in that state. This was lazy work that promised to seriously mislead. What was required, at the time, was a precise detailing of de-amalgamation expenses using quotations and evidence as per the Drew report for Cootamundra-Gundagai Regional Council. However, as it turns out, recent changes to legislation (s218CC of the Act (1993, NSW)) make this largely a moot point with respect to the decision before Council and the community.

Towards the end of the Deloitte summary, we are advised that the cash allocations were based on the 2016 per-merger cash position. It seems that Deloitte (2020, p. 10) concedes that this ‘simplistic assumption’ was subject to considerable error. However, they appear to have failed to consider the importance of the likely error when combined with the oversights and considerable uncertainty regarding revenue and expenses. They certainly did not draw sufficient attention to the extremely tenuous nature of their conclusions regarding the five-year projections for each of the three entities. Perhaps if they had done so, then the Boundaries Commission would not have been so ready to allow the work to exert ‘a significant impact on the Commission’s overall assessment of the Proposal’ (Boundaries Commission, 2021, p. 4). Indeed, given that it is just one of a long list of factors stipulated in the relevant legislation, one must wonder whether it ought to warrant such myopic attention in the first instance.

3 2021 Boundaries Commission Majority Report

Section 263(3) of the Act (1993, NSW) requires the Boundaries Commission 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.

Notably, e4 and e5 are only relevant to the case of amalgamation and thus do not require explicit consideration with respect to a potential de-amalgamation.

It is our opinion that both in 2016 and 2021 undue emphasis was put on the first of the listed factors. There is nothing in the legislation that can be interpreted to suggest that this one factor ought to be given any more weight than the other ten. Moreover, as we have already shown (and will continue to show) the information that the Boundaries Commission was presented with in relation to financial advantages and disadvantages was fundamentally flawed guesswork in any case – it was thus not a sound basis for decision-making.

The purpose of local government is *not* to produce a surplus or reach optimal efficiency. Indeed, the sole source of legitimacy for any government is to be found instead in its capacity to foster the common good – the help accruing to people as a result of their co-operation (see, Aristotle, 2012; Drew, 2021; Messner, 1952, Finnis, 2013). It seems that somewhere along the line key decision-makers may have lost sight of the

Report

fact that local government is about people – staff and the community⁵ that they serve – not dollars. As a result, decision-making has unduly emphasised Section 263(3)(a) of the Act and arguably relegated the other statutory requirements to mere afterthoughts.

It doesn't matter how large the surpluses might get, or how low the unit cost might become, if a Council isn't meeting the needs of its staff and community then it can only be described as a defective (in Aristotelian function terms). No doubt, this truism accounts for why the legislators only included one specifically financial 'factor' in a lengthy list of eleven factors. Indeed, had equal weight been given to the entire eleven statutory factors in 2016, then it seems very unlikely that the community of Snowy Valleys would have found themselves in their current predicament⁶.

It is heartening to see that the recent majority report by the Boundaries Commission has paid greater heed to the human element of local government in 2021. For the remainder of this section, we will concentrate on illuminating the comments made in the Summary and Recommendations to the *Examination of a Proposal to Alter the Boundaries of the Snowy Valleys Local Government Area and Create a New Local Government Area*.

The Commission (2021, p. 3) is at pains to set out that 'its role was not to review the 2016 merger' and seemed disappointed that 'the view of many residents continued to be that implementation of this current Proposal was the appropriate 'solution' to whatever objections they had to the 2016 merger'. As we will demonstrate in this report Snowy Valleys Council faces formidable problems and a solution must clearly be found if we are to have any hope of a sustainable government that serves the common good for the approximately 15,000 people who live there. One solution is to somehow 'fix': (i) its financial problems, (ii) the hostile attitude of a significant portion of its citizenry, (iii) the clear disenfranchisement⁷ of a number of communities (see Section XX), (iv) staff stress and turnover, and (v) increasing levels of resentment at the burdens brought on by the amalgamation (most notably the 35.95% rate increase). As we have written elsewhere it might be possible to mitigate some of the fiscal problems through the establishment of a *new* untied stream of operational grants equal to the increase to unit costs engendered by the amalgamation (see, Drew et al., 2021; Drew et al., 2023). However, the disenfranchisement of communities would be a much more difficult thing to mitigate and would also involve significant costs⁸. Moreover, the attitude of residents is unlikely to change for the better – this is a key finding from the negativity bias literature and de-amalgamation precedents (Drew and Dollery, 2015; Drew et al., 2018; Drew, 2022; Boundaries Commission, 2021; we will also explore this matter in greater detail below).

Thus, even if the state government were to commit to considerable ongoing fiscal 'compensation', it is doubtful that Snowy Valleys could deliver on the common good for its citizens. If there is little prospect for recuperation (in Hirschman (1970) terms), then de-amalgamation is a logical (albeit unpalatable to some) potential solution.

The Commission (2021, p. 3) also notes that 'residents believed that what they saw as 'failings' by the current Council (and there were many alleged) were reasons for the proposal to proceed'. However, they

⁵ Notably, willingness to pay is a key element of financial sustainability. If the community feels that their needs are being met – and also have adequate capacity – then there is no good reason why financial sustainability should falter.

⁶ Moreover, had robust empirical evidence been used to establish financial advantages and disadvantages then undoubtedly things would also have been very different (see the robust empirical work of Drew et al., 2015 which was already publicly available at the time of KPMG's ill-advised assumption-based work).

⁷ Here the word is used according to its meaning in the Collins dictionary: to take away their right to vote, *or their right to vote for what they really want*' (emphasis added).

⁸ Part of any attempt to redress disenfranchisement would require the establishment of a number of additional Councillor positions.

Report

wisely observed that 'service failings should only be taken into account by the Commission where it believed that they were inherently a feature of a larger council'.

There is indeed a large literature that has demonstrated the effects of both disenfranchisement and heterogeneity, associated with changes in size, on the ability of a local government to efficiently deliver services to communities (see, for example, Spicer 2012; Drew, 2022). It is beyond dispute that the creation of the larger Snowy Valleys entity disenfranchised voters and increased heterogeneity (NSW Electoral Commission, 2023; Australian Bureau of Statistics, 2023). In the event of a de-amalgamation, these problems would be mitigated somewhat. Moreover, transparency is likely to improve if a de-amalgamation were to proceed and economic theory has long observed the links between transparency, efficiency and trust (see Drew, 2022). Indeed, 'voice' would be both amplified and made clearer in de-amalgamated entities and Hirschman's (1970) seminal work tells us that this is a crucial ingredient to organisational recuperation. For all these reasons – well established in the corpus of scholarly literature – it is evident that some of the problems experienced by the community are indeed a feature of the larger Council.

Despite a pleasing acknowledgement of the human face of the problem, the Boundaries Commission still devoted around half of its' summary to the single factor of financial advantages and disadvantages. As we have already shown the assumption-laden, 'simplistic' work of Deloitte was not a sound basis for decision-making and is indeed reminiscent of the flawed projections of KPMG that led to this current predicament. Moreover, it seems that the Commission has been misled by Deloitte, KPMG and others regarding both the nature and evidence for economies of scale (see the next Section) which is an important part of the first factor.

No *bona fide* local government finance expert could take five-year projections, sans evidence, seriously especially when it was clear that the party producing the estimates had no idea of the revenue flows, expenses, nor capital allocations. Indeed, much of the advice and 'analysis' of Deloitte has already been proved wrong by events that have transpired subsequent to their work. The Boundaries Commission might thus have been well advised to remember the lessons arising from similar consultant guesswork in 2016 and dismissed the financial projections as too deeply flawed for reasonable assent (see Drew et al., 2023 for a thorough review of the reasons for why consultant work has erred so badly, and a robust quantification of the damage done in 2016 as a result of relying on guesswork for important decision-making).

We note that the 'Commission's consideration of *some* of the section 263(3) factors – such as geographic cohesion and elected representation – lends support to the proposal' (Boundaries Commission, 2021, p. 4 – emphasis added). As we have stated previously, we believe that the legislation does not prioritise any one factor. Accordingly, we feel that serious attention should also be given to Section 263(3)(e1) (e2) (e3) and (f) of the Local Government Act (1993, NSW), as we will do later in this report.

In view of the evidence and understanding of matters that the Boundaries Commission (2021, p. 6) had to hand at the time of their deliberations we believe that their recommendation – 'that the Proposal be implemented' – was sound. However, the financial projections that they relied upon were clearly not-fit-for purpose. In addition, it seems that the Commission held serious misapprehensions regarding the nature and potential for economies of scale as well as an overly optimistic appraisal of the sustainability prospects for the amalgamated entity. Furthermore, there does not appear to have been sufficient evidence under consideration regarding electoral representation, staffing, or the effect on rural communities. As will become clear in the remainder of the report there is now very good reason to revisit these matters.

Report

However, before redressing the aforementioned evidence gaps it is important to spend some time critiquing the Dissenting Report (2021) – not least because it illustrates the policy risks associated with making decisions on the basis of poor evidence and profound misapprehensions.

4 2021 Boundaries Commission Dissenting Report

It is important that all Commissioners exercise their individual skillset and fully express their views on the matters before them. Indeed, dissenting views have the potential to contribute in important ways to policy decisions. However, to warrant action the views must be supported by robust and reliable evidence.

The Dissenting Report (2021, p. 3, emphasis added) commences with a summary of the main reasons for forming a judgement which bear repeating at some length:

‘Where I fundamentally depart from my fellow Commissioners is on the ultimate recommendation. In my view, recommending the Proposal to the Governor *at this time* will not be conducive to the provision of *efficient and effective* local government in the existing and proposed area.

In a demerger situation the continuing SVC, *operating within a reduced area, population base and organisational structure*, will *experience diseconomies of scale* and it will struggle to achieve its current Long Term Financial Plan (LTFP)’.

These first few sentences nicely encapsulate the main concerns of the Dissenting Report: (i) untimeliness, (ii) efficiency, (iii) effectiveness, and (iv) presumed size-effects (including an erroneous conception of diseconomies of scale). Accordingly, we will arrange this critique in the same fashion – presenting evidence where appropriate to investigate the validity of statements made. We will also examine some other remarks that seem to reveal important aspects of the dissenting Commissioner’s thinking.

The Dissenting Report (2021, p. 5) suggests that it might be untimely to de-amalgamate Snowy Valleys because ‘the benefits if the merger were anticipated over the long term, not short term’⁹. In an attempt to provide evidence in support of his contention it then refers the reader to an opinion piece (by LGNSW citing another opinion piece) that we have unfortunately been unable to locate. However, as it turns out there is a large body of peer-reviewed robust empirical work examining the outcomes from amalgamations in both Australia and abroad (as cited earlier in this report). It is therefore more appropriate to cite and rely on matters of evidence, rather than matters of opinion. In general, it has been the finding of the corpus of scholarly literature that enduring savings are elusive (see, for example, Drew, 2021; Allers and Geertsema, 2016; Blom-Hansen et al., 2016). Indeed, recent work published since the Dissenting Report suggests that there is very little chance that the savings projected by KPMG and the (then) Minister will ever materialise (McQuestin et al., 2021; Drew et al., 2023). Thus, matters of evidence are at considerable odds to the matters of opinion relied upon by the dissenting Commissioner.

Furthermore, it might be noted that the NSW Government (2015, pii) *Local Government Reform Merger Impacts and Analysis* report promised a ‘3 year payback period when merger benefits will exceed merger costs’. In addition, *the Merger Proposal: Tumbarumba Shire Council Tumut Shire Council* (NSW Government, 2015, p. 16) promised ‘savings of around \$600,000 every year from 2020 onwards’. The dissenting Commissioner didn’t have access to the 2021 audited financial year statements at the time of writing his report, but should have had access to budget documents which weren’t reflective of the promised savings. Moreover, we now have access to a further two years of financial statements that don’t support the projections of KPMG nor the NSW Government.

⁹ Notably, the Dissenting Commissioner wisely elected to not precisely state timelines here like Deloitte did.

Report

At the heart of the 'untimeliness' argument is a belief in the potential for economies of scale. The Independent Local Government Review Panel (2013) actively argued for the salience of economies of scale, despite clearly being confused about the concept, and declining to present any evidence to support their opinions. Similarly, the savings projected by KPMG depended heavily on *assumed* economies of scale. Once again, no evidence was provided to support the contention. Deloitte also based their work on a belief in economies of scale, sans any evidence.

It seems from the contents of both Boundaries Commission reports that the various members share the untested belief in economies of scale. Moreover, it is evident that they labour under some serious misapprehensions on the matter¹⁰ – which is not surprising given the source of information referred to by them¹¹ (see page 28 of the Majority Report, 2021). In this regard decision-makers might benefit from referring to the peer-review work. There are some comprehensive treatments of the matter in Drew (2021) and Drew et al. (2023). Reference to the corpus of scholarly literature should readily attest to the fact that economies of scale are far more complex than any of its adherents have yet conceded.

There is some discussion by the Boundaries Commission (2021) regarding the difficulties posed in measuring economies of scale. This suggestion is simply incorrect. Any accomplished econometrician sees the measurement of economies of scale as a rudimentary exercise. Certainly, there are different mathematical approaches to the task, and the potential for slight attenuation of results dependent on specification, but it is simply false to suggest that competent economists are unable to provide robust evidence on the matter. Indeed, as we have already stated, evidence on potential economies of scale was presented in the scholarly literature prior to 2016 and has been proven true by subsequent events.

To clarify this point even further in Table 1 we provide the results of an econometric exercise directed to finding evidence of economies of scale. Here we have used a nine-year panel of data – to provide maximum assurance – and have included well-rehearsed controls for variables known to affect production functions. Notably, we include a dummy variable to indicate whether or not a council was amalgamated as well as year dummies.

The econometric analysis that follows can be specified as:

$$E = \alpha + \beta_1 P + \beta_2 X + \mu.$$

In this specification **E** (the dependent variable) is the unit expenditure of each council drawn from audited financial statements, **P** is a vector of relevant population data and **X** is a vector of socio-demographic and local government characteristics. μ (μ) is an independent identically distributed random error term. All standard econometric tests were conducted, and the residuals were confirmed to be near-normal in distribution (a critical assumption for valid statistical reasoning).

¹⁰ In particular, we were most concerned to read statements suggesting that 'diseconomies of small scale' were likely or possible – clearly there was considerable confusion about what this well-established economic concept actually means (see the Dissenting Report, 2021, p. 9).

¹¹ Indeed, the high likelihood of constant returns to scale (where average total costs do not change in association with increased input) and diseconomies of scale (where average total costs increase in association with increased levels of output) seem to have been lost on most people.

Report

Table 1. Multiple Regression Results – Unit Revenue and Population Size¹², 2013-2022

	Entire State	Rural Councils
Population squared (ln)	0.092** (0.021)	0.234 (0.184)
Population (ln)	-2.093** (0.435)	-4.913 (3.333)
Population density (ln)	-0.225** (0.044)	-0.290* (0.147)
Median employee income	0.015* (0.007)	0.064** (0.018)
Median unincorporated income	0.040** (0.007)	0.030* (0.013)
Operating grants (ln)	0.996** (0.119)	1.601** (0.316)
Additional Controls	Yes	Yes
n	511	228
Coefficient of determination	0.8185	0.7720

+p < 0.10, *p < 0.05, **p < 0.01. Standard errors in parentheses

The econometric approach provides a global account of optimal scale, based on a long panel of past audited data. Thus, econometrics can tell us what ought to be possible by taking into account the actual outcomes of all of the NSW local governments over many years. It differs in orientation to data envelopment analysis (DEA; which provides point estimates for specific councils based on what is theoretically possible given past experiences) and full disposability hull analysis (FDH; which provides point estimates for specific councils responding to actual outcomes in the past). These alternative empirical approaches will be presented later in this report but largely concord with the results from our econometric exercises that we will outline forthwith.

When we examine the entire state there is indeed some evidence of the potential for economies of scale, notwithstanding the fact that the calculus (first derivative) suggests a very low turning point for the local *minima*. This evidence is best understood in terms of the very high level of statistical significance (indicated by the “**”) associated with the population and population-squared variables. Notably, the population density variable is both negative and statistically significant which tells us that as density increases unit costs also decrease. We can also see positive and statistically significant associations for the two income variables which support the contention that many local government goods and services are ‘normal goods’ (that is, as incomes increase people demand higher quality and potentially higher quantity; see, Drew, 2021 for a thorough account of the different kinds of economic goods). In addition, provision of operating grants is statistically associated with increased spending consonant with the well-known flypaper effect (Drew, Dollery and Miyazaki, 2023).

However, it is undoubtedly the case that rural councils differ substantially to their city cousins as attested to by the various classification systems used by the federal government and Office of Local Government respectively. Indeed, one only needs to examine the goods provided by rural councils to understand that they differ fundamentally to city local governments – for instance the provision of water and sewer services, much higher frequency of graded dirt roads, much lower levels of discretionary goods and services, and much greater efforts to correct market failure. Accordingly, it is both prudent and consistent with scholarly convention to stratify the regression into a specifically rural econometric exercise.

¹² Here we have used population size to be consistent with the work of KPMG, The Ministerial Proposals, and also the Boundaries Commission. A more precise specification would use number of assessments.

Report

When we do so we find that both population variables are no longer statistically significant – that is, all evidence of potential economies of scale disappears. Moreover, the absolute value of the coefficient for the population density variable becomes larger suggesting that this factor is even more important for rural councils than it is for local government in the state as a whole.

Otherwise stated, there is no evidence to suggest that there ever was the potential for economies of scale at the rural local government level. Indeed, economies of density are clearly the most important structural aspect of rural local government cost functions and, of course, this aspect is not amenable to exploitation by amalgamation.

Thus, the Dissenting Report's (2021) contention regarding the untimeliness of de-amalgamation – based on matters of opinion only – is at significant odds to the robust empirical facts of the matter.

The next important point made in the Dissenting Report refers to 'efficiency'. Here it seems that the dissenting Commissioner is thinking of technical efficiency (the conversion of inputs into outputs), rather than allocative efficiency which is much more in the purview of Councillors and the executive (and undoubtedly diminished by amalgamation).

As we have already alluded to, there are two sophisticated empirical techniques appropriate for the precise calculation of relative technical efficiency. Both techniques employ a complex mathematical routine¹³ referred to as linear programming and are probably thus best explained with reference to a figure (Figure 3 below).

Essentially, FDH uses past audited financial data – along with output proxy data – to establish a step-wise frontier of non-dominated local governments (that is, councils that have used the least amount of inputs in the production of outputs). The relative efficiency of all other councils are then evaluated in accordance with their distance from the said frontier. By way of contrast, DEA establishes a convex frontier in accordance with economic theory and assuming a set of weights. It therefore presents a picture of what economists think ought to be possible and hence typically provides a more pessimistic account of matters.

¹³ The specification for FDH is:

$$\begin{aligned} & \min \theta \\ & \text{subject to:} \\ & \sum_{j=1}^n \lambda_j x_{ji} \leq \theta x_{jk}, i = 1, \dots, m, \\ & \sum_{j=1}^n \lambda_j y_{jr} \geq y_{rk}, r = 1, \dots, s, \\ & \sum_{j=1}^n \lambda_j = 1, \\ & \lambda_j \in \{0,1\} \end{aligned}$$

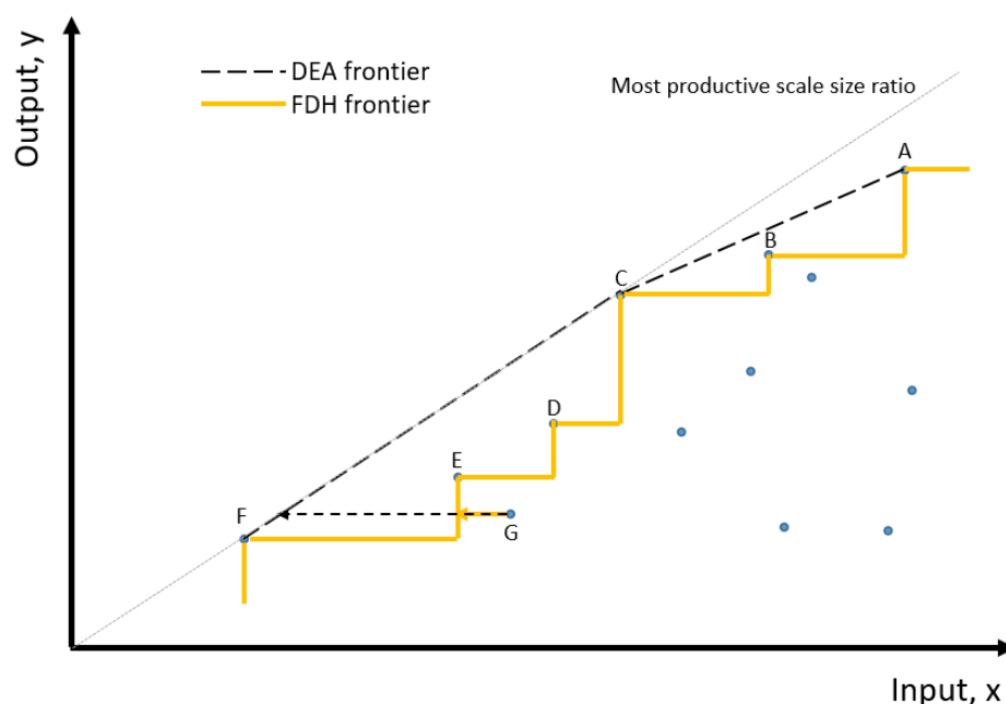


Figure 3. DEA and FDH Models

The inputs to both linear programming efforts are staff expenditure, and other operational expenditure respectively. The outputs are number of residential, farm and business assessments as well as sealed and unsealed road lengths. These outputs best map the different baskets of goods and services provided to each category of assessment as well as the important differences to maintenance costs for local government's largest items of expenditure (roads; see Drew, Kortt and Dollery, 2015). Two-year windows were employed to allow for intertemporal comparisons. Moreover, a variable returns to scale technique was used to mitigate for the effect of size. For the years prior to amalgamation we simply summed the inputs and outputs of the two respective former councils consistent with scholarly precedent. Doing so allows us to quickly appreciate the effect of the amalgamation structure on relative technical efficiency.

Report

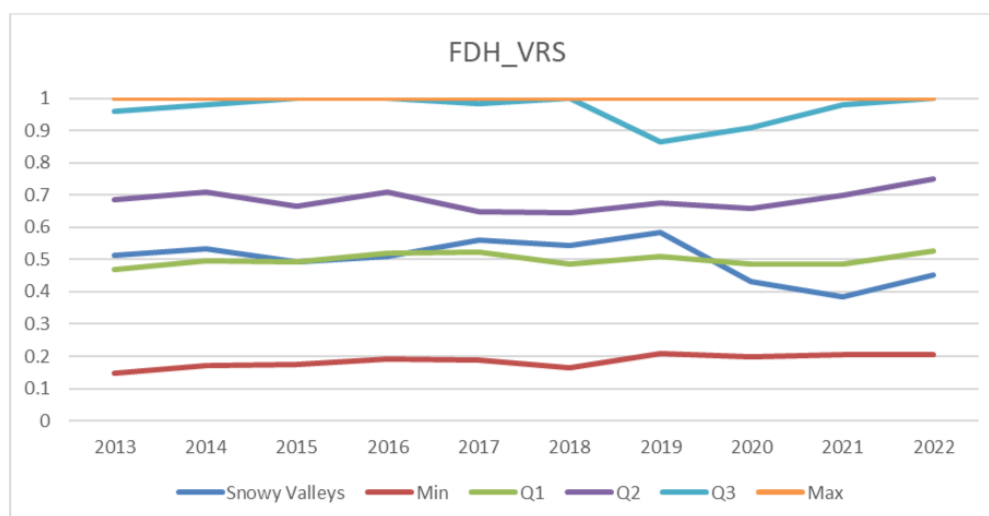


Figure 4. Full Disposal Hull Results¹⁴, All Rural Councils, 2013-2022

As Figure 3 readily depicts there has been a general reduction to efficiency since amalgamation. Further investigation of the sum of intensities reveals that this reduction to efficiency can be attributed to the fact that the council is over-scaled (too large). It is important to be mindful that the 2016 and 2017 years have been annualised because of the state government decision to conduct amalgamations part way through the financial year. It is also important to be mindful of the effect of the bushfires¹⁵ and other localised events – although discrete events are largely mitigated by our robust empirical approach. Notably measures of central tendency suggest that efficiency was either flat or upwards slopping for most councils during the post-amalgamation period. In addition, the extraordinarily high numbers of unfilled job vacancies at SVC may have worked to cast a more positive light on efficiency for the post-amalgamation period.

In Figure 4 we present the results from our intertemporal DEA. As we stated earlier, these different empirical methods tend to produce quite compatible results. DEA does not provide benefit of the doubt to the various local government units and thus tends to impute higher expectations for efficiency according to what ought to be possible with respect to economic theory. The DEA results give us no reasonable basis to think that efficiency has improved in an enduring way as a result of the new entity structure.

¹⁴ It should be noted that we used order-alpha protocols to assure the robustness of our results. Small deviations arising from unusual accounting results would not affect the results presented.

¹⁵ The two-year window, combined with the linear programming technique would also have affected the years either side of the event. In addition, we used order-alpha protocols to assure the robustness of our results. Furthermore, our results are consistent with what occurred earlier in Queensland as well as the evidence from abroad (McQuestin et al., 2021). Indeed, the preponderance of evidence globally suggests that any efficiency dividends are restricted to the early years and are quickly eroded thereafter.

Report

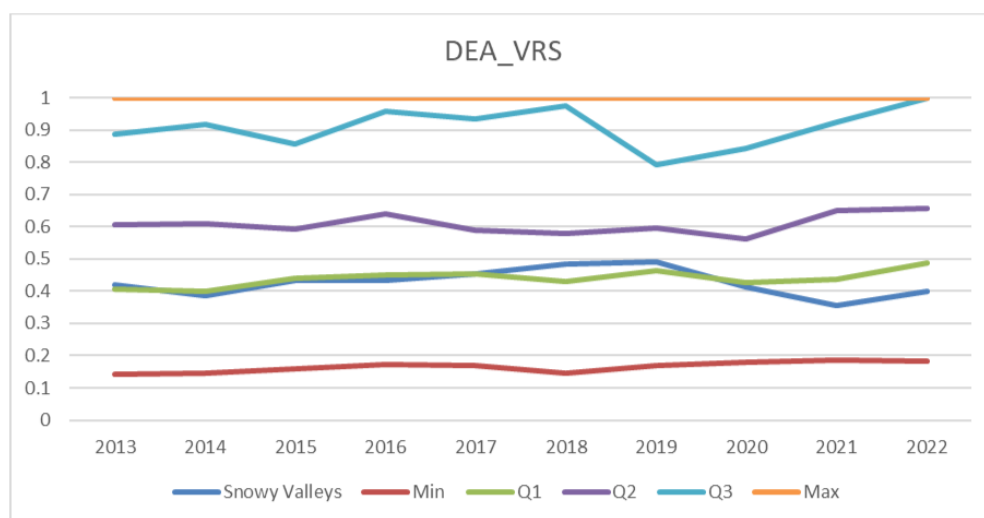


Figure 5. Data Envelopment Analysis Results, All Rural Councils, 2013-2022

In sum, it is clear that the amalgamated structure has resulted in a reduction to efficiency – that the SVC configuration suffers from structural problems and is hence fundamentally inefficient. These results from the FDH and DEA are broadly consistent with our earlier econometric analysis. These results thus cast considerable doubt on the Dissenting Report's (2021) assertions about de-amalgamation not being conducive to efficiency.

The next argument presented in the Dissenting Report was an assertion that a de-amalgamated entity would not be consonant with effective local government. To test the veracity of this argument we must first understand what might be meant by the word 'effective'. Accordingly, it is useful to make recourse to the most enduring explanation for effectiveness – Aristotle's (1998 [340 BCE]) function argument. Things are effective when they perform the particular function that they were designed to accomplish. In the case of government this is undoubtedly the preservation and fostering of the common good (Finnis, 2013; Messner, 1952; Rhonheimer, 2000). The common good is usually defined as the help accruing to people as a result of their co-operation which is greater than the mere sum of parts (Drew, 2021). Notably the common good is an essential ingredient to people fulfilling their potential and realising reasoned ends. Thus, a local government can reasonably be considered effective when it yields dividends on co-operative endeavours that help people to be all that they can be, and defective if it does not.

A portion of the community clearly are not co-operating with SVC (or the other people who reside within its' boundaries) and do not feel that the amalgamated structure is conducive to realising their reasoned ends. This is attested to by a number of surveys and a plebiscite as well as the strong and enduring campaign of discontented groups. Indeed, as we will relate later in this report, there is good reason to believe that the aggrieved parties may even escalate matters significantly further in the future. It is thus hard to conclude that the amalgamated entity is performing its legitimate function, and hence one must logically¹⁶ conclude that it is defective in an Aristotelian sense.

¹⁶ We use this word advisedly in terms of the practical syllogism (Rhonheimer, 2000).

Report

It seems that some have confused the capacity to deliver a large capital works budget for effectiveness. If the works were indeed needed by the community, and also contributed to social utility, then one might argue that such a program was indicative of effectiveness. However, a good deal of the spending that we have examined related to projects that a number of staff and community have rightly identified as superfluous, over-engineered, or unwanted¹⁷. Indeed, the main outcome of the spending program has been to increase the cost base of SVC and thus exacerbate underlying fiscal stress. Thus, the focus on the dollar value of the capital works program has probably contributed to erroneous conclusions regarding the effectiveness of the entity.

In sum, local government is about people, not dollars. When we consider the morally legitimate remit of local government it is clear that SVC has not been particularly effective. Some of this lack of effectiveness could conceivably be attributed to management, however, it must be accepted that the absence of co-operation from certain segments of the SVC community clearly makes effective service delivery a more imposing task.

The final substantive line of reasoning employed in the Dissenting Report was an argument that small local governments cannot be financially sustainable. This argument seems to be *prima facie* inconsistent with the TCorp (2013) assessments prior to *Fit for the Future* that Tumut had moderate financial sustainability with a neutral outlook and that Tumbarumba had strong financial sustainability with a negative outlook. However, we note that the summarisation methodology of TCorp was found wanting (Drew and Dollery, 2016), and that the report is now somewhat dated. We therefore concluded that a robust examination of the facts was warranted.

To ascertain the veracity of opinion expressed in the Dissenting Report (2021) regarding size and financial sustainability we conducted a number of econometric exercises using the regressors and specification detailed earlier in this report (but substituting into the formula a different regressand). In the first set of regressions, we employed a single regressand constructed from a principal components analysis of the seven financial ratios mandated for use in NSW (obtained from the audited financial statements of individual local governments over the last decade). Principal components analysis is the most appropriate empirical technique for reducing the seven ratios down to a single number (Drew and Dollery, 2016). We then conducted an econometric exercise for the entire state, followed by a separate exercise for just the rural NSW local governments.

What we found was quite startling¹⁸. The financial sustainability ratios had a negative and statistically significant association with population size. This result means that as population increases the financial sustainability of NSW local governments decreases (and is attested to at the highest level of statistical reasoning). Moreover, the absolute size of the statistically significant association more than doubled when we stratified the regression into just the cohort of rural local governments.

Robust empirical facts are therefore at odds with matters of opinion regarding the association between size and financial sustainability.

To provide an additional level of assurance we also conducted individual regressions for each of the individual financial sustainability ratios, for just the rural cohort (see Tables 3 and 4). What we found was that all but one of the ratios exhibits a deleterious association with population size (the exception being

¹⁷ A well-known example of this is the construction of the toilet block in Tumut, 200m from an existing toilet block.

¹⁸ These findings are now the subject of a scholarly paper with Professor Miyazaki from Japan – who can further attest to the robustness of our approach.

Report

own source income that grows with size). There is thus no good reason to continue to hold to the opinion that small local governments can't be financially sustainable.

Table 2. Multiple Regression Results – Financial Sustainability and Population¹⁹ Size, 2013-2022

	Extended Cohort	Rural Councils
Population (ln)	-0.401** (0.149)	-1.135** (0.284)
Population density (ln)	0.114+ (0.060)	0.600** (0.153)
Median employee income	-0.025* (0.010)	-0.012 (0.019)
Operating grants (ln)	0.099 (0.160)	-0.084 (0.330)
Additional Controls	Yes	Yes
n	581	262
Coefficient of determination	0.2584	0.2763

+p < 0.10, *p < 0.05, **p < 0.01. Standard errors in parentheses

Table 3. Rural Council Cohort Multiple Regression Results – Subset of Financial Sustainability Ratios and Population Size, 2013-2022

	Operating Ratio	Own Source	Unrestricted Cash	Debt Service	Cash Expense
Population (ln)	-12.650** (2.560)	12.544** (2.191)	-3.722** (1.022)	-51.058** (12.471)	-5.165** (1.754)
Population density (ln)	2.980* (1.388)	-0.537 (1.188)	1.587** (0.554)	19.059** (6.776)	4.356** (0.951)
Median employee income	0.349* (0.176)	0.071 (0.151)	0.004 (0.070)	0.922 (0.856)	-0.168 (0.121)
Operating Grants (ln)	13.213** (2.941)	-5.025* (2.517)	-0.249 (1.174)	8.811 (14.421)	-4.833* (2.015)
Additional Controls	Yes	Yes	Yes	Yes	Yes
n	276	276	276	271	276
Coefficient of determination	0.3081	0.5898	0.2246	0.1971	0.212

+p < 0.10, *p < 0.05, **p < 0.01. Standard errors in parentheses

Table 4. Rural Council Cohort Multiple Regression Results – Infrastructure Ratios and Population Size, 2013-2022

	Asset Renewal	Infrastructure Backlog²⁰	Asset Maintenance
Population (ln)	-56.400* (23.328)	4.056** (1.283)	-38.455** (11.192)
Population density (ln)	18.470 (12.581)	-0.583 (0.692)	17.013** (6.033)
Median employee income	1.525 (1.600)	-0.035 (0.088)	1.452+ (0.767)
Operating Grants (ln)	-4.373 (26.791)	-0.277 (1.474)	12.835 (12.911)
Additional Controls	271	271	267
n	0.2704	0.1738	0.1466
Coefficient of determination			

+p < 0.10, *p < 0.05, **p < 0.01. Standard errors in parentheses

¹⁹ Here we have used population size to be consistent with the work of KPMG, The Ministerial Proposals, and also the Boundaries Commission. A more precise specification would use number of assessments (although doing so only attenuates results in a marginal way).

²⁰ Please note that this ratio operates in a contrariwise direction to the other ratios – therefore the result still suggests a deleterious association with population size.

Report

The Dissenting Report also raises one other matter that is worthy of examination.

On page 14 of the report (2021), it is claimed that Council must adopt 'a strategy to address the impact of depreciation.... [and that] what is impacting positive cash flows is depreciation which reflects SVC's dependency on ongoing capital grants'. This statement is flawed on many levels and thus needs to be clarified so that Councillors and community are not fundamentally misled. Depreciation is an accounting *accruals* device, and its use is regulated by the Australian Accounting Standards. Accruals are *not* cash flow items – they appear on *Income Statements*. Essentially, depreciation is a way of allocating capital expenditure over the useful life of an asset in a way that reflects the consumption of the asset. The correct – and only legitimate strategy – for a local government is to depreciate long-life items according to the obligatory Australian Accounting Standards. Doing otherwise would result in an unfavourable audit and also mislead the community. Moreover, no change to depreciation practice could possibly have an effect on cash flows – this is simply an accounting fact.

The change to behaviour that is required to partially mitigate the fiscal distress engendered by capital spending is to significantly reduce capital spending. This is especially warranted with respect to items that are not needed, have little social utility, or are unwanted. Unfortunately, profligate spending has been a feature of all amalgamated local governments in NSW and the increased infrastructure, property, plant and equipment (IPPE) burden will be an important driver of fiscal distress for many decades to come. Not only will councils need to deal with the depreciation problem, but these assets will also need to be maintained and are ultimately likely to be replaced. In addition, imprudent spending has clearly contributed to fiscal illusion²¹ which inflates resident consumer demand and dampens willingness to pay.

Notably, some of this ill-advised profligate spending commenced during the tenure of state government appointed administrators subsequent to the 2016 amalgamations and was further exacerbated by pressure – both internal and external – to deliver and report on spending.

²¹ Fiscal illusion is the problem whereby citizen consumers struggle to accurately assess the prices of the goods and services that they consume and fail to acknowledge the fiscal predicament of their local government (see, Drew et al., 2023).

5 The Financial Context for Snowy Valleys Council

The financial context of SVC is important for at least two reasons. First, the current financial predicament of SVC is a good guide to what can be expected in the future should the amalgamated structure be retained. It also clarifies the degree of change required – whether such change be structural or otherwise. Second, the financial situation of SVC remains salient because of the potential for sticky negativity bias arising from a discrepancy between what was promised by amalgamation architects, and what has been delivered.

Indeed, it is notable that major proponents of amalgamation – such as the former Chair of the Independent Pricing and Regulatory Tribunal Mr Graham Sansom – are increasingly relying on a spurious argument to explain how their championed amalgamations can still be considered successful, despite deterioration in most metrics (see, ILGRP 2013; Drew et al., 2022). To do so they argue that the savings have been reinvested. This is a claim that we have also observed in the Boundaries Commission reports, and commercial consultant work.

However, the claim is fundamentally flawed in terms of formal logic. The notion that one can reinvest efficiencies and still be efficient relies on an unstable meta-principle – that is, that some ‘want’ provisions are more important than other ‘wants’ (Goodin and Wilenski, 1984; Drew, Razin, and Andrews, 2016; Drew, 2022). To put matters in the simplest terms, if we save money, it is because we have decided not to continue to expend funds on certain wants – perhaps a service, local procurement, or the salary and job description of a particular employee. If we then ‘reinvest’ this ‘efficiency’ then we have simply addressed a different set of wants – perhaps a new staff position, a new service, or the wants of a national or international supplier. The problem is that there is no immediately obvious moral justification for why some wants should be sacrificed for the sake of ‘efficiency’, and others preferenced in their stead.

The other major problem with the argument now being used for *post facto* justification is that it ignores the motivation for the amalgamation in the first place. Leading up to the amalgamations most – if not all – of the inquiries, reports and rhetoric revolved around the asserted parlous state of financial sustainability in NSW, and the need to redress matters (see, for example, Drew and Dollery, 2015). If amalgamated local governments have reinvested all of the money that they saved (and considerably more according to the audited financial statements and peer-reviewed evidence – see Drew et al., 2023), then nothing has been achieved with respect to financial sustainability at all.

Thus, to successfully prosecute the ‘reinvested’ argument one must labour under some serious misconceptions regarding meta-principles *and* also declare that contra-2016 financial sustainability now does not matter.

To get a sense of the financial context of the present decision that needs to be made we constructed over thirty charts which illustrate various aspects of financial performance. The first dozen charts focus on the performance of SVC over the last ten years. For the first four years (2013 to 2016 inclusive) data was obtained by summing the various figures found in the audited financial statements of Tumut and Tumbarumba, respectively. Doing so is consistent with scholarly precedent and allows us to get a sense of how things have changed since the May 2016 amalgamation. It should be noted that the 2016 and 2017 years of data are somewhat marred by the fact that amalgamation occurred part-way through the financial year (2016 was several weeks shorter and 2017 accordingly longer).

One of the metrics that featured most prominently in the *Fit for the Future* debates was the operating result.

Report

In NSW the state government prefers to focus on operating result (revenues less expenses) excluding capital grants as a measure of financial sustainability. In Figure 5 we have plotted this result for the last ten years. The implied benchmark is that a local government break even each year, although a more reasonable benchmark is break-even over a three-year average. Irrespective of which benchmark is used it is clear that SVC has not been able to balance expenditures with sufficient non-capital revenues since inception.

It may be noted that the 2022 result was influenced by an unusual increase to depreciation expense of just over \$15 million. To be clear, this adjustment was required to better reflect the fair value of assets and can thus be considered as the consequence of prior years when depreciation accruals did not accurately reflect the consumption of long-life assets (please see the comparative data in Figure 29). Moreover, without this unusual charge the deficit (excluding capital grants) would still have sat at over \$4 million.

We note that the approved special rate variation (SRV) is projected to yield an additional \$3 million per annum after it has been fully applied in the 2023-24 year. We also note that council hopes to make enduring savings. However, our experience with saving measures at other councils – along with the econometric, DEA, and FDH evidence presented earlier – suggests that it is extremely unlikely that council in its current configuration could become financially sustainable without the permanent injection of significantly higher levels of revenue (most probably in the form of an additional special rate variation). Indeed, the veracity of our judgement is further reinforced by the permanent increase to the IPPE cost base (see Figure 14) as well as the problems that SVC apparently experiences with respect to securing and retaining staff.

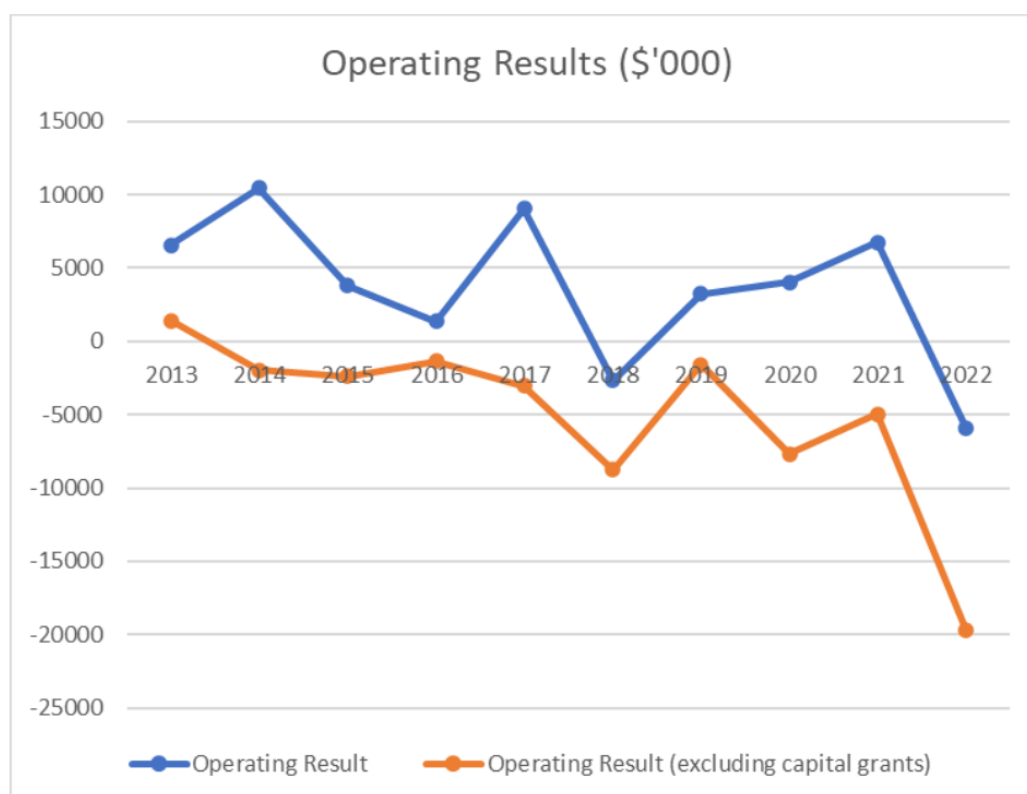


Figure 6. Operating Results (\$'000)

Report

In Figure 6 we present the major items of revenue over time. We observe that both operating, and capital grants have increased considerably since amalgamation. However, it should be noted that high flows of capital grants are a mixed blessing – they also presage higher depreciation accruals, and increased maintenance costs in the future. Where the capital grants have been used to fund infrastructure upgrades or assets with high levels of social utility then the burden may be deemed appropriate. However, if grant flows have been directed to discretionary wants, with no careful consideration of whole-of-life costs or community willingness to pay, then this is likely to present a significant problem. Rates and annual charges have increased according to the rate cap and will increase even more when the SRV is fully applied. User charges and fees have also increased and will need to continue to increase in order to send clear price signals and also garner much needed revenue. It might be noted that increasing user fees and charges is a much better option with respect to capacity to pay considerations. Having said this, fees and charges must be increased according to a robust methodology – not merely raised according to CPI (which is both inappropriate and deleterious to the Council's finances – please see the appendix for further detail).

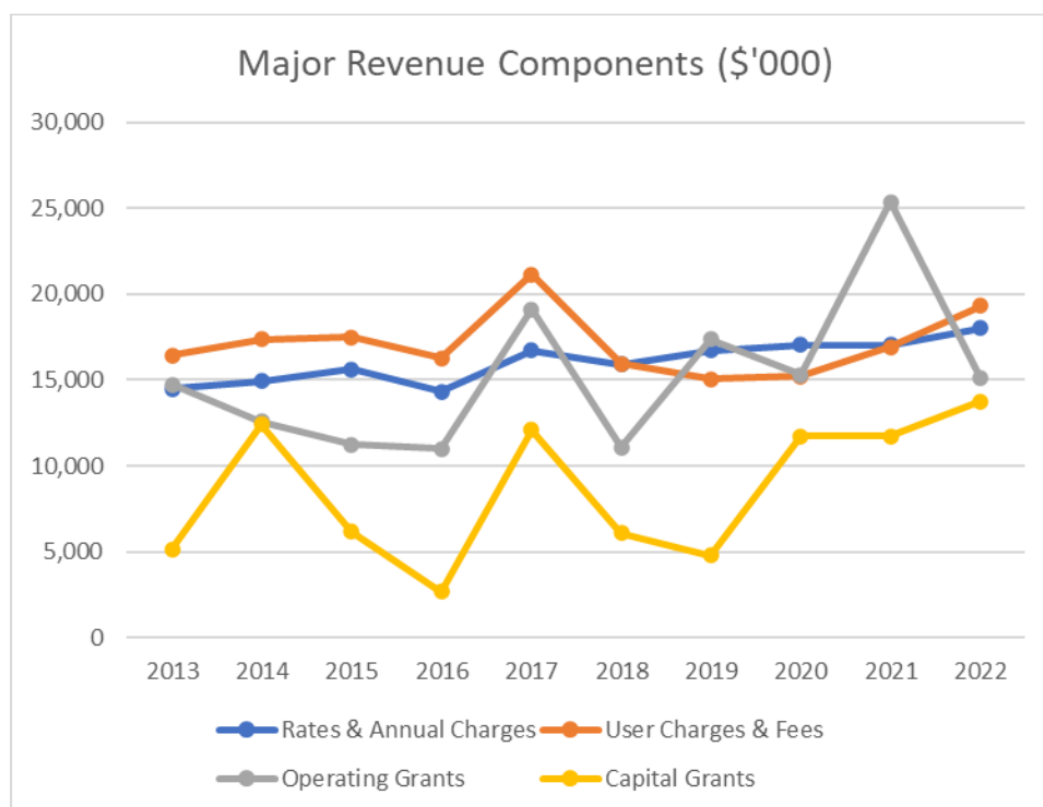


Figure 7. Major Revenue Components (\$'000)

Report

Figure 7 illustrates that the results achieved by SVC have been in the context of significant increases to the Financial Assistance Grant allocations. Unfortunately, the NSW Local Government Grants Commission does not allocate funds in an empirically defensible manner, nor do they seem to fully embrace the legislative requirement for transparency and accountability (Local Government (Financial Assistance) Act 1995 CTH, s3(4)(a)). We are aware that the formula was recently changed, and it seems that this resulted *inter alia* in more Commonwealth money being allocated to many of the amalgamated councils.

However, there is no good reason that can be found in the legislation to suggest that de-amalgamation would result in lower grant allocations (in sum). Moreover, the limited use of a population floor in response to s6(2)(b) would seem to suggest that total allocations might increase – however, to be sure we would need the Grants Commission to be much more forthcoming about its precise methodology and, ideally, be more empirically defensible in its approach.

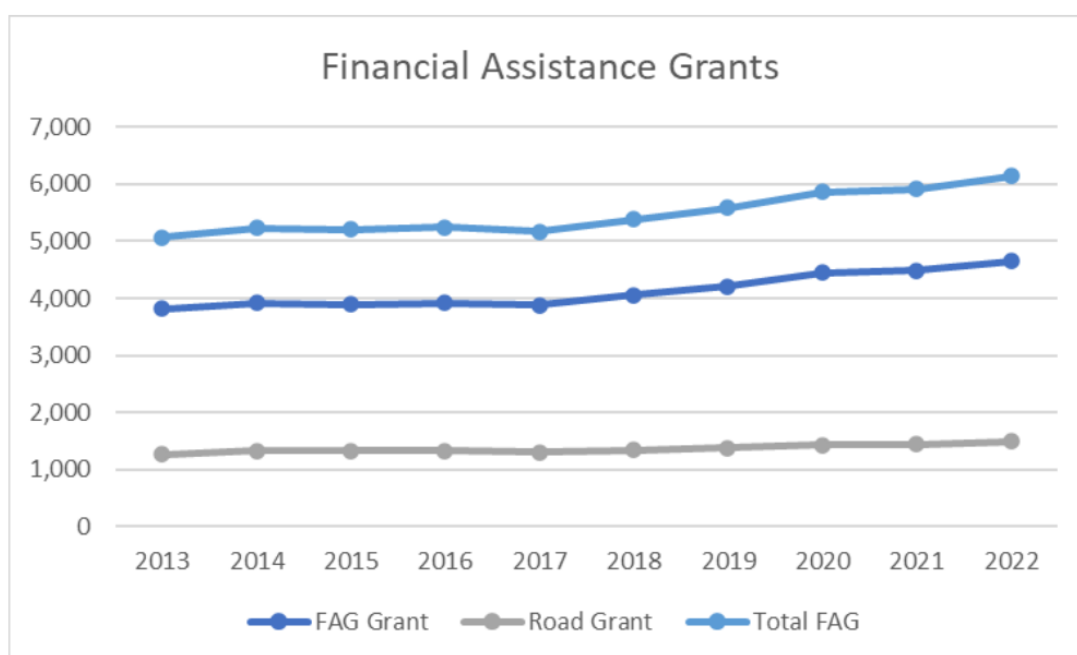


Figure 8. Financial Assistance Grants

Figure 8 sets out the changes to major expenditure items over time. As will be seen, there has been a significant increase to materials and contracts expenses in recent years. In particular, consultancy costs seem to be high for a council of this size and may reflect gaps in staffing as well as a potential training deficit (see below). Staff expenses have also risen – contra KPMG and the state government – although not by as much as has occurred elsewhere for NSW amalgamated local governments (see the commentary for the next figure). We have already commented on depreciation and will do so further later in this report. ‘Other expenses’ are lower but probably largely reflect changes to the composition of this item. What should be apparent, however, is that most items have grown at a fast rate which will ultimately need to be matched with greater revenues.

Report

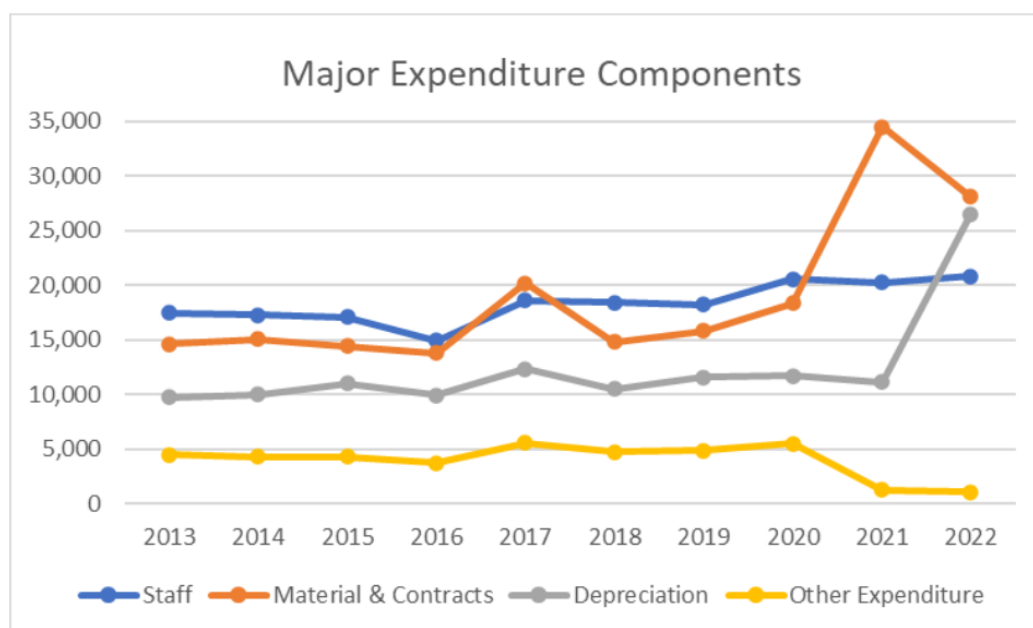


Figure 9. Major Expenditure Components

Staff costs were a major focus of both the amalgamation and de-amalgamation debates. The data thus deserves specific attention on a more disaggregated level. One of the problems with comparing staff costs is that the demands on staff may have altered over time. Accordingly, scholarly convention prescribes the deflation of costs by operating revenue (which ought to reflect any changes to scope and certainly controls for the time value of money). In Figure 9 we plot just the salary component of staff expenditure over time. As indicated by the line of best fit there can be little doubt that salaries have, in fact, increased. Moreover, the interventions in this area – much lauded by Deloitte and the Boundary Commission – have already reverted to the mean (which tends to happen more often than not with local governments in fiscal distress because of other unmet needs). In addition, it is important to note that many positions are unfilled because council have not been able to attract suitable staff. One implication of these staff vacancies is to depress the total salary expended (which might explain the *prima facie* superior performance in this area by SVC compared to the result for other amalgamated local governments which experienced an increase to staff costs in the order of 15.2 percent; McQuestin et al., 2021). A second implication is that it points to some serious problems that might lead to additional costs in the future (see our response to ‘impact on employment of staff’, below).

Please note that for the next few charts we have deliberately omitted the 2016 and 2017 financial years because of the effects of the disparate lengths of these reporting periods.

Report

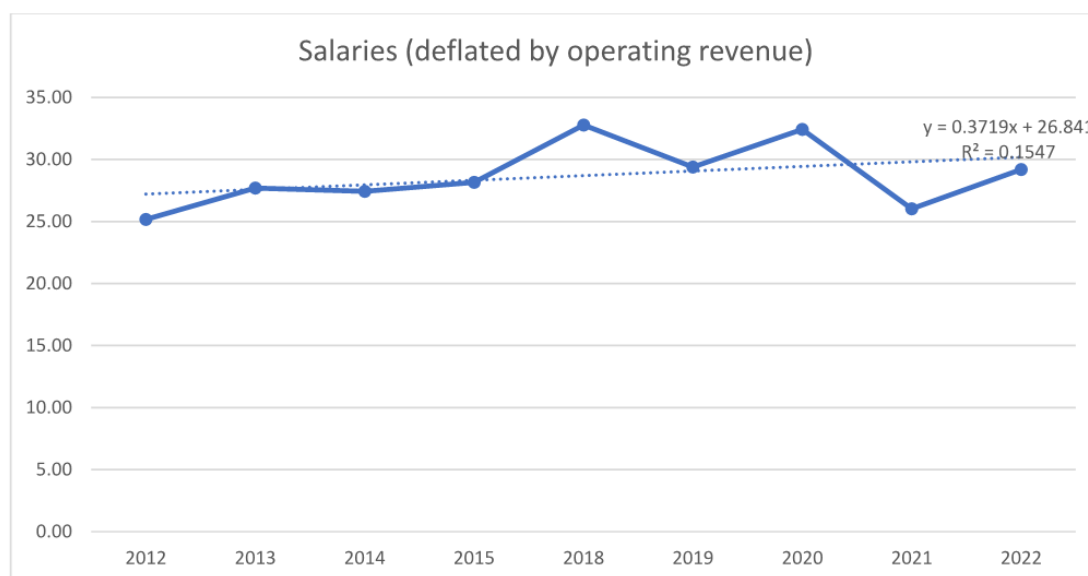


Figure 10. Salaries (deflated by operating revenue)

One area that has improved remarkably is expenditure related to Workers Compensation. The team responsible have done a marvellous job and should be congratulated.

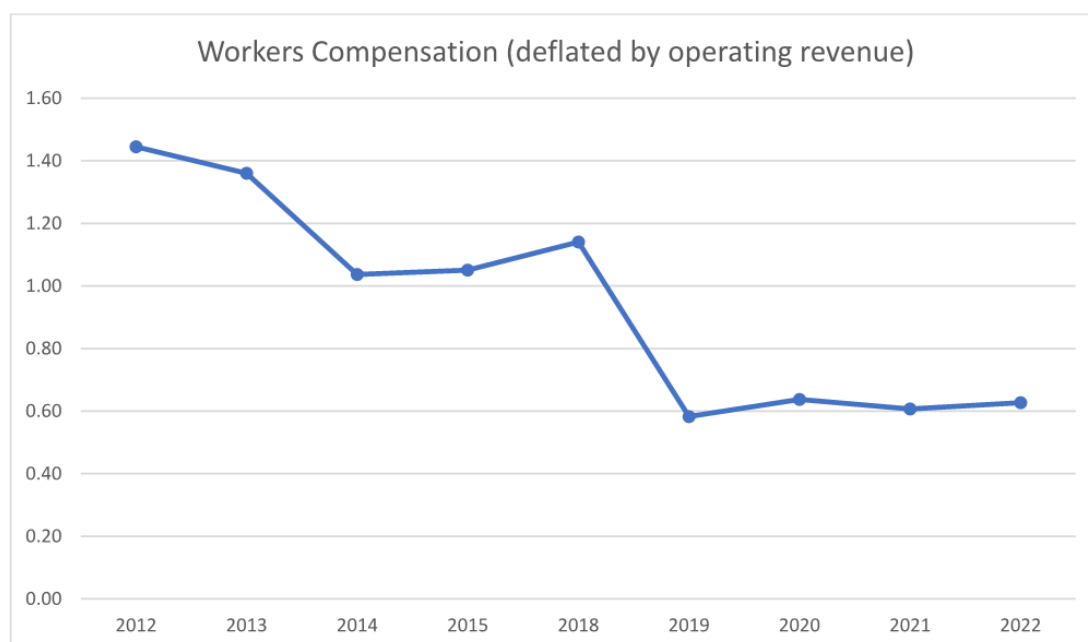


Figure 11. Workers Compensation (deflated by operating revenue)

Figure 12 charts training costs over time. This data suggests that a training deficit may be opening up. The consequences of this are likely to be felt mostly in the medium to long run. Councillors should keep a close eye on this emerging trend – especially given the problems experienced with respect to recruitment.

Report

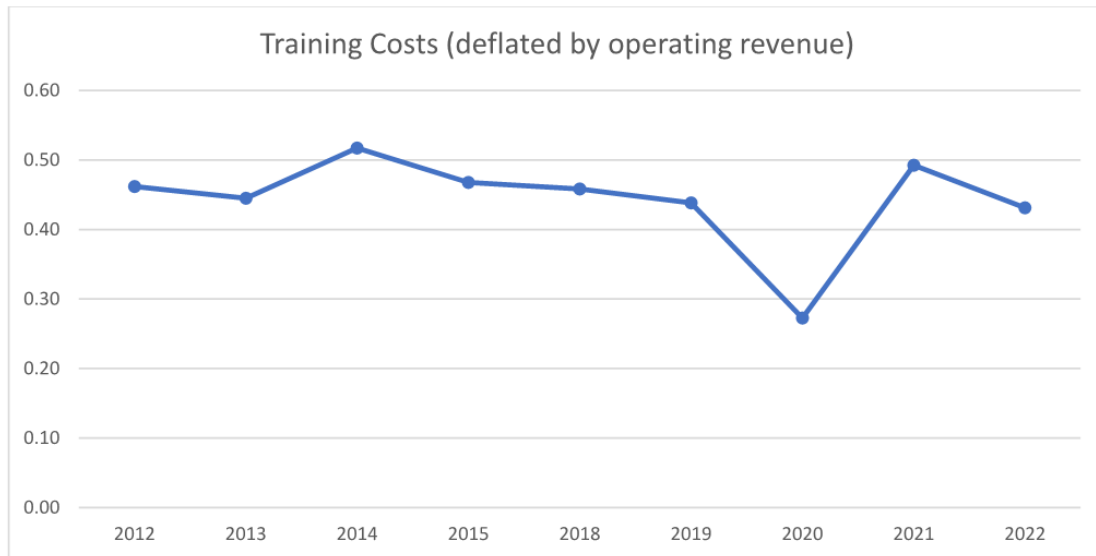


Figure 12. Training Costs (deflated by operating revenue)

One of the challenges facing SVC is the extraordinarily large capital works program that it has had to deliver. Accordingly, it is important to examine staff costs excluding capitalised items. This result is much flatter than the line of best fit for Figure 9 and reflects capitalisation of some staff costs (that will ultimately feed back in via accruals). This in turn points to further challenges to the operating result should the capital works program be scaled back, as is likely, in the future.

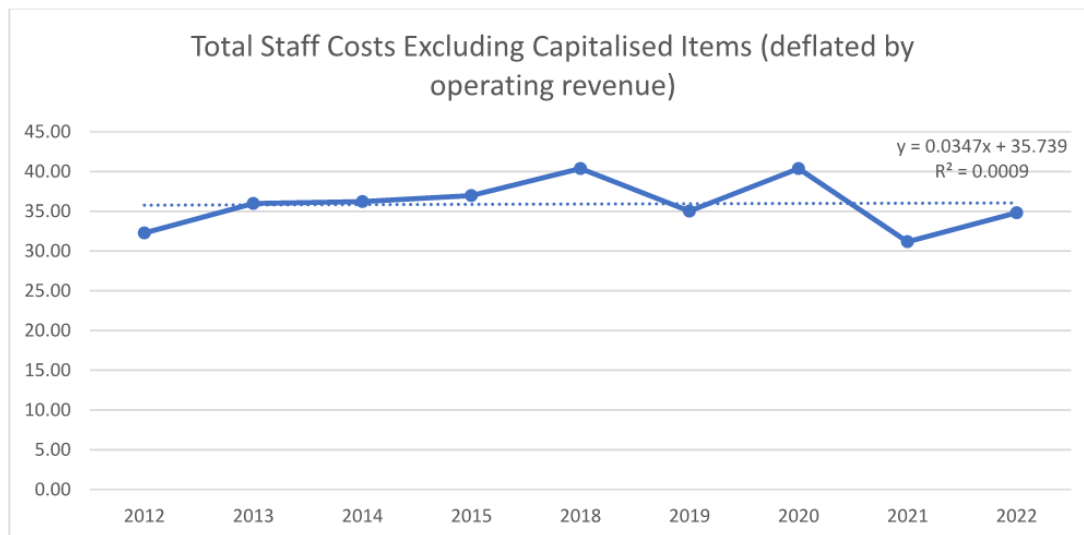


Figure 13. Total Staff Costs Excluding Capitalised Items (deflated by operating revenue)

Report

Figure 14 illustrates that the value of infrastructure property, plant & equipment (IPPE) has increased dramatically since amalgamation. Some people seem to think that this is a good thing. However, large increases to IPPE of this kind presage a significant ongoing increase to the cost base. Not only will depreciation continue to feed in for decades to come, but maintenance expenses are now locked in, as are likely renewals down the track. If the money has been focussed on core service delivery – roads and other key infrastructure – then the community is likely to be willing to pay the additional costs into perpetuity. However, if the money has been spent on discretionary items – for instance, recreation facilities, duplicate toilet blocks, painted footpaths, and rose gardens – then Council may discover that taxpayers are unwilling to bear the associated costs. For this reason, it is imperative that all future decision-making regarding discretionary spending be based on whole-of-life costs and also with specific reference to the long-term financial plan (see the appendix for additional detail). Otherwise stated, spending decisions need to be made in cognisance of the ongoing costs and also with reference to how these costs will be met. In addition, it is critical that willingness to pay be tested for large expenditure items – not simply by referring to the people that will benefit directly from its construction, but instead through a randomised sub-sample of the wider taxpayer base who will ultimately be required to pay for it.

Apparent failure to consider whole-of-life costs within the context of the LTFP and willingness to pay has resulted in a large and permanent increase to SVC's cost base. We understand that some of the decisions in the past were made by Administrators and pushed on Council by a state government keen to demonstrate the 'success' of their amalgamation reform – this is regrettable. However, past events only underscore the need for far more prudent spending decisions in the future.

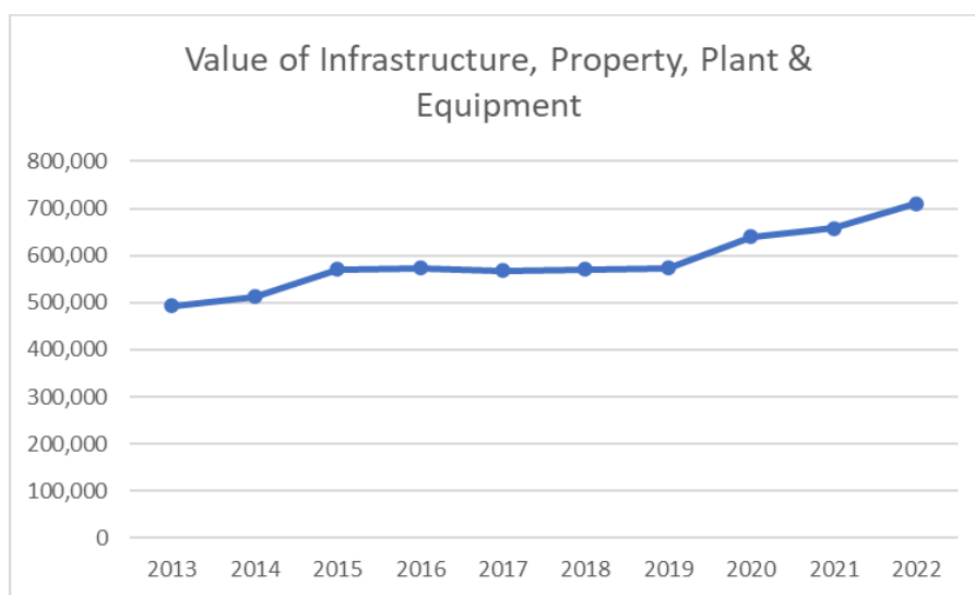


Figure 14. Value of Infrastructure, Property, Plant & Equipment

A pleasing outcome in recent years has been the reduction in total borrowings (especially non-current loans). However, this should not be interpreted to mean that the financial sustainability challenge facing Council can be redressed by drawing up debt. Debt is only a morally licit option with respect to the funding of capital expenditure and even in this case there are strict principles that must be observed. It would be inconsistent with both intergenerational equity, and also morally illicit, to fund operational expenditure through debt (Drew, 2021). Moreover, because of the fungibility problem there is high potential for doing so unless key decision-makers are alert to the potentiality.

Report

A summary of the principles for morally licit debt is presented forthwith and readers are directed to Drew (2021) for further explication:

1. Debt must be only taken out for capital expenditure and not operational expenditure.
2. The asset financed through debt must have a long and predictable life.
3. The asset must constitute something that future generations are likely to value – that is it should embody high social utility broadly distributed within the relevant taxpayer base.
4. Debt must be assumed for good moral reasons.
5. Repayments must at least be equal to the rate of consumption of the asset and be quarantined in future budgets.
6. Repayments must involve sacrifice by the current generation of taxpayers so that a *quid pro quo* is established.

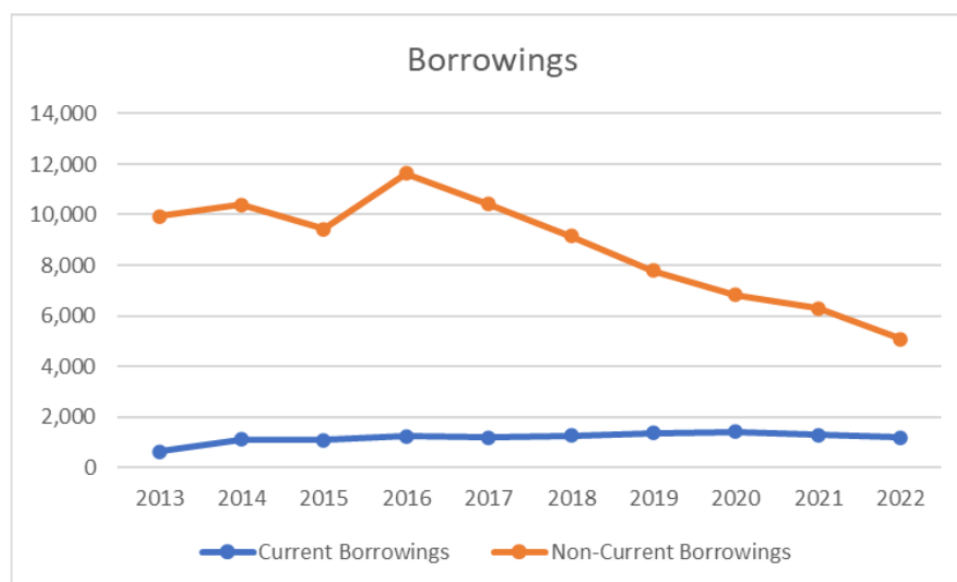


Figure 15. Borrowings

The cash position of Council is a serious concern. Externally restricted cash is high, but of little, if any, value for meeting many of the challenges that lie ahead – indeed, it is likely to presage an exacerbation of current problems. Moreover, internally restricted cash has been decreasing at a relatively fast pace since 2017. In this regard we note the reductions to ‘contingencies’ and ‘risk management’ pools as potential indicators of stress – especially salient given that prepaid FAGs apparently have not been internally restricted. We also view the negative unrestricted cash in 2021 as symptomatic of fiscal distress and note that this comes on the back of a lengthy decline since 2016.

We view with concern a claim that the external reserves *might* contain monies that should have been transferred some time ago. Extreme caution must be exercised with respect to any proposed transfers to ensure compliance with the Act (especially if adjusting for events which occurred prior to financial

Report

statement audits²²). Indeed, if substantial or multiple mis-postings have occurred in the past then this would further reinforce our reservations regarding the adequacy of current financial systems²³.

Councillors should be left in no doubt that they have a very serious challenge ahead of them. Things are likely to come to a head in the next two years unless significant remedial actions are taken. In this regard, Councillors should be reminded that the quicker they act, the less pain that will ultimately need to be inflicted.

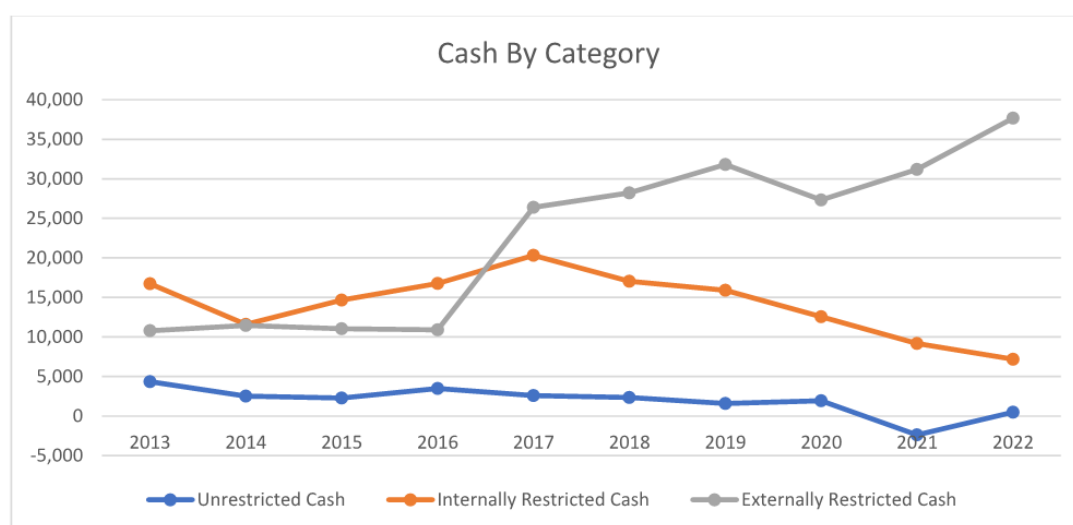


Figure 16. Cash by Category

We accept that a number of the years in the post-amalgamation period might have been affected by the COVID-19 policy response as well as the bushfires. However, it is important to be mindful that the definition of financial sustainability does not include any allowances for contingency events²⁴.

We now turn to a series of comparative charts. Generally, comparison of an entity against itself over time yield the most reliable insights. However, in view of the aforementioned deleterious events some sense of what has been happening to similar local government entities might be useful. In this regard, the following charts will compare SVC to the other local governments in the same Office of Local Government (OLG) category for the years 2014 to 2022 inclusive. At the time of constructing the charts a few local governments in this OLG category had still not finalised their financial reporting. Accordingly, the comparison cohort was constrained to the following:

²² If so, then one would need to question why the Auditor had not picked up these asserted errors. An oversight of this kind is not impossible but should give pause for thought.

²³ Here the term 'systems' is not meant to refer to just the software used – instead it is a broader term that also refers *inter alia* to the processes, documentation, internal audit, and ARIC functions.

²⁴ Moreover, there were also some substantial challenges prior to these recent events – most notably an Australian dollar trading well-above parity.

Report

Table 5. Comparative Cohort

Cootamundra-Gundagai	Federation	Murray River
Bellingen	Cabonne	Cowra
Greater Hume	Gunnedah	Inverell
Leeton	Moree Plains	Nambucca Valley
Parkes		

It will be noted that the comparative cohort contains other amalgamated entities.

Report

Because we are now comparing a number of local governments over time, line graphs are no longer appropriate. Accordingly, the charts that follow are box and whisker plots. These are ideal for this exercise because they allow users to quickly perceive how SVC results compare to the typical result achieved by peers in a particular time period. Figure 17 reminds users of the correct interpretation of box and whisker plots.

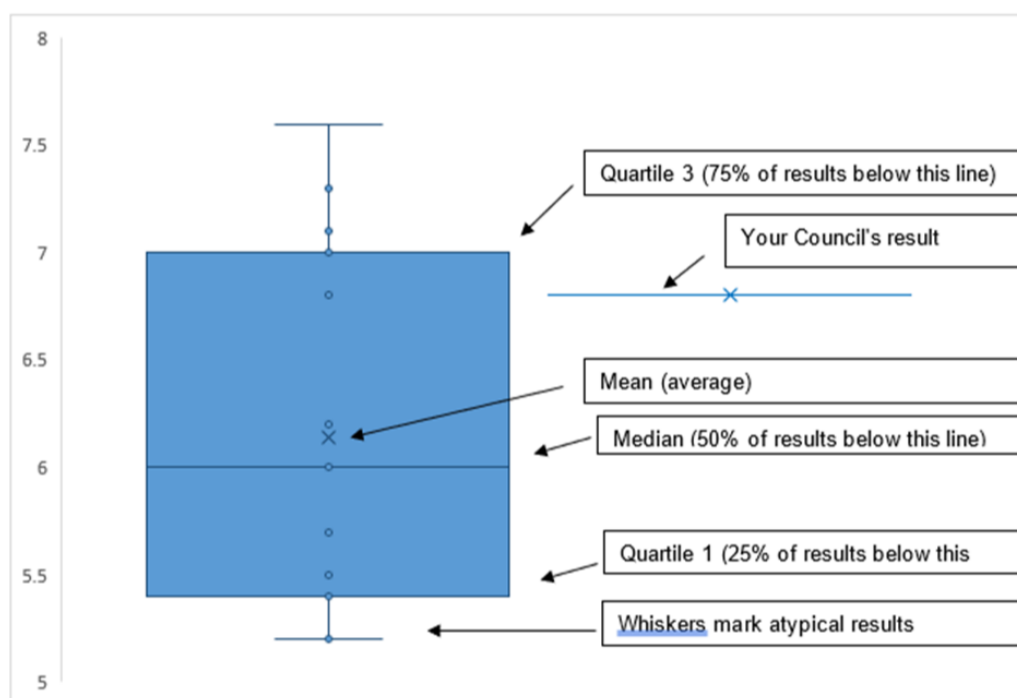


Figure 17. Interpreting Box and Whisker Plots

Report

One thing to be mindful of when looking at this comparative data is that this particular cohort of local governments is rather weak in a financial sense. It is also important to be cognisant of the claims that the *Fit For the Future* program elicited gaming when interpreting the results before us (see Drew, 2017).

The operating ratio²⁵ has certainly fallen in absolute terms since its peak in 2017. In a relative sense though, things are far less clear.

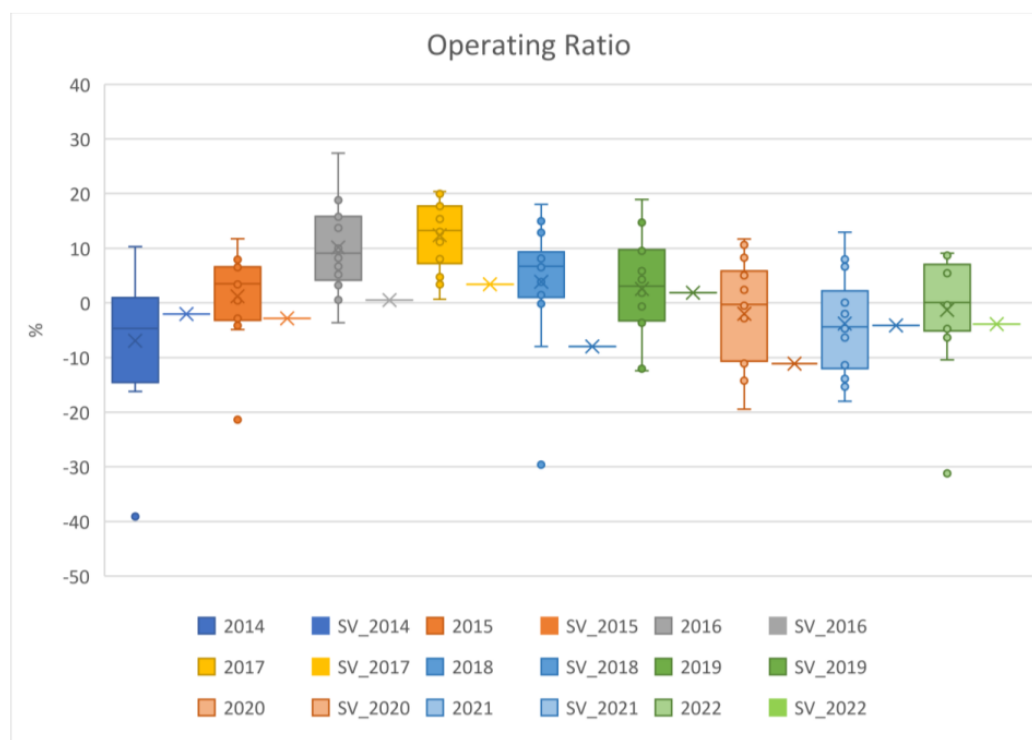


Figure 18. Operating Ratio

²⁵ Surplus or deficit (excluding capital items) divided by operating revenue excluding capital grants.

Report

By way of contrast the own source ratio²⁶ has clearly regressed in both an absolute and relative sense for most of the amalgamated period. However, we believe that the government focus on this metric may be ill-advised, and it seems to neglect economic theory regarding horizontal fiscal equalisation objectives embodied in some of the legislation. The uplift in the most recent year will likely continue in the future as higher fees and charges, as well as the SRV, take hold.

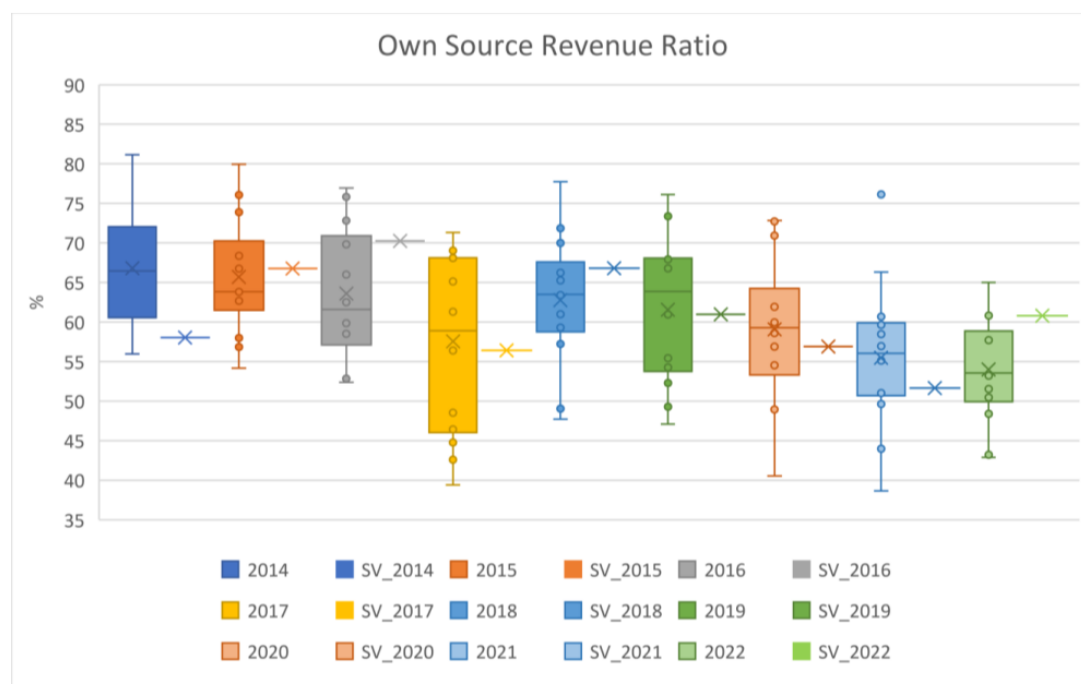


Figure 19. Own Source Revenue Ratio

²⁶ Revenue less grants divided by total operating revenue.

Report

The unrestricted current ratio²⁷ is a metric often employed in the commercial sphere to gauge the liquidity of an entity. Unfortunately, the benchmark of (1.5x) apparently imported with little thought to the different circumstances faced by local governments is quite unhelpful. Very few councils fail to meet the benchmark because it is set far too low. This is particularly apparent when one considers that revenues are much more lumpy in local government (for example, quarterly rates instalments) than they are for most businesses (which usually constantly receive revenues in return for sales). Councillors should therefore take no comfort from the fact that they slightly exceed an inappropriately low benchmark.

Indeed, Figure 20 makes clear the consequences of revenue not keeping up with an increasing cost base. The steady decline in this metric since amalgamation is the reverse of matters prior to 2016 and should be understood as a matter of grave concern. Indeed, the unrestricted current ratio has even deteriorated in a relative sense, despite the weakness of the comparison cohort. Clearly, action needs to be taken to reverse this trend quickly.

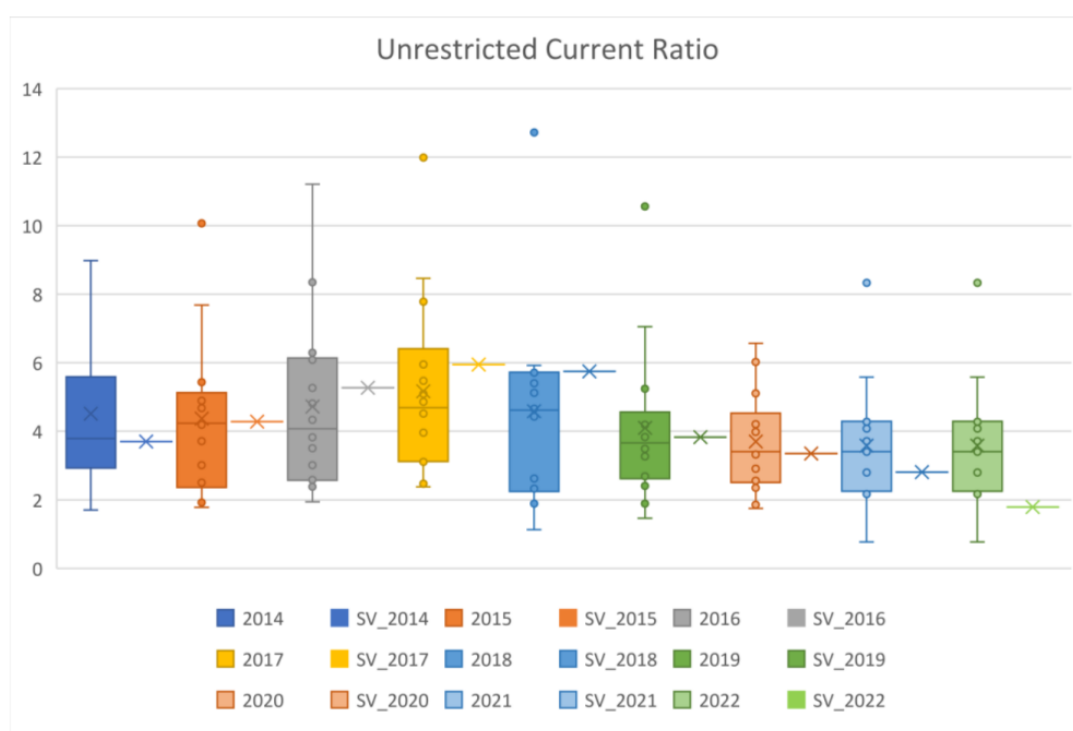


Figure 20. Unrestricted Current Ratio

²⁷ Current unrestricted assets divided by current liabilities less special purpose liabilities.

Report

The debt service cover ratio examines the association between operating result and the sum of principal repayments and borrowing costs. The ratio is of dubious value because it can punish prudent cash management. Moreover, no justification has been provided for the benchmark which appears to be low and inappropriate. The ratio also neglects other liabilities. For all of these reasons jurisdictions in other states tend to favour the nett financial liabilities ratio (although scholars prefer an econometric approach to evaluating debt capacity – see, for example, Levine et al., 2013; Drew, 2021).

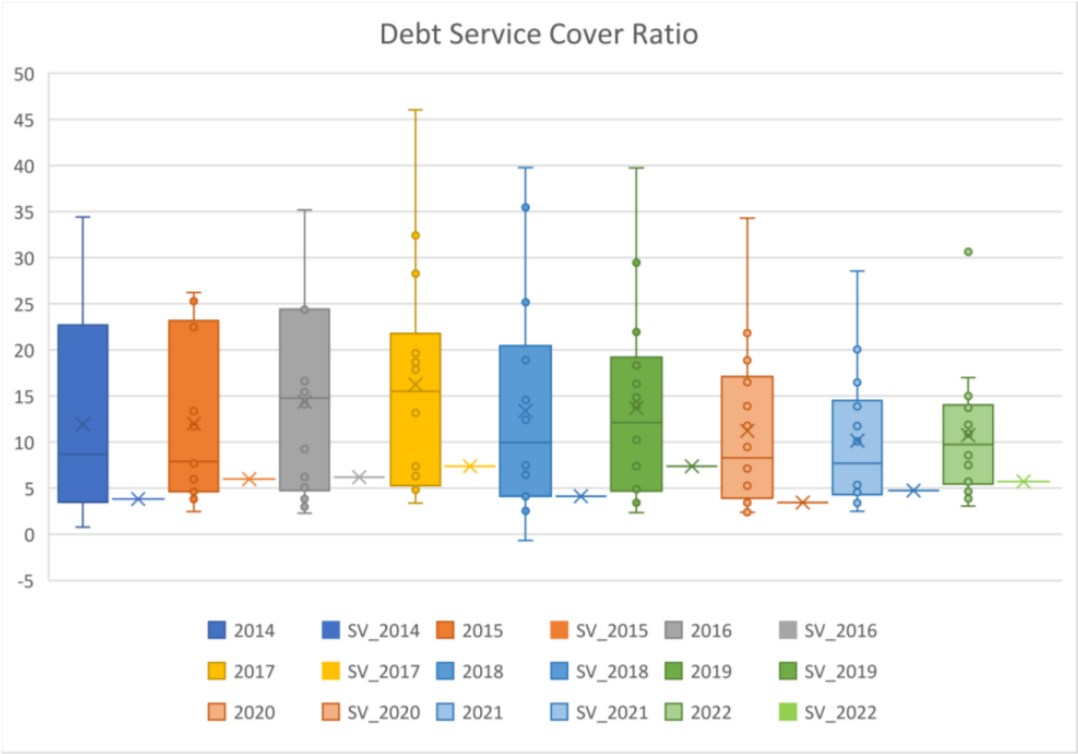


Figure 21. Debt Service Cover Ratio

Report

Outstanding rates and charges is an important metric as it illuminates some aspects of both capacity and willingness to pay, in addition to providing insights on the effectiveness of Council recovery efforts. However, the metric does tend to be responsive to exogenous events such as droughts, fires, pandemics and the like. Nevertheless, it does seem that recovery efforts with respect to owed monies at SVC have been quite effective. Councillors are encouraged to give attention to changes to this metric as the SRV and other price increases are passed on to residents and ratepayers.

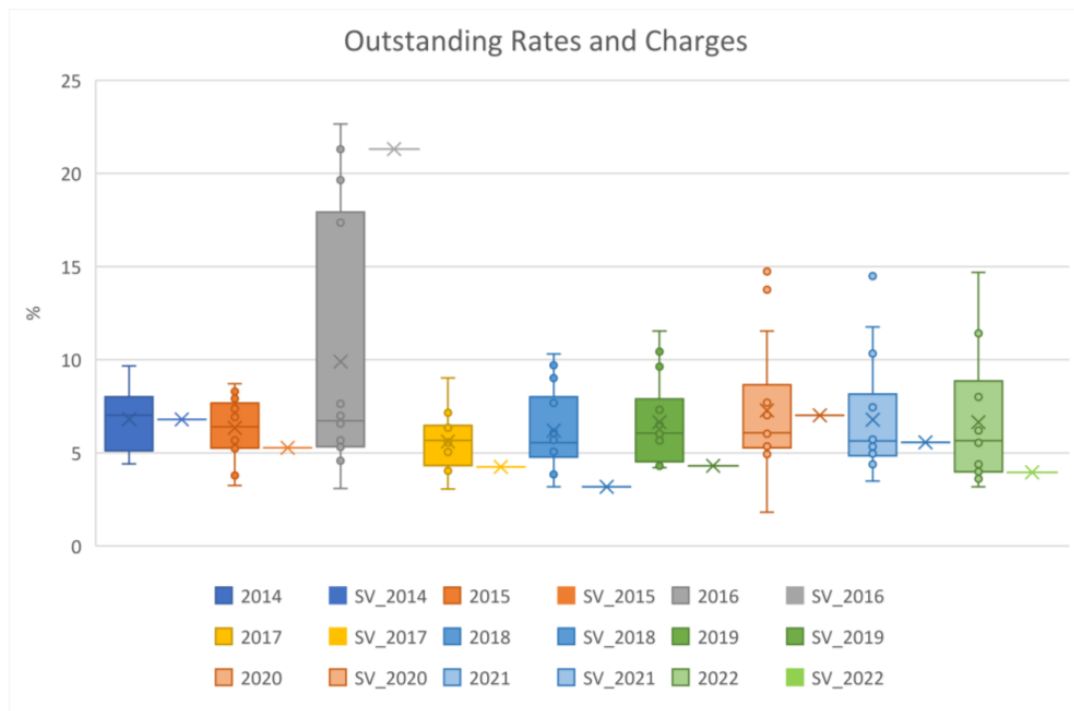


Figure 22. Outstanding Rates and Charges

Report

The cash expense cover ratio is meant to evaluate the adequacy of Council cash holdings. However, it is flawed in design because the metric includes all cash (including external reserves) in the numerator. In addition, the benchmark (three months) is set far too low given the lumpy nature of revenues. Councillors should therefore take no comfort from achieving the stipulated benchmark for this ratio.

The cash expense cover ratio looks good because of the high quantum of externally restricted cash. However, these monies can't be used to meet ordinary operating expenses. Indeed, if we were to exclude the extraordinary \$37.66 million in external reserves, as at 30 June 2023, then Council would be found to currently sit well under the benchmark. This goes to underscore our judgement issued earlier – the financial predicament is serious and requires urgent redress.

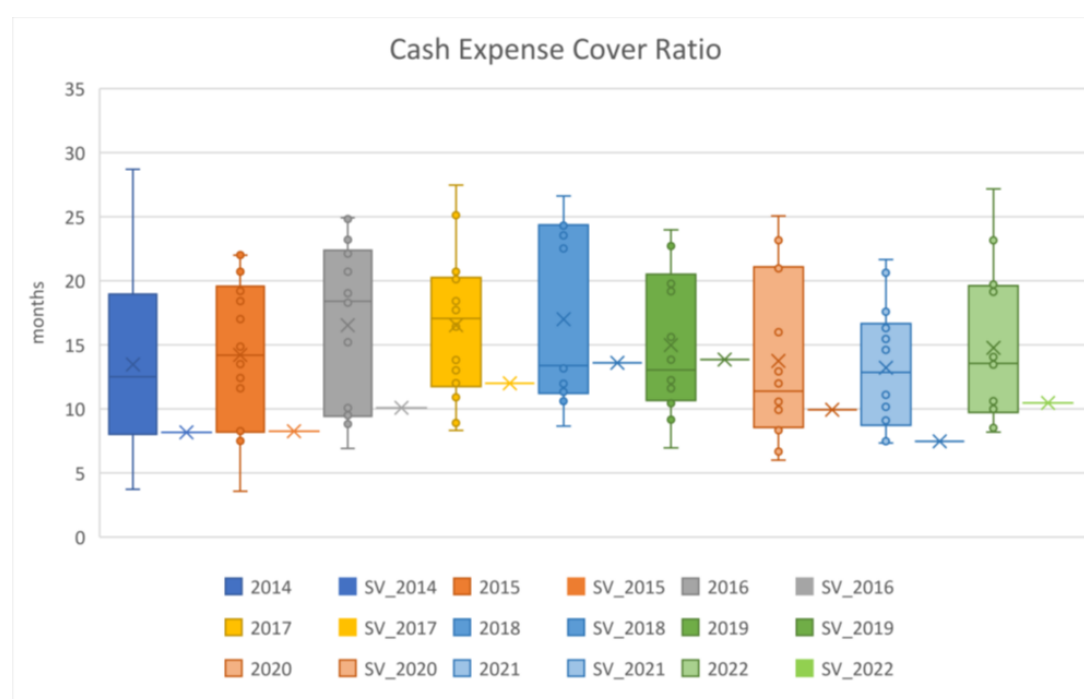


Figure 23. Cash Expense Cover Ratio

Report

Before examining the next three mandated ratios it is important to draw attention to the high levels of subjectivity associated with their inputs as well as the extensive peer-reviewed evidence of gaming in relation to these metrics (see, for example, Drew, 2017; Drew and Grant, 2017). This problem of subjectivity affects most asset metrics and is highlighted by the recent extraordinary depreciation charges at SVC.

The buildings and infrastructure renewals ratio purports to measure asset renewal and replacement as a proportion of asset consumption (as proxied by depreciation). The benchmark is set at greater than 100% which suggests that the state government wishes Councils to renew assets at a faster rate than they decline (a state of affairs that would not be sustainable). SVC has exceeded the benchmark in most years since 2014 by a very high margin. This either indicates that the assets were in very poor condition prior to this time, or that the inputs to this ratio are flawed in some way.

We note that a lot of the assets at SVC (particularly in Tumut) are visibly distressed, and this seems to cast a further doubt on the veracity of this data contained in the unaudited portion of the financial statements.

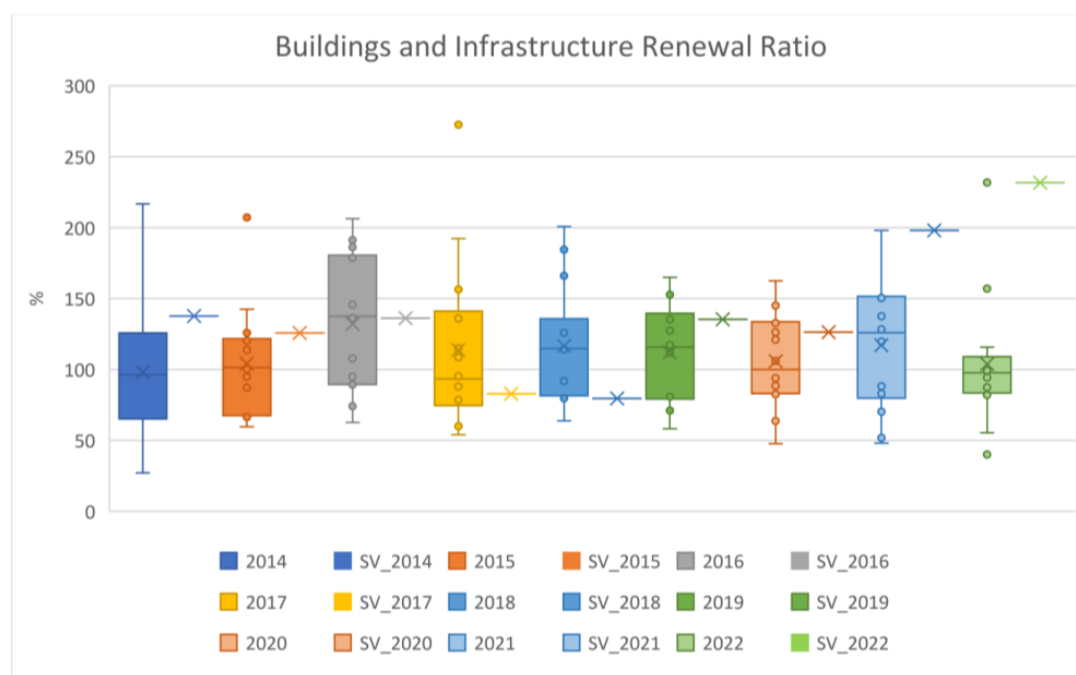


Figure 24. Building and Infrastructure Renewal Ratio

Report

The infrastructure backlog ratio purports to measure the estimated cost to bring assets up to a satisfactory standard as a proportion of the carrying value of infrastructure. The mandated benchmark is less than two percent. According to the financial statements the local government area has met this benchmark since 2015.

However, it is important to understand that the numerator (cost to bring assets to a satisfactory standard) is extremely subjective and unreliable. Moreover, the large capital expenditure program has dramatically increased the denominator, and hence makes achievement of the benchmark relatively easier. Indeed, discussions with several community groups suggests that there has been an important communication gap between residents and their Council with respect to community expectations. In this environment – and in the absence of randomised surveys – it is hard to see how any confidence might reasonably be placed in judgements around what the community is said to feel is a satisfactory standard.

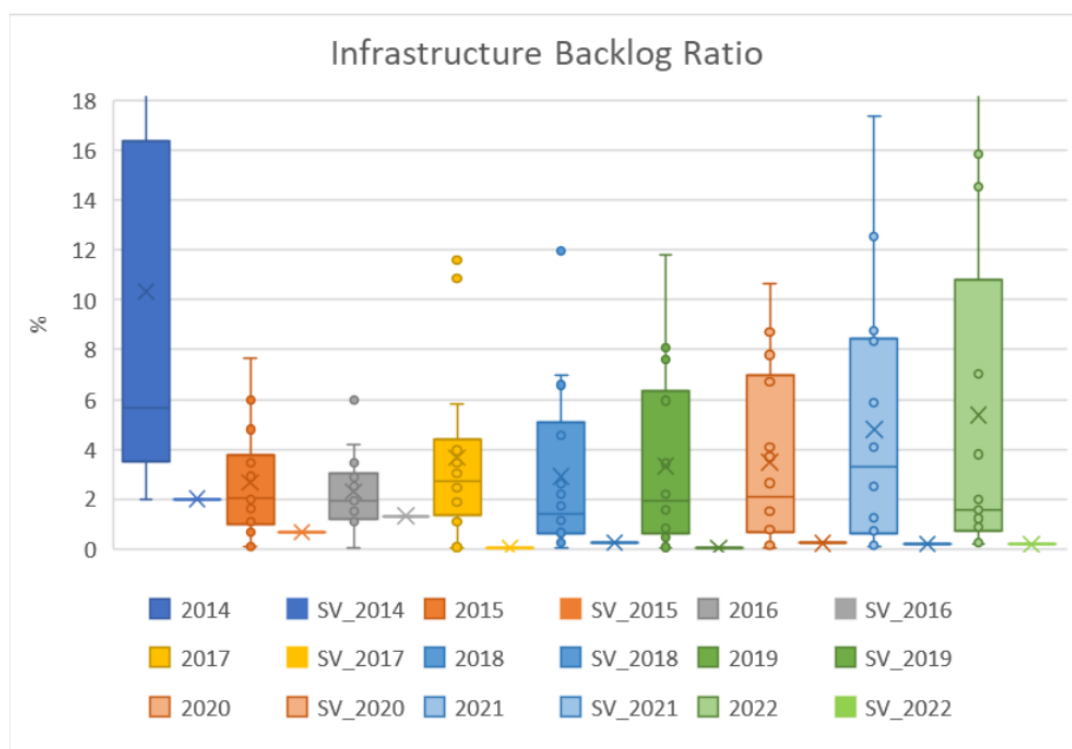


Figure 25. Infrastructure Backlog Ratio

Report

The asset maintenance ratio measures the discrepancy between actual asset maintenance and Council judgements regarding required asset maintenance. The benchmark for this metric is greater than one hundred percent which suggests that the state government wishes Councils to spend more money than required on their assets (also quite an unsustainable proposition).

Council has met the benchmark in most years since amalgamation.

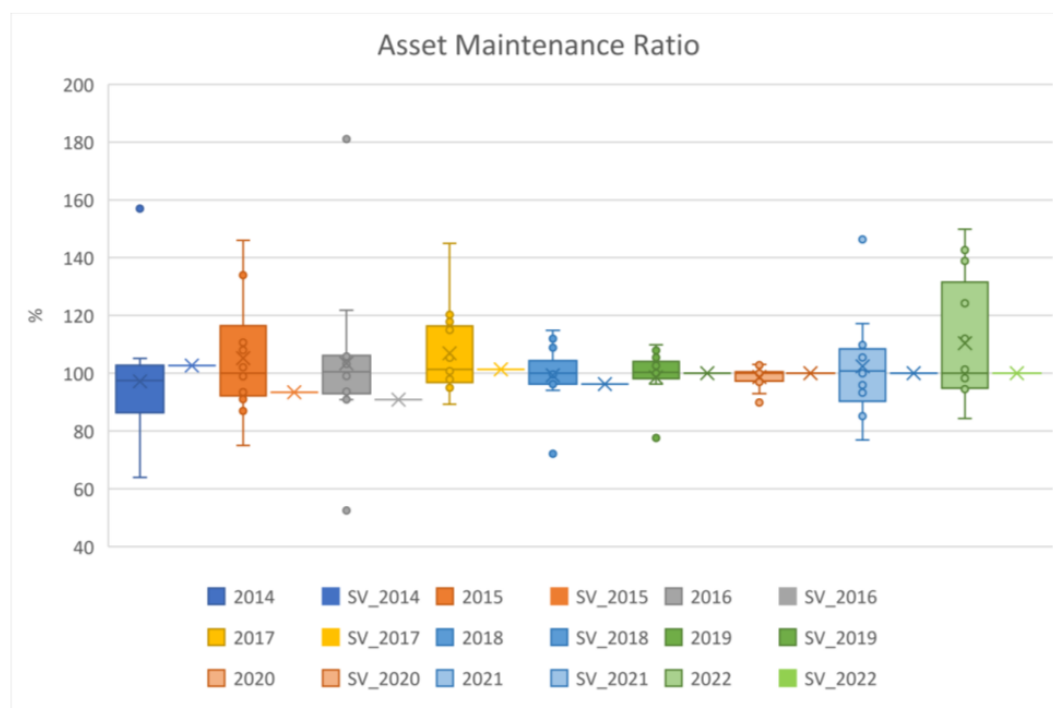


Figure 26. Asset Maintenance Ratio

In sum, it is extremely unlikely that TCorp would now assess SVC financial sustainability at the same levels as it did for the constituent entities back in 2013. Moreover, it is clear that most measures are deteriorating and that therefore the outlook is decidedly negative. However, scholars have been very critical of: (i) the extremely synecdochical nature of the metric suite, (ii) the method employed by TCorp (2013) to summarise metrics, and (iii) the high level of gaming in data inputs (see, for example, Drew and Grant, 2015; Drew and Dollery, 2016; Drew, 2017). Accordingly, it is prudent to also review some other important metrics prior to forming a robust judgement regarding the current and likely future financial sustainability position at SVC. We will do so forthwith.

Report

The scholarly literature has established a strong association between budget accuracy and efficiency (see, for instance, McQuestin et al., 2020). That is, higher budget accuracy is associated in a statistically significant way with higher efficiency. It is thus imperative that Councils have robust systems in place to facilitate acceptable levels of accuracy.

It does not appear that this is the case at SVC. Since 2019 the lack of budget accuracy has been most concerning (actual revenues have exceeded budgeted revenue by a very large margin across most components of income²⁸). Clearly natural disasters and the like have played a part but to be consistently out by ten percent or more since 2019 is very problematic. Moreover, we note that the outcomes are poor in both an absolute and relative sense (that is, compared to the peer group).

Council needs to redress this problem. Part of the solution is to require more robust justification for budgets put forward by the various managers and also to interrogate these numbers more stridently. A second ingredient to remedying matters is greater discipline in spending and higher levels of accountability where constraints have not been observed. A third component might be a thorough and regular review of budget errors with a view to recording these reasons in a central record so that explicit reference can be made to them when formulating new budgets. This latter measure is particularly important given the high turnover in staff and the corrosive effect that this has clearly had on institutional memory.

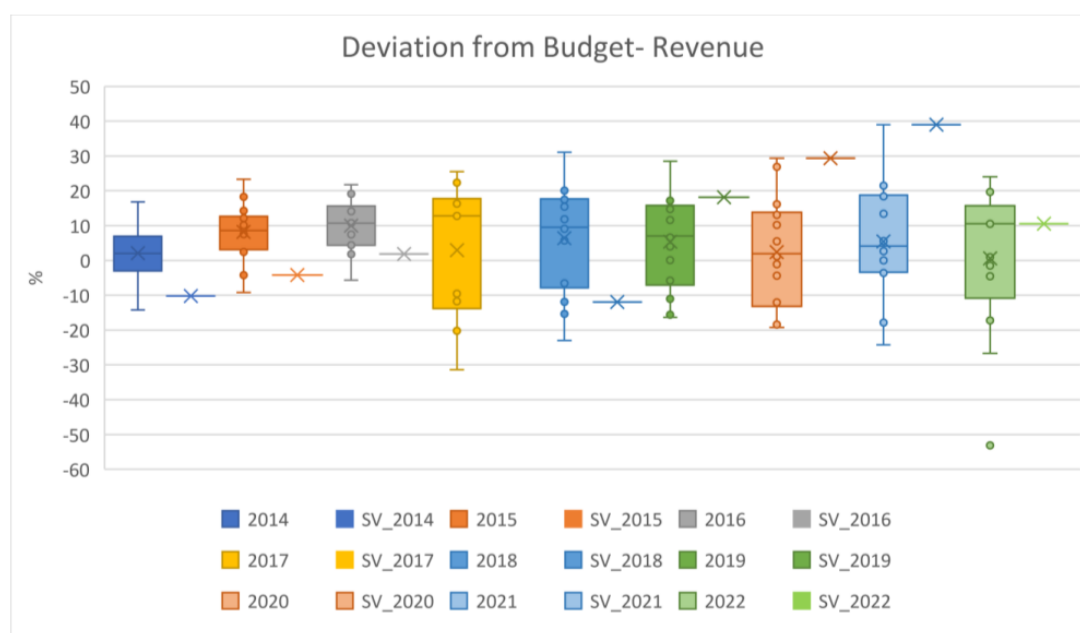


Figure 27. Deviation from Budget- Revenue

²⁸ To be more specific, grants for operating purposes as well as user charges have imputed considerable error to the overall budget. Capital grants have also been notable (and significantly more understandable).

Report

Actual expenditures have also been poorly predicted during the budgeting exercise. To be specific, considerably more money has been spent on ‘staff’, ‘materials & services’ as well as ‘other expenses’ than budgeted in recent years. Poor budget execution on this side of the ledger is not only a risk to efficiency, but also financial sustainability. Moreover, it is symptomatic of a Council in distress.

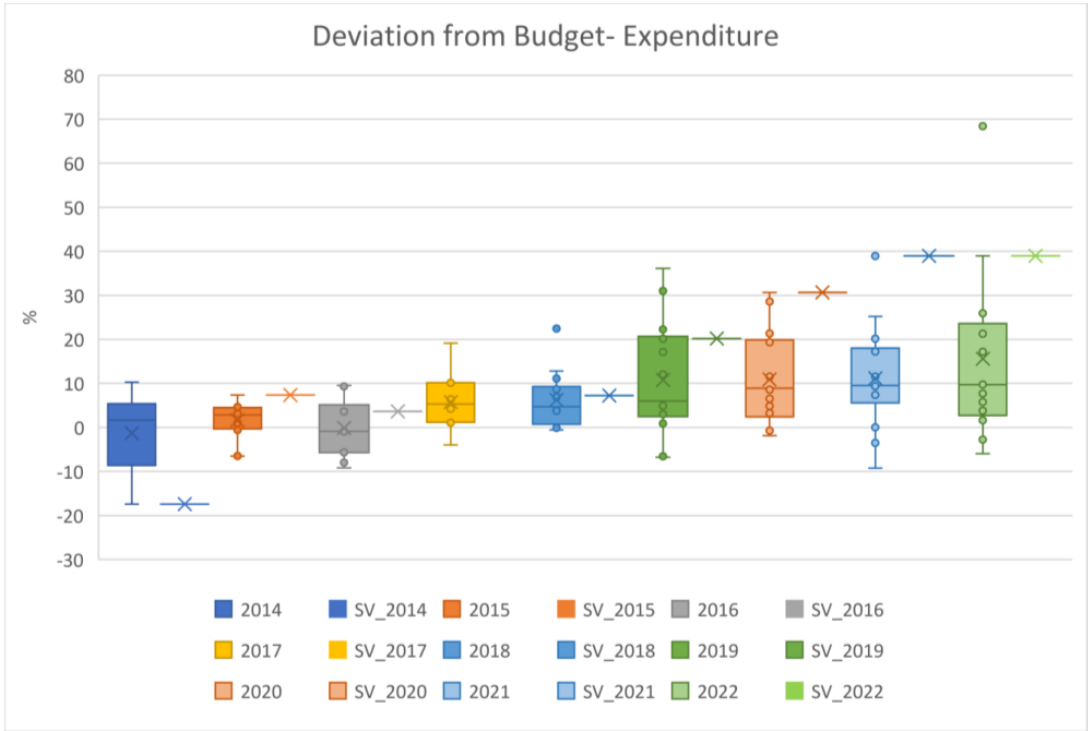


Figure 28. Deviation from Budget- Expenditure

Report

The gross depreciation rate measures actual depreciation accruals against the value of the depreciable asset base. Depreciation for the local government area has been on the low side in both an absolute and relative sense for most of the period since 2014. The consequences of not recording the consumption of long-lived assets accurately are losses on disposal (a key feature of the last five financial years at SVC and thus a warning sign that might have been noticed), and ultimately large charges to correct for fair value (as occurred in 2022; see, for example, Drew, 2017).

The failure to accurately assess the consumption of long-life assets is problematic because (i) it tends to confound a number of important financial sustainability metrics, and (ii) it is yet further evidence of an organisation in distress operating with suboptimal levels of institutional memory. Problems in this area might also point to the need to be more careful with regard to asset management and planning (please see the appendix for further detail).

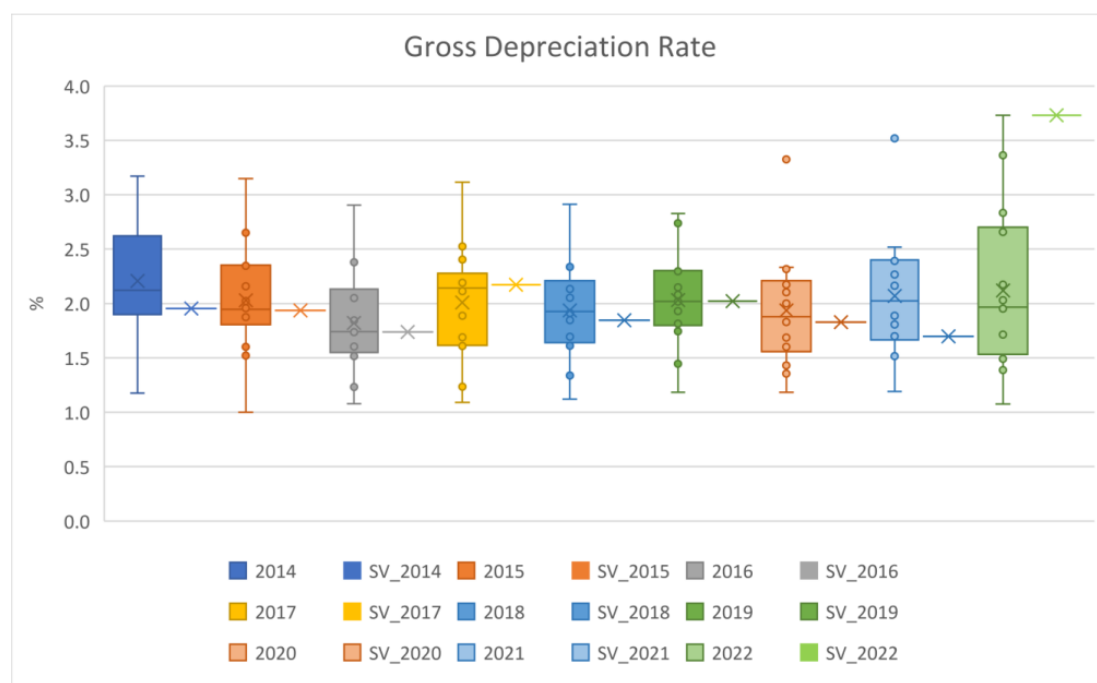


Figure 29. Gross Depreciation Rate

Report

As we have already noted, the major source of savings from amalgamation were supposed to lie in the area of staff 'efficiencies'. However, it is clear from Figure 30 that no such efficiencies have occurred. Moreover, given the robust empirical work that we presented earlier there is no good reason for believing that matters might improve materially in the future. Indeed, if SVC can fill current vacancies, then future results would be expected to show a marked deterioration.

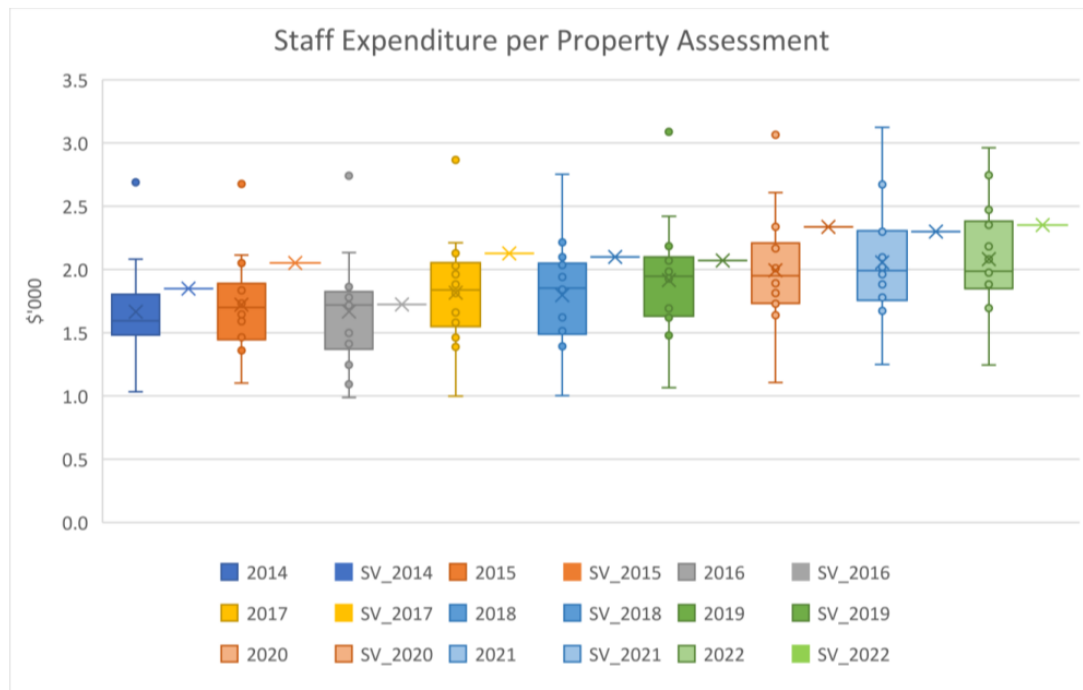


Figure 30. Staff Expenditure per Property Assessment

Report

Disaggregated cash reserve data is important to understanding the financial sustainability of a local government's operations and it is therefore somewhat surprising that metrics such as those that follow are not included in the mandated performance monitoring suite. To enable fair comparisons, the following cash ratios have been deflated by operating revenue.

The level of externally restricted cash increased appreciably after amalgamation, and it has continued at elevated levels up until this time. As we noted earlier, this is a mixed blessing – if not spent on works with high and broad socio-economic utility the infrastructure construction represented by the stock of cash can easily pose a risk to financial sustainability. Moreover, it is not clear that there is any good reason to think that strong flows of capital grants will continue now that we have had a change of state government. The former government had a vested interest in trying to engineer successes for amalgamated communities – there is no similar motivation for an incoming government. Indeed, pressure on both the state and federal budgets augurs against the continuation of capital grant profligacy in the future.

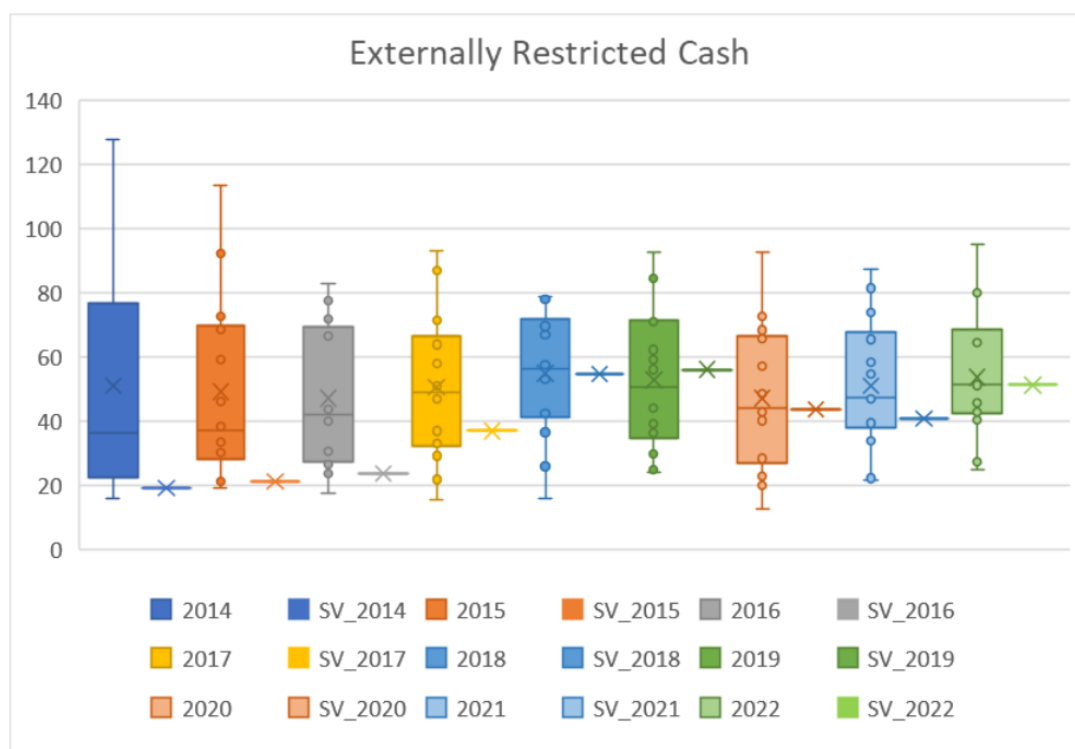


Figure 31. Externally Restricted Cash

Report

The story for internally restricted and unrestricted cash could hardly contrast more with the external restricted position. Internally restricted cash has been trending down since 2018 and is now approaching concerning levels. Moreover, we cannot see in the financial statements where prepaid financial assistance grants have been quarantined and this suggests that matters might be even worse than they appear. Clearly something will need to be done to arrest this sharp decline shortly if the community is to avoid significant disruption – indeed, the sooner strong remedial actions are taken, the less pain that will ultimately have to be felt.

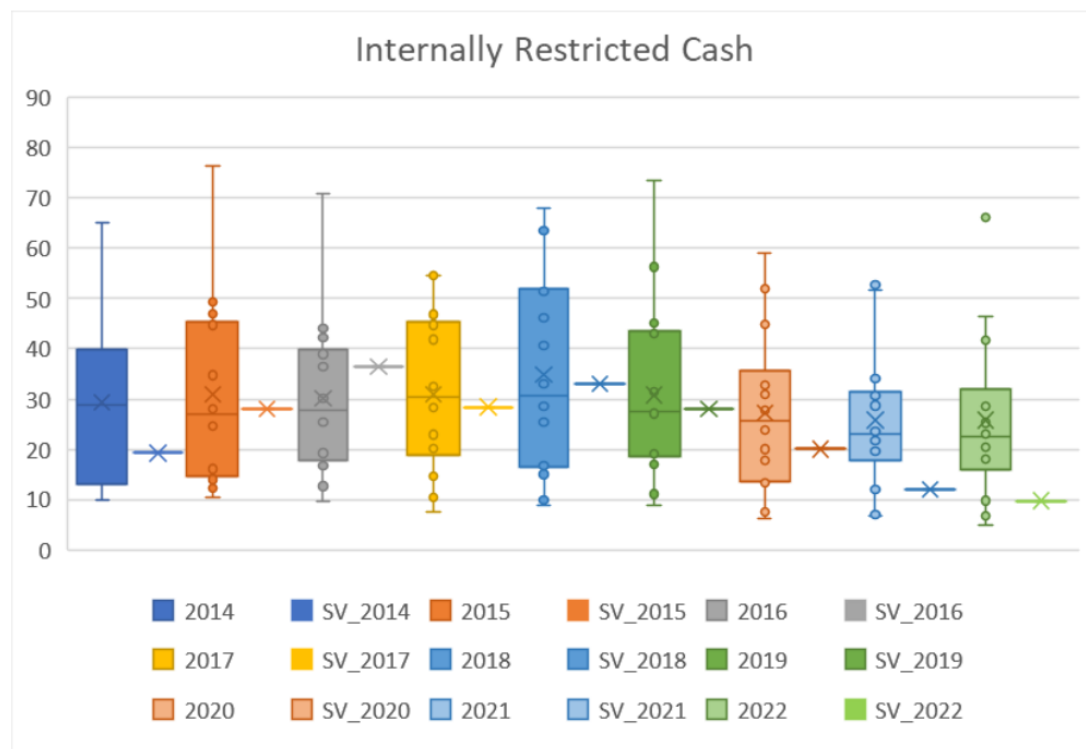


Figure 32. Internally Restricted Cash

Report

The situation is even more dire when we examine the level of unrestricted cash. This figure was negative in 2021 and close to zero in 2022. Parlous cash positions of his kind are sending a clear signal that Council does not have the money at hand to deal with unexpected shocks.

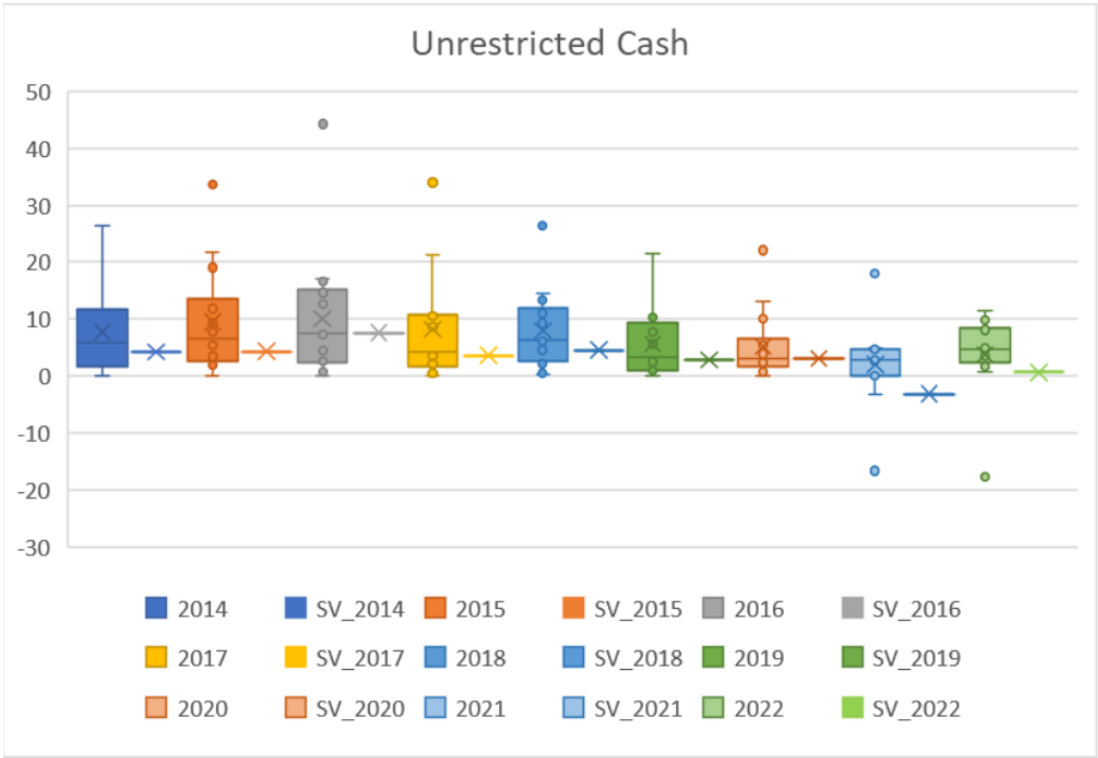


Figure 33. Unrestricted Cash

Report

In Figure 34 we have combined the internally restricted and unrestricted cash positions, and again deflated by revenue to allow for fair comparisons. Things clearly are not good in either an absolute or relative sense – especially when one recalls that the comparison is being made against a generally struggling peer cohort. Council has just over one month's expenditure in easily accessible reserves which stands in contrast to a prudent goal, adopted by other local governments, of three-to-six months of cash.

This combined cash position illustrates better than many metrics that matters will soon come to a head for SVC. There clearly needs to be a big change to the way that SVC does business, and the change needs to happen very quickly. The Boundaries Commission is correct in observing that SVC is not 'broke' – however, it is certainly true that Council is in a serious financial sustainability predicament that cannot be allowed to go unchecked for much longer.

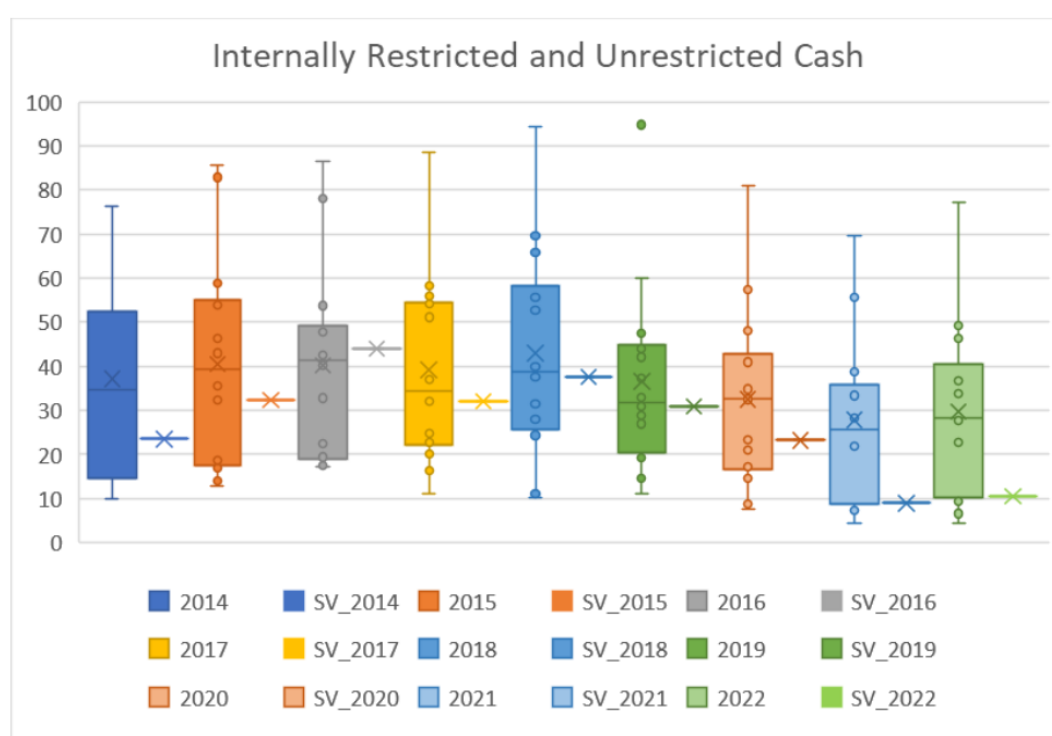


Figure 34. Internally Restricted and Unrestricted Cash

In conclusion, SVC is in quite a serious financial sustainability predicament. The cost base has risen in a permanent sense, yet the revenue has not kept pace. Moreover, the metrics probably paint a better picture than is warranted given unfilled vacancies and questions surrounding asset values. It is thus clear that the amalgamation did not improve financial sustainability. Indeed, matters are deteriorating at a fast rate and decisive and quick action is therefore indicated.

SVC cannot continue operating as it does at present.

Thus, the real choice, before the community and Councillors, is not between the SVC that we have at present and a potential de-amalgamation.

6 Financial Advantages and Disadvantages; Economies of Scale and Diseconomies of Scale Summary

S263(3)(a) of the Act (1993, NSW) requires decision-makers to consider 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*'. It is important to note that this part of the legislation only requires us to be mindful of the residents and ratepayers within the current SVC boundary, not the wider body of NSW taxpayers. This is important because the changes under s218CC of the Act (1993, NSW) bind 'The Minister... by making grants under section 620 or using money otherwise appropriated by Parliament for the purpose, to ensure that the cost of any de-amalgamation of the new area resulting from a business case submitted under this section is fully funded'.

The fact that the NSW state government is now responsible for the costs of de-amalgamation changes the calculus for s263(3)(a) remarkably. For instance, it means that the costs of de-amalgamation are no longer an 'advantage or disadvantage to the residents and ratepayers of the areas concerned'. Thus, according to legislation, it is no longer a matter required to be deliberated upon with respect to any proposal to de-amalgamate.

The state government ought to bear the full costs of de-amalgamation because it was the state government which made the decision in 2016 to amalgamate – often against the wishes of the community and contrary to robust academic evidence. It would simply be morally wrong for the victims of poor decision-making in 2016 to be required to pay for subsequent boundary reversals. However, a question remains open regarding how broad the costs of amalgamation – for which the state government has accepted responsibility – might be construed.

Interpreting the legislation may ultimately be a matter for the Courts. However, a key component of acts interpretation is understanding the intent of the legislators. In this regard, the Hansard of 23 March 2021 is illuminating:

'We know that they are failed mergers, the councils know that they have failed and the Government knows that they have failed. Having this provision in place will provide councils with the opportunity to get their business case together and do what good councils have done, like in Cootamundra: substantiate their position with fact, display why the forced merger has failed, but also display how their community will be better off. I acknowledge there are some references to this in the legislation, but what we are proposing here is a lot tighter and provides that financial support.' (Greg Warren, Member for Campbelltown).

Our reading of the legislation and debates suggests that it was the intent of the legislators to put the community – as far as practical – into the position that it was in prior to 2016 at no additional cost. Accordingly, we believe that costs such as training, transition manager, ICT, voluntary redundancies and even replacement of plant and equipment disposed of by the former amalgamated entity ought to be covered. Some of these costs won't be able to be known with any certainty until the completion of the de-amalgamation process²⁹. It seems that previous work by Deloitte, engaged by the Boundaries Commission

²⁹ An exception to this is the cost of plant and equipment that ought to be replaced which include: a grader, roller, drainage truck, heavy rigid truck, semi truck and float, semi tipper, excavator, line marker, line marking trailer, weed spraying truck, 3 executive vehicles. An estimate of this cost is \$2.4 million.

Report

(2021), put these costs at \$3.7 to 5.4 million. Whilst we disagree with the crude methodology employed by Deloitte, we would not be surprised to see the costs ultimately fall within this band.

If the KPMG guesswork of 2016, and the equally disappointing guesswork of Deloitte in 2021 have taught us anything it should be to underline the folly of trying to apportion costs between emerging entities based on long term financial plan (LTFP) projections. This would be particularly unwise in the case of SVC given its poor record of budgeting as well as the assumptions used to construct its current LTFP. To better understand this point, one can consider just two of the assumptions confidently asserted by Deloitte back in 2021: 'savings of 4% p.a. from economies of scale will result in total savings of \$1.8m by FY25' and 'CPI growth of 2.0% p.a. has been applied year on year for FY21-FY25'. As readers of this report, and the scholarly literature, now know there is no evidence of potential economies of scale for SVC. Moreover, the CPI assumption was implausible even in 2020 – any economist who had studied Friedman knew that we were in for a period of high and sticky inflation. To summarise the matter, predictions of this kind are nothing more than guesswork – and even the guesses often leave much to be desired.

Accordingly, we have elected to only list the likely costs for the extant local government area without making any reference to the LTFP or any attempt to apportion the said costs:

6.1 ADDITIONAL STAFF COSTS

Additional senior management positions are likely to cost in the vicinity of \$820,000 p.a. We have come to this judgement by comparing the nature and size of the emerging entities to the executive costs at similar Councils. The actual costs will be determined by negotiation.

In addition to these costs additional staff – including staff to manage RMS contracts – will need to be recruited to fill key gaps in the southern region. The cost of doing so is likely to come to \$380,000 p.a.

Against these additional costs there are some important savings that could be made by management. Executive salaries at the SVC *might* be reduced somewhat when current contracts expire. In addition, it is clear that at least some of the existing 22.63 full time equivalent (FTE) vacancies would not need to be filled.

How much of these potential savings will be captured will be dependent on the skill and attention to detail of local management teams. In smaller, more transparent organisations it should be relatively more easy to identify positions that are no longer required. Our position is that staff should be reskilled and relocated where necessary and that all other savings ought to come about through natural attrition. However, there is some scope for voluntary redundancies if required – although this should be viewed as a last resort (see Drew, 2022).

Additional training costs in the order of \$100,000 may be required in the first year and these should be covered by s218CC of the Act (1993, NSW). There is likely to be a particular need for training around the new processes for managing RMS contracts.

For our final estimate of likely ongoing costs and savings (below) we have only included the \$1.3 million in expenses under this heading. The savings that we have spoken of might be substantial, but they are largely contingent on management decision-making. We prefer to articulate a worse-case scenario for the community – enough damage has already been done in the past by commercial consultants banking on contingent savings that have not come to pass.

6.2 ADDITIONAL COUNCILLOR COSTS

Additional Councillor costs of just over \$100,000 p.a. would be incurred if we returned to the numbers of representatives that existed prior to amalgamation. As we detail later in this report, previous proponents have suggested a small reduction to numbers in the southern region, however, we feel that the marginal savings do not sufficiently compensate for the potential decline in voice (especially for the outlying villages)³⁰.

Moreover, there is potential to save considerably on Councillor expenses if de-amalgamation occurs, mainly through travel allowances. Notably, the total Councillor costs (including allowances) for the combined Councils back in 2015 were only \$17,000 higher than the total Councillor costs for SVC in 2022. It seems that the savings in Councillor remuneration have, at least in part, been offset by allowances and expenses.

However, because savings in allowances and expenses are contingent, we have not included any of these in our final estimate of ongoing fiscal effects arising from potential de-amalgamation.

6.3 ADDITIONAL ASSURANCE COSTS

For some reason the significant costs associated with assurance were neglected by Deloitte.

Audit fees have been relatively high at SVC of late and we suspect that this may be due to some gaps in internal audit as well as problems in the execution of accounting activities. A de-amalgamation would result in an additional audit engagement and an additional Audit Risk and Improvement Committee (ARIC). However, each emerging entity would also require less work than the extant arrangement. We have benchmarked assurance costs to those incurred by similar sized local governments and believe that the overall additional cost to the community will be in the order of \$90,000 p.a. Notably, there could be some scope to reduce this marginally by engaging in shared services for ARIC as is done elsewhere. This would make sense given that current ARIC members ought to be familiar with both emerging entities, should a de-amalgamation take place. However, we have not factored in the potential for shared services into our final estimate of the fiscal effects arising from a possible de-amalgamation.

The 2021 inquiry by Deloitte and the Boundary Commission was notable for omitting any of the likely savings from the decision-making calculus. Indeed, the Dissenting Report (2021, p. 17), relying on Deloitte, remarked that the de-amalgamation 'will have an adverse economic impact on both councils without the prospect of financial savings to offset that disadvantage'. This is simply not correct. There are substantial savings that could be made contingent on the skill of the management, and other savings that will certainly occur.

³⁰ We would not object to a small change to Councilor numbers – but merely assert that we feel there is little net benefit in doing so.

6.4 TRAVEL SAVINGS

As our survey of actual staff travel behaviour shows, savings in the order of \$1 million p.a. are a near certainty. Indeed, we have good reason to think that this is an under-estimate for reasons that will be outlined later in this report.

6.5 POSSIBLE SAVINGS FROM OTHER REDUCED TECHNICAL INEFFICIENCY

Our robust empirical analysis (FDH and DEA presented earlier) demonstrates the potential for savings in the order of \$1.1 million p.a. (excluding the staff travel savings already noted). This is what ought to be possible if good decision-making takes place in the future. We note that our sophisticated DEA analysis prior to the amalgamations proved to be far more accurate than the guesswork of commercial consultants – indeed, startling so (see, for example, Drew et al., 2015 as well as the work done by Drew in 2015 for the former Gundagai Council). This is because DEA deals with audited financial data regarding what local governments have been actually able to achieve in the past, as well as robust output proxies. Making judgements based on a long and wide panel of achieved results certainly seems more prudent than taking guesses about the future based entirely on unsupported assumptions.

In addition to the savings already noted there are a number of other contingent items that might improve the fiscal outcomes arising from any potential de-amalgamation. Because these potential ‘advantages’ are contingent in nature we have not included them in our final estimate of the ongoing fiscal effects arising from a possible de-amalgamation:

- The potential for additional financial assistance grants when considered as a whole, derived by the vertical fiscal imbalance element of the current legislation (see, our earlier discussion of this matter).
- Additional operating grants which are allocated on a per local government area basis (library grants and some disaster grants immediately come to mind).
- Likely lower consultant costs. A less complex local government area ought to require less outside assistance to understand. In addition, our advice is that vacancies will be relatively easier to fill after de-amalgamation³¹ (in part, because the boundary uncertainty would cease to be an issue) and if this proves correct then the cost of having consultants and short-term contracts fill the gaps will be reduced substantially.
- Given the results of the staff survey (see later in this report) – and also the many informal conversations that we have had with a wide range of staff – it is likely that staff turnover will be considerably lower in the medium to long-term should a de-amalgamation occur. In addition, there are good reasons for expecting marginally higher productivity in de-merged entities, once the initial workload associated with the boundary change has been executed.

In sum, there is a wide potential range of outcomes for the community when considered as a whole – ranging from being worse off to the tune of \$500,000 p.a. all the way up to being better off by more than \$600,000 p.a. It should be noted that these benefits or savings are marginal in terms of the current SVC budget – less than three-quarters of a percent of operational expenditure. Moreover, what actually

³¹ We understand that at least one staff member has a strong disagreement on this matter. However, we spoke with several experts in this field and the balance of opinion is as we state.

Report

happens will depend on the skill and decision-making of senior management and Councillors. Notably, better results should be possible in the medium to long-run given our preference for natural attrition.

Our studies of previous de-amalgamations suggest that the following actions will significantly increase the potential financial advantages from a possible de-amalgamation:

- As soon as possible both emerging entities should conduct rigorous service level reviews informed by randomised surveys (see the appendix for more detail). The focus should be on tailoring service levels to the actual informed preferences of the majority of residents. Given upwards harmonisation of services following amalgamation there should be good scope for savings to arise from this activity.
- Prices need to be reset according to long-run marginal cost methodology. Better price signals must also be sent to resident consumers. In addition, subsidies should be more carefully tailored to the goals of the program and community grants should be better justified. All discretionary goods and services should be reviewed on a four-year cycle. We cover all of these matters, in greater detail, in the aforementioned appendix.
- Within the first year Councillors will need to make a careful assessment of financial sustainability and consider the need for a Special Rate Variation within the context of a plausible and robust long-term financial plan. We note that the current SVC – if retained – would need to do precisely the same exercise.
- Fees for childcare and Aged-care operations in the south need to be reviewed carefully with a view to full cost recovery as soon as possible. It ought to be possible to recover costs in these areas.
- Significant effort should be directed at keeping community expectations anchored in the early years and ensuring that as many people as possible understand the financial sustainability challenges faced by the local governments.

6.6 PREVIOUS COMMISSION REVIEW OF SECTION 263(3)(A)

Because of the prominence given to this first of eleven factors by the earlier Boundaries Commission we have already explored many of the misapprehensions evident in extant work. Most of the economies of scale and diseconomies of scale discussion was problematic – indeed, the terms were often used incorrectly (see for instance the Dissenting Reports (2021, p. 9) discussion of ‘diseconomies of small scale’). Moreover, judgements in this area were based on guesswork harking back to the guesswork of others, instead of robust evidence like we presented earlier.

Earlier work recited long lists of expenditure as if the mere act of spending money was somehow to be construed as a financial advantage. We find it difficult to understand how, for example, building a toilet block 200m from an existing toilet block is advantageous. Moreover, now that the community has been asked to pay the first instalment – via a SRV – to mitigate for the cost of expanding the cost base they are also probably disinclined to see the advantages of the situation.

The earlier work also spoke extensively to the improvement in asset backlogs and asset condition which it attributed to the amalgamation. Apparently Deloitte and the Commission were unaware of the scholarly literature which demonstrates that asset data is extremely prone to misstatement. Indeed, recent significant revaluations at SVC should go to underscore this point. Moreover, constructing new assets of a discretionary nature may not represent a *meaningful* change to infrastructure backlogs in any case.

Report

Most of the concern in the previous inquiry was for the burden to Tumbarumba residents. This concern was misplaced. Tumbarumba residents, on the whole, seem to have a greater awareness of the financial sustainability situation, a high willingness to pay, and also appear to have been burdened disproportionately by the rates harmonisation. Moreover, the potential for efficiencies appears greater in the South, and the asset base there has not experienced the same rate of expansion (nor does it have extremely large works in progress). We have very few concerns regarding the financial sustainability of the southern entity should SVC be de-amalgamated.

Our concern is focussed on the Tumut region for mostly the opposite reasons. How valid our concerns will prove to be will depend on the actions of decision-makers regarding: (i) engagement with the Tumut regional ratepayers, (ii) interventions made with respect to our recommendations to improve financial sustainability (see the appendix), as well as (iii) the skill by which management and decision-makers execute any new boundary structure.

7 Community of Interest and Geographic Cohesion

The Act (1993, NSW) states that due consideration must be given to both communities of interest and geographic cohesion.

Communities of interest refer to patterns of activity³², tastes and preferences of the community (see Oates, 1999; Drew, 2021). It is relevant to the matter of boundary change because of the Decentralisation Theorem and associated homogeneity hypothesis accepted by economists (Oates, 1972). Essentially, the idea is that people who regularly interact with one another will develop homogeneity with respect to tastes and preferences for local government goods and services over time. Homogeneity, in turn, is a critical ingredient to efficiency – because when particular tastes and preferences can be readily discerned then it ought to be possible to tailor the goods and services accordingly (Drew, 2021).

We agree with the Dissenting Report (2021) – citing *Papaconstuntinos v Holmes a Court* (2012) – that the phrase suggests ‘a closeness of interests that does not necessarily require a perfect correspondence of interest’. However, the approach in past inquiries has instead tended to argue that vastly disparate interests are little hindrance to amalgamation or retaining the amalgamation structure. This strikes us as more than a little odd: if the people drafting s263(3)(b) of the Act (1993) thought that vastly disparate communities of interest were no impediment to amalgamation then surely the matter would not have been mentioned in the legislation.

When we define the term correctly it becomes apparent that repeated references to Australian Bureau of Statistic’s demographic data are somewhat misleading. The fact that the two communities might have similar levels of education, birth rates, death rates, or incomes is largely irrelevant to their patterns of activity. For instance, the ABS socio-economic index for areas (SEIFA) score for Tumbarumba prior to amalgamation was identical to Katherine in the Northern Territory. Would anyone seriously argue that this might mean that the patterns of activity, tastes and preferences in Katherine are compatible with Tumbarumba?

Clearly there is little community of interest between Tumut and Tumbarumba. The Boundaries Delegate (2016), and Boundaries Commissioners (2021) all ultimately conceded this point despite valiant efforts to magnify the importance of even tenuous similarities³³.

Indeed, the lack of communities of interest is well-attested to by the travel surveys and community transport records submitted by the former Tumbarumba Council back in 2016. We accept that people rarely travel between the two centres for the simple reason that Wagga Wagga and Albury are much better alternatives if one needs specialist retailers or medical services. An extra twenty minutes on the road gains access to the services commensurate with a town that has roughly six times more people. Notably, our investigations of contemporary community transport numbers suggests that patterns of activity have not changed markedly since amalgamation.

³² Here we note that s10(a) of the 2005 Local Government Regulations (QLD) also makes reference to ‘patterns of human activity’. While not directly relevant to NSW it does point to the kind of understanding that legislators might have had when making reference to the concept.

³³ Much was made of a single testimony claiming that a particular person travelled to Adelong (some 60km from Tumbarumba) to attend church – however this is hardly indicative of the entire community and instead likely speaks to the particular person’s theological disposition.

Report

It is noteworthy that there is only one – rather ordinary – road connecting Tumut to Tumbarumba. Moreover, this road is difficult to negotiate in wet, dark or cold weather (especially with respect to the danger of black ice). Indeed, the unsatisfactory nature of a single road connection between Tumbarumba and the main administration centre at Tumut was brought to stark relief during the recent devastating bushfire event. We note that the Boundaries Delegate (2016, p. 33) argued that ‘a new council would have the opportunity to improve transport links’. However, the state government road that connects the two towns has not been improved in any meaningful way over the last eighty-two months since amalgamation. It would thus seem that the state government does not feel that the amount of traffic commuting between the two centres warrants this kind of expenditure.

It is notable that the two towns fall into different state electoral districts – Tumut is part of Wagga Wagga and Tumbarumba part of Albury. Both members of parliament have been elected to represent the interests of their constituents and would almost certainly argue that these interests differ on a number of issues (and have voted accordingly).

The two matters of greatest concordance, between Tumut and Tumbarumba, are tourism and forestry. Tourists are not part of the community and hence are not directly relevant to the matter of communities of interest. Tourism is certainly of some interest to people in both towns, but the type of tourist activity and accommodation is quite different. Moreover, there is no good reason as to why joint branding and promotion could not take place in the event that the SVC was de-amalgamated. Forestry operations have far more relevance to the matter of communities of interest, but we note that the operational structure of the forest management was not altered in any appreciable way as a result of amalgamation. It therefore does not seem that it is contingent on the structure of the local government, and we must be mindful that it is but one area of concordance which stands in contrast to many areas of discordance.

There is considerable distance between the two towns that has important implications for staff welfare (see ‘impact on employment of staff’) and community participation in Council activities (such as attending Council meetings). However, the distance between villages such as Khancoban, in the south, and the Council administrative centre at Tumut is simply startling. For a Khancoban resident to attend a Council meeting at Tumut would require a round trip of almost 300 km, and four hours. In similar vein, for residents of Brungle, in the north, to attend a council meeting held at Tumbarumba would involve a round trip of 170km and two-and-a-half hours. The enormous geographical spread of SVC is certainly an obstacle that can’t be easily overcome in all circumstances (see later).

The two former local government boundaries were located in different water catchment areas (Tumut is in the Murrumbidgee and Tumbarumba in the Murray). Moreover, the towns are separated by the Bago Range and differ significantly in terms of topography. These geographical features contribute to vastly different climatic conditions. When taken as a whole, the geographical features of the two distinct regions have an important bearing on the agricultural pursuits, tourist attractions and employment of the areas. Different geographies also complicate the management of assets, although not in insurmountable ways.

The Boundaries Delegate and Boundaries Commission have acknowledged the differences in both communities of interest and geography. However, they have either dismissed substantial differences as not insurmountable or, alternatively, claimed that disparities will dissipate over time. However, nothing has changed appreciably in the last two years since the Boundaries Commission (2021) report under reference and we see little reason to think that important changes might occur in the future. The towns continue to have completely different orientations and continue to assert very different identities. The distances between competing centres will not change, nor will the river catchments and mountain ranges. Indeed, even the matters within the control of Council and state government – such as the single road

Report

connecting the two towns – has not been remedied after over six years. The untimeliness argument is thus quite impossible to sustain with respect to this factor.

8 Historical and Traditional Values

The Act (1993, NSW) states that due consideration must be given to the historical and traditional values and the impact on them.

It is clear from reading the Boundaries Delegate (2016), Boundaries Commission (2021), and the Dissenting Report (2021) report that there is a good deal of confusion about what this factor means and why it is important. This can be seen by frequent diversions off topic – such as the lengthy discussion of population projections and town survival in the Dissenting Report (2021). Moreover, the last two reports have seemingly dismissed historical differences as unimportant – and largely ignored aboriginal traditional matters – which seems incongruous with the legislators' pains to include them as matters of focus for boundary decision making.

Historical values are important because culture and attitudes are path dependent (Oates, 1999; Drew, 2021). Paths of industrialisation and development shape the orientation of people and heavily influence tastes and preferences for goods and services that have local effects. The ability to discern the preferences and tailor service provision accordingly is key to efficient government (see, Tiebout, 1956; Oates, 1999; Drew, 2021). Therefore, in dismissing historical antecedents we also dismiss the opportunity to understand the poor efficiency outcomes at SVC.

Moreover, to neglect indigenous matters seems contrary to the legislation and also disrespectful to the distinct tribes that were the traditional custodians of the land under boundary contention. Indeed, a feature of the various 2016 Boundaries delegate reports was a specific consideration of matters pertaining to aboriginal sensibilities. It is hard to explain why this aspect of the legislation has now largely been ignored.

The Boundaries Commission (2021, p. 34) report approvingly cites a claim that 'both areas have a similar commercial and industrial history with the agriculture, gold mining, forestry and horticulture sectors developing in unison'. This statement warrants far closer examination.

There is certainly some similarity in terms of industrial development that centre around early gold mining and later forestry work. However, to lump all agricultural endeavours into a single category is somewhat misleading. There are vast differences in the agricultural pursuits practiced in both localities – largely because of disparate geographies. These differences, in turn, shape the orientation of people and their patterns of activity. For example, there is little reason for a vineyard owner in Tumbarumba to travel to Adelong to carry out transactions for dorper sheep. These differences matter because they dictate the degree of interaction and hence the potential for shared understandings of preferences and tastes for local public goods. Similarly, it is misleading to try to suggest that retail has developed in unison in the two areas – one only needs to drive down the main street to understand that different retail enterprises have developed to meet the particular needs of the people. These needs shape patterns of activity and are also shaped by them.

Pivotal to understanding the different orientations of the people residing in each locality is a satisfactory comprehension of the importance of the establishment of a rail link between Wagga Wagga and Tumbarumba circa 1921. This development drastically reduced the travel time between the two centres and meant that people became accustomed to look to Wagga Wagga with respect to their retail and medical needs. What today is a difference of 20 minutes travel (driving) time (Tumbarumba to Wagga Wagga with respect to Tumut) was once many hours disparity after the establishment of the rail link. As a result, people in Tumbarumba naturally looked to meet their retail and medical needs at Wagga Wagga,

Report

established commercial relations there, and also formed friendship and kin ties. These ties continue to bind today and partly explain why Tumbarumba people are far more orientated to the north-west rather than the north³⁴.

Differences in orientation are also evident amongst the traditional custodians of the land that is now subject to local government boundary controversy. In 2016 the Boundaries Delegate (p. 38) stated that 'information was provided that the Tumbarumba Shire area was part of the Aboriginal country of the Guramal (*sic*) nation consisting of a common language, whereas the Tumut Shire area was Wuradjuri (*sic*) Country, which spoke a different language'. We have investigated the matter ourselves – with reference to several sources including Aboriginal elders and Land Council members – and believe that this information was in error³⁵. Tumut was indeed inhabited by one people, but Tumbarumba was occupied by two different peoples. Thus, even prior to European settlement it appears that geography played a large part in shaping the tastes and preferences of people as well as limiting interactions with the north. As was the case after settlement, people developed different orientations and tastes because of the dominant geography. It thus underlines the importance of our comments regarding this particular factor dealt with earlier.

The amalgamation constituting SVC had a number of salient impacts on the traditional custodians of the land encapsulated by the local government boundaries. In the first instance, it asserted a modern political boundary starkly at odds with the traditional boundaries established prior to colonisation – binding two traditionally hostile peoples together into a single local government area. Second, the amalgamation of Tumut and Tumbarumba significantly diluted the political voice of First Nation's people especially at Tumbarumba. ABS (2014) data prior to amalgamation suggests that political voice was diluted for these people by a factor just shy of ten-fold. In similar vein, the indigenous people of Tumut had their political voice diluted by around a third. Third, it seems almost certain that the number of indigenous people from Tumbarumba employed by Council reduced significantly following amalgamation. Fourth, it appears that some of the tribes might have been neglected in the Acknowledgement of Country in some instances. There certainly would have been no maliciousness intended by this oversight, but it has caused some controversy in the southern area and is further testament to the kind of misunderstandings and friction that can be created when different people who know little of one another are forced to interact.

In sum, the history and traditions of the disparate areas explain the different orientations of the people who reside within the SVC local government boundaries. This in turn illuminates some of the root cause of SVC inefficiencies as well as continuing misunderstandings and friction. Moreover, it is clear that the outcomes from a de-amalgamation would increase the democratic voice of First Nations' people and could also lead to better local government employment outcomes. For all these reasons this legislated factor deserves far more attention and weight in future decision-making calculi.

³⁴ The other part of the explanation – as we discussed earlier – is the far superior services available at Wagga Wagga associated with its far higher population size.

³⁵ It seems that 'Guramal' was a pejorative moniker which might have meant 'hostile people'.

9 Attitudes of Residents and Ratepayers

Section 263(3)(d) of the Act (1993, NSW) directs decision-makers to pay due regard to the attitudes of residents and ratepayers. Given that many believe local government to be a creature of statute – and thus entirely subject to the decision of the Minister – it is reasonable to pause and consider why this requirement has been included at all. The reason, of course, is that a local government relies on the co-operation of its citizens for its effective and efficient operation. Indeed, as we have already noted, the sole source of moral legitimacy for government revolves around the preservation and fostering of the common good – that is, the help accruing to people as a result of their co-operation (Messner, 1952; Finnis, 2006; Drew, 2021). It is hard to see how a government that is not perceived to be morally legitimate, by some, could possibly gain the co-operation of all of its citizens. Indeed, this is precisely the problem faced by SVC.

When large sections of the community refuse to co-operate, this can put the health and safety of staff, political representatives and residents at risk. We have received a large number of accounts of the physical and psychological harm sustained as a result of the refusal of a significant proportion of the community to accept the amalgamation decision as morally legitimate. The anger in some segments of the community is almost tangible and shows no sign of dissipating. It thus presents a continued risk to the health and safety of people in the local government area.

Moreover, the efficiency of a local government operation is clearly contingent on the attitudes of residents and ratepayers. It is true to say that many staff – and no doubt some Councillors – are simply scared of attracting further ire from the Tumbarumba community. We have personally witnessed examples of operational decisions being influenced by this concern. What this means is that time and resources are being diverted away from the core business of Council. For instance, staff and Councillors are constantly alert to negative comments, a perceived threat arising from GIPA requests, as well as occupied with keeping tally of how many staff are located where and how much money is spent in each locality. This is clearly not conducive to effective and efficient operations.

The resentment felt by some Tumbarumba residents, in particular, towards the notion of an amalgamated entity has been noted since at least 2016. The Boundaries Delegate (2016, p. 43) highlighted the ‘anger and frustration’ evident throughout the community. Much of this anger apparently derived from the perception that the amalgamation would be a ‘takeover’ by Tumut – a perception possibly validated for some after Council meetings were moved to the north³⁶ along with all but one management position. Moreover, the Delegate observed that ‘it [is] a strong possibility that well-organised community campaigns against the new council will continue in Tumbarumba Shire and likely be disruptive to council operations and service delivery’.

Nevertheless, the Delegate (2016) concluded that because of the proposed ‘benefits that will be achieved for residents and ratepayers’ that it ‘would not be unreasonable to proceed with the proposal’. As we have demonstrated in this report – through recourse to proper robust empirical evidence, rather than mere opinion – there never was any good reason to believe that efficiencies would be forthcoming and hence no reason to expect many of the proposed benefits such as reduced reliance on rate increases and the like. Indeed, the experience since 2016 – as well as three robust peer-reviewed works in some of the best scholarly journals in the world – confirms that the Delegate was profoundly misled with respect to the financial advantages of the proposal. {It is important to note, again, the poor foundation for decision-

³⁶ We have recently become aware that Council meetings will soon return to Tumbarumba on some occasions.

Report

making back in 2016 because it underscores the strength of the negativity bias currently pervading the community}.

The Delegate (2016, p. 45) notably advised the (then Minister) that ‘given the weight of these views, this review considers that these attitudes must be addressed through a campaign of advocacy³⁷ and the implementation of service protections before a merger has any chance of succeeding’. This advice was not heeded, and the results at SVC have evolved accordingly.

In its 2021 (p. 38) review of a proposal to de-amalgamate ‘the Commission engaged a market research firm with significant experience in telephone polling to undertake a survey on its behalf... to capture awareness of, and attitudes to the Proposal overall, and in each of the former shire areas’. ‘Overall 65% agreed or strongly agreed with the Proposal [to de-amalgamate], with 15% disagreeing or disagreeing strongly’ (Boundaries Commission, 2021, p. 38).

Surveys of this kind – undertaken in an environment where people had been profoundly misled by misinformation provided by commercial consultants and the like – have less value than is commonly appreciated for the task of public policymaking. It was, for the most part, a poll of the unsupported opinions of people residing in the area. Indeed, the tables below – based on Boundaries Commission (2021, pp. 40-41) selected reasons for agreement and disagreement clearly illustrate that many judgements were based on serious misapprehensions of important matters:

Table 6. Contestable Reasons for Agreement

Reason Given	Comments
Knowing the History, that one’s councils’ history was amazing and that the other had a bad financial history (sic).	Both Councils received adequate TCorp (2013) assessments, albeit one was better than the other.
Too many things haven’t been done correctly since merging.	Poor management or governance is generally considered to be a separate matter to boundary shape (although there is potential for structural problems to contribute to perceived management deficiencies).
Money will just stay in our local area.	There is no guarantee that this will happen – it will depend on the mixture of factors of production employed by local management.
Everything in the town actually happens in Tumut instead of Tumbarumba.	There has certainly been some shift towards Tumut, but this statement was laced with hyperbole.
Councils were working better separately.	This is a contestable statement and may depend on what one measures.
Tumut was doing better on its own.	This may also prove to be a contestable statement.
Tumbarumba deteriorating under current Council.	Poor management is <i>not necessarily</i> associated with boundary shape.

³⁷ How precisely the Delegate (2016, p. 43) envisioned that the ‘vehement anger’ he observed could be reversed through a campaign of advocacy is beyond our ken.

Report

Table 7. Contestable Reasons for Disagreement

Reasons Given	Comments
Both would not have enough power to attract funding.	The largest pool of grants are formula-based and also likely to increase if a de-amalgamation was to proceed. Special purpose grants are supposed to be distributed according to merit.
Council is doing okay so no point demerging now.	As we have demonstrated, SVC has quite serious financial sustainability challenges – it is not ‘okay’.
Council is more efficient as a merged council.	The FDH, DEA, and econometric evidence does not support this assertion.
We are better off now.	Not in terms of financial sustainability, nor (shortly) in terms of the price of local government goods and services (rates).
The bigger council will do better financially.	Robust empirical evidence strongly suggests the opposite.
There are too many councils.	There is no evidence to suggest this - indeed by OECD metrics there would appear to be too few (Drew, 2021).
Too much money would be put towards the demerge (<i>sic</i>).	Recent changes to the legislation mean that this is no longer a relevant consideration for the community.

When people are provided with good information then we can expect good decision-making. However, incomplete information and misconceptions risk poor decision-making and for this reason great care needs to be taken when using the data derived from the telephone survey.

The Dissenting Report (2021) cast some doubt on what the majority in the area felt, despite the clear results obtained from the telephone survey conducted at the behest of the Commission. As we have already suggested it might be reasonable to doubt the importance of the results for decision-making purposes, but we fail to see any good reason for doubting the predominance of the feeling in the SVC local government area. De-amalgamation is indeed a contested space – as the Commissioners observe – but there is a good deal of misconception driving some of the minority view in favour of the status quo. Moreover, most matters are contested in a democracy and if we made a rule never to act in the event that some people disagreed, then governments would do very little, if anything. Indeed, the 2016 amalgamations were contested, and decision-makers did not feel that disagreement should be a reason for not executing their boundary reforms at that time.

In the Dissenting Report (2021, p. 28) it is asserted that ‘the optimistic frame of reference held by persons in favour of the Proposal to the future in a demerger obscures the fact that a new Tumbarumba council will be saddled with difficulties...if the economic realities forecast in the Deloitte report...’. As we have already shown, the forecasts of Deloitte were completely unreliable and deeply flawed from assumptions provided without evidence. Moreover, it is clear to us that the focus on Tumbarumba’s potential sustainability is somewhat misplaced. In the first instance, the community most likely to experience

Report

adverse outcomes is the former Tumut local government area³⁸. Second, the Boundaries Commissioners and Deloitte seemed to have been labouring under a grave misconception regarding SVC – it is not financially sustainable and will require considerable work and pain to attain a state of sustainability in the future.

The timeliness argument was also raised with respect to Tumbarumba resident attitudes. As we now know – contra Deloitte – SVC has had to impose a significant special rate variation (SRV) onto the community and will likely have to apply for even further increases in the near future. As the cost of the amalgamation starts to be felt in the hip pocket, negativity bias amongst former Tumbarumba residents will only strengthen. Indeed, since the imposition of the first part of the SRV Tumut residents are now starting – for the first time – to feel some negative consequences from the amalgamation (the rate harmonisation had previously operated mostly in their favour and representation ratios had barely budged). Therefore, the attitudes of this larger population cohort might be expected to shift somewhat in the future – especially when the financial sustainability position of Council becomes more widely known.

The Dissenting Report (2021) also relies strongly on making recourse to the non-peer-reviewed Jeff Tate study that the dissenting Commissioner seemed to think would validate his assertions regarding what is still possible. However, it appears that the dissenting Commissioner had not carefully read the work that he relied upon – for had he done so it is unlikely that he would have cited it at all. The work of Jeff Tate has been rightly ridiculed in the scholarly literature as both unreliable and biased (see, for example, Dollery, 2018). It surveyed the *beneficiaries* of just five of the twenty-two councils merged in 2004. Moreover, it ignored relevant scholarly research casting doubt on the financial success of these earlier arrangements and was constrained by terms of reference that only allowed it to examine the *positive benefits* of amalgamation. The interviews constituting this work were mostly conducted on selected persons in management positions for which a reasonable apprehension of bias was clearly warranted. Indeed, the Jeff Tate work tells us nothing of the outcomes experienced by the majority of 2004 amalgamated Councils, nor the perceptions of citizens. It is thus hardly a good foundation on which to believe that better outcomes, for the communities, might still be possible.

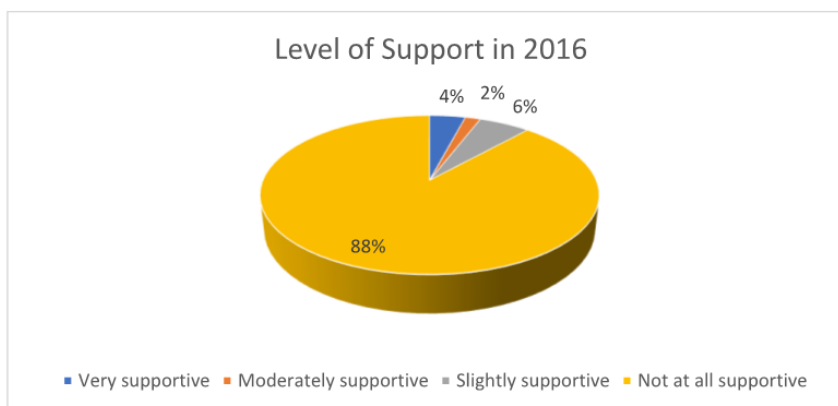
In order to facilitate more informed decision-making, the University of Newcastle conducted three two-hour community forums over the two days of the 27th and 28th of April. The forums presented balanced and robust empirical evidence to the community and then surveyed those who had listened to the presentation in order to obtain facts-based judgements regarding what the community felt should be its next steps³⁹. The results from the survey are summarised below:

³⁸ The residents of this area were beneficiaries of the rate harmonisation and will also have a considerably higher asset base to maintain.

³⁹ We received 193 surveys that were sufficiently complete for the purposes of analysis. Around forty people attended the forum in Tumut, approximately a dozen attended the Zoom presentation for outlying villages, and near to 350 people heard the presentation at Tumbarumba. Unfortunately, not all people attending filled in surveys. Moreover, because of the small building available for the Tumbarumba presentation – as well as insufficient seating – it is possible that some people might have: (i) been dissuaded from actively attending, (ii) not receive a survey as they arrived, or (iii) not have understood how to return the surveys.

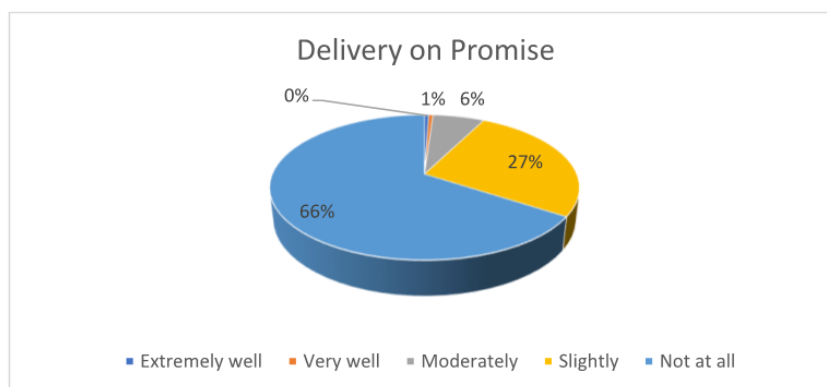
Report

What was your level of support for the original proposal to amalgamate Tumut and Tumbarumba in 2016?



As has been established in previous commissions and inquiries, the majority of informed people in the communities were against the proposal back in 2016. Just over one in ten people supported the amalgamation some seven years ago and it is interesting to note how their perceptions have changed over the ensuing years.

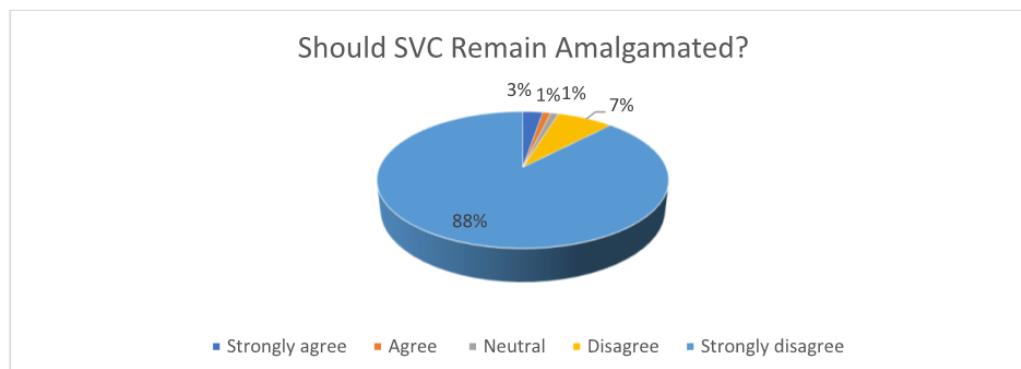
In your opinion, how well has the amalgamation delivered on the eight promises listed in [the Minister's Proposal]?



Around two-thirds of informed citizens assert that that amalgamation has wholly failed to deliver on the promises made by the (then) Minister. It seems to us that a few of the promises have been met in at least a marginal way – thus, it might be reasonable to conclude that the majority of informed citizens are gripped by high levels of negativity bias, consistent with our earlier explication of theory. Just over a quarter of residents concede that some promises were 'slightly' kept. Only one person thought that the amalgamation had performed 'extremely well', and another 'very well', with respect to the aforementioned promises. Six percent of people believed that the amalgamation 'moderately' delivered on promises.

Report

How strongly do you agree or disagree with the following statement? Snowy Valleys Council (SVC) should remain amalgamated.



After hearing of the robust empirical evidence regarding economies of scale, efficiency, and financial sustainability – as well as the responses of staff and other miscellaneous matters – eighty-eight percent of informed residents ‘strongly disagreed’ with the statement that SVC should remain amalgamated. A further seven percent ‘disagreed’ with the statement. Otherwise stated, ninety-five percent of informed citizens believe that the Snowy Valleys Council should be de-amalgamated. Notably the proportion of people who believe that Snowy Valleys Council should be de-amalgamated is some seven percent higher than the proportion of people who opposed the amalgamation back in 2016. It seems that some people may now feel that the matters of opinion, upon which previous decision-making had been based, have not measured up to robust facts and lived experiences.

Table 8. Reasons Given for Concerns in the Event of a De-Amalgamation

Most Important	Second Most Important	Third Most Important	Overall
Financial Sustainability (38.61%)	Financial Sustainability (17.82%)	Ability to Provide Equitable, Effective and Adequate Services (12.87%)	Financial Sustainability (20.79%)
Ability to Provide Equitable, Effective and Adequate Services (14.85%)	Having Sufficient Staff to Fill Key Positions (16.83%)	Initial Workload During De-Amalgamation (13.86%)	Ability to Provide Equitable, Effective and Adequate Services (13.53%)
Having Sufficient Staff to Fill Key Positions (9.90%)	Ability to Provide Equitable, Effective and Adequate Services (12.87%)	Effect on Community (11.88%)	Having Sufficient Staff to Fill Key Positions (12.87%)

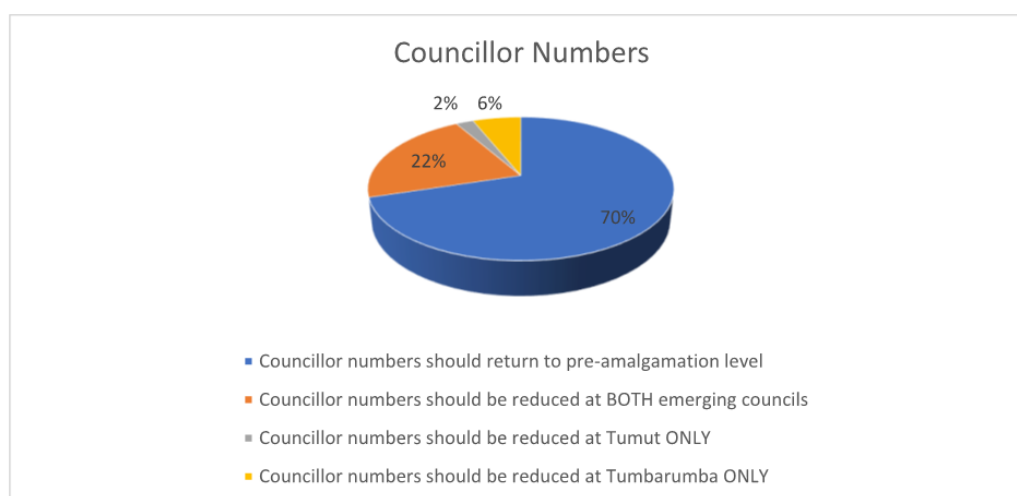
Report

In Question 5 we asked informed citizens about their top three concerns in the event that a de-amalgamation did proceed. As summarised in Table 8 it is clear that the majority of people are most concerned about financial sustainability. The next most frequent concern related to the ability of Council to provide equitable, effective and adequate services. Community were also concerned about having sufficient staff to fill key positions.

It is quite likely that community members have failed to read the question carefully and instead expressed their *current* concerns. Indeed, this question was very poorly completed – well over half of the returned surveys either didn't answer the question, or instead ticked every possible response. Moreover, the questions posed in the forum, as well as community feedback (including free-flow comments not recorded in this report), strongly reinforce our perception that the tabulated results under reference reflect current concerns.

Indeed, it is clear that people were shocked to find that the sustainability position was quite so serious. Moreover, many conversations and free-flow comments suggested that a significant proportion of people appreciated the heterogeneity problem facing SVC. In addition, there were many concerns expressed for the welfare of staff. For all these reasons it would be prudent to interpret Table 8 as a list of current concerns.

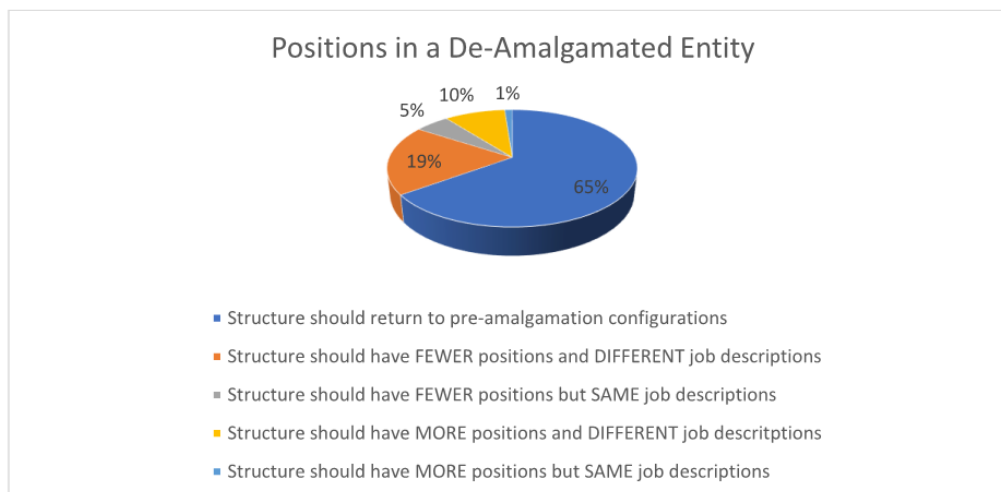
In your opinion, what should happen to the number of Councillors if Snowy Valleys Council goes through a de-amalgamation?



Seven out of every ten people believe that Councillor numbers should return to the pre-amalgamation levels should a de-amalgamation take place. Notably, this result is in stark contrast to the proponent of the previous de-amalgamation proposal who urged a reduction at Tumbarumba. People in the community largely understood that the democratic trade-off for a marginal reduction in cost was not compelling. We concede that just over a fifth of people thought reductions to Councillor numbers across the board would be advisable – but this is clearly a minority position. Moreover, it should be remembered that reducing Councillor numbers is a relatively straight-forward thing to do under the Act (1993) and could thus prudently be left for a possible future time when the initial workload from potential de-amalgamation has subsided somewhat.

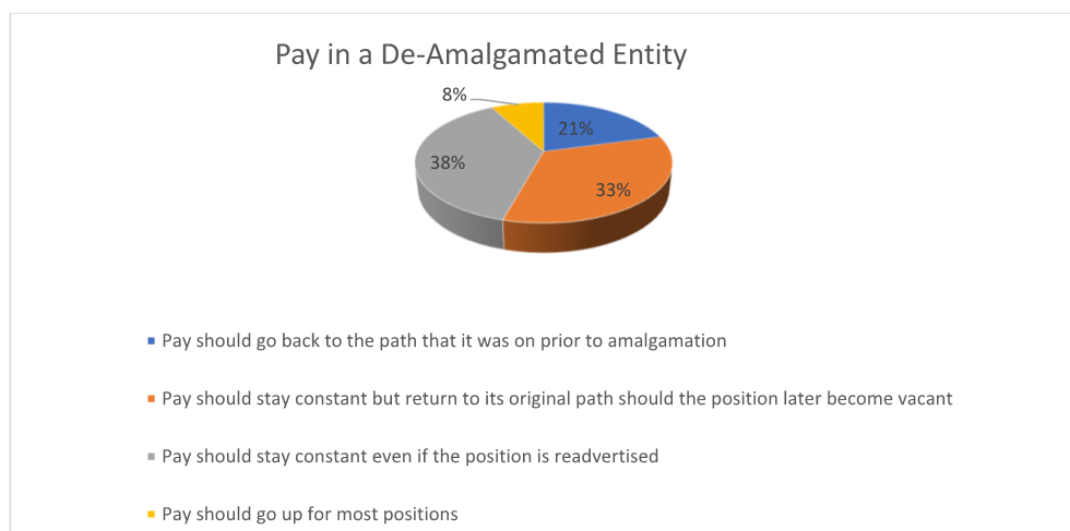
Report

In your opinion, what should happen to council staff structure if Snowy Valleys Council goes through a de-amalgamation?



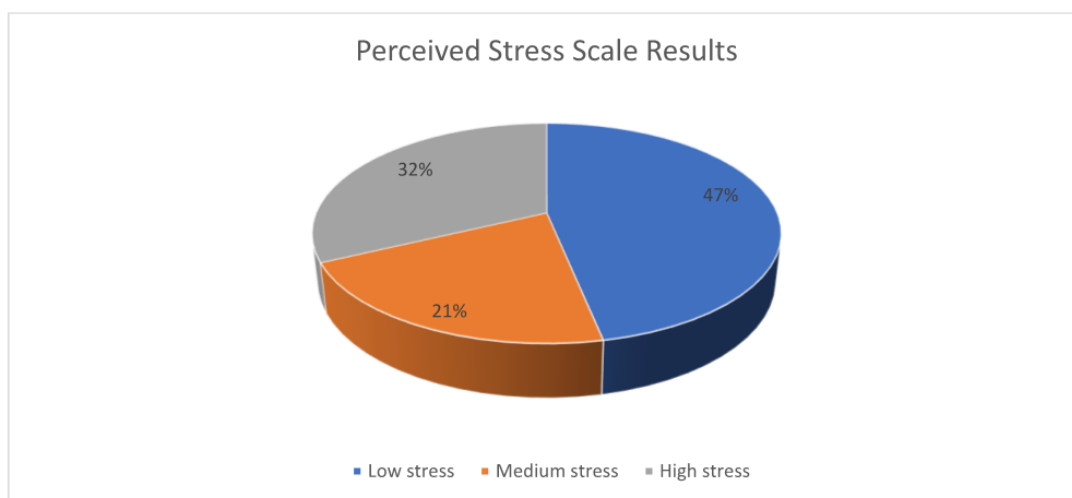
It is the clear expectation of almost two-thirds of informed citizens that any de-amalgamated entities would initially seek to return to pre-amalgamation configurations. Around a fifth of respondents saw the potential to reduce staff numbers, presumably to mitigate the inefficiencies that have arisen since amalgamation. Like much of the resident responses this feedback provides important guidance for management should a de-amalgamation proceed: the message seems to be that the community would be initially looking for staff configurations to return to pre-amalgamation configurations but understand that the need to capture savings may mean that some changes might need to take place.

In your opinion, what should happen for council positions where the pay increased following amalgamation (due to wage harmonisation) if Snowy Valleys Council goes through a de-amalgamation?



Report

Notably, only a minority of the community are looking for pay to immediately revert back to old paths should a de-amalgamation be granted. This is an important point because it indicates that people are not unrealistic in their expectations regarding what can be practically done (and also understand the importance of staff). Indeed, thirty-eight percent of respondents do not anticipate any changes to pay rates at all. Around a third of informed citizens agreed with the proposal that savings ought to be made, where possible, but only when positions become vacant in the future.

Perceived Stress Scale Results

Citizens attending the forum were asked to complete the abridged version of the perceived stress scale questionnaire (this is a highly respected instrument used frequently abroad). The results were quite unexpected.

Around a third of community attending the event were categorised as highly stressed. Conversations and free-flow comments clearly indicate that a good proportion of the community are suffering high levels of stress and attribute this either directly or indirectly to the 2016 amalgamation. It is concerning that such a large proportion of people in the community might be suffering stress as a result of the 2016 policy decision.

In sum, there can be little reasonable doubt regarding the prevailing attitude of residents in the SVC local government area. Moreover, the attitude has not changed in any appreciable way from past records of matters. Indeed, if anything, it seems that negativity bias has hardened even further since 2020-21 as the effect of special rate variations and the like have taken hold. It would be reasonable to expect further exacerbation of negativity bias in the future if Snowy Valleys Council were to take the necessary measures to try to mitigate its financial sustainability challenges. We also note with concern the serious health and psychological harm arising from resentment regarding the 2016 decision and consider that this poses unacceptable risks to staff, Councillors and the community.

10 Representation of Residents and Ratepayers

Section 263(3)(e) of the Act (1993, NSW) requires that due consideration be given to 'elected representation', the 'desirable and appropriate relationship between elected representatives and ratepayers and residents', as well as 'other matters...in relation to the past and future'. It is not clear that Delegates and Boundaries Commission members have always given careful attention to these three elements. Moreover, there is good reason to believe that the significance and intent of the legislations drafters has been somewhat overlooked.

There are three principal reasons why the Act (1993) might have been constructed this way:

1. To mitigate the potential for gerrymander by a state government Minister,
2. To protect the welfare of Councillors,
3. To insure against the potential for disenfranchisement.

All three matters are critical to the legitimacy of a democracy. However, because party politics is not a feature of most rural governments the latter two reasons hold particular salience.

The welfare of Councillors is alluded to by the injunction to ensure appropriate and desirable relationships with the community. Councillors in rural communities are particularly active and this necessitates many meetings and site visits to appropriately engage with stakeholders. Because of the vast distances now involved – exacerbated by the reduction in former Tumbarumba Councillors to just two – the workload is now quite imposing. Indeed, to travel from one end of SVC to the other is a journey exceeding 240km (this also presents problems for Tumut-based Councillors needing to travel to the extreme south). Moreover, the land area of the local government exceeds 895,000 hectares thus dwarfing a number of nations. This imposing geography poses a threat to the wellbeing of Councillors who diligently engage with the whole community as well as acting as a deterrent to potential candidates.

Moreover, Councillor welfare is further put at risk by the undesirable relationships that have formed between significant sections of the community and some of the Councillors heralding from the former Tumut area. We have heard a number of accounts of inappropriate and undesirable behaviour – both physical and online – exhibited towards Councillors by community members aggrieved at the 2016 decision. This is not a safe operating environment for Councillors, especially with respect to mental health. In this regard we emphasise the legislator's concern for both past and future patterns. There have clearly been some undesirable behaviours in the past that have dissipated a little since the election of a Tumbarumba-based Mayor – however, there is no good reason to think that either these passions will diminish over time, or that future Mayors will herald from the former Tumbarumba boundaries.

The matter of potential disenfranchisement is a very serious issue in any democratic system (Riker, 1984). Notably there was only a barely perceptible change to the democratic voice of the villages and people of the former Tumut area as a result of the 2016 amalgamation. However, matters were starkly different for the citizens of the former Tumbarumba local government area.

As has been well-covered in previous reports, representation for Tumbarumba people has diminished by more than four-fold. We note with some surprise the contention by a recent Boundaries Commission (2021) that this need not remain the case because people from Tumut could, in principle, all vote for Tumbarumba-based Councillors– this is simply not what happens in rural areas where parochialism has always been a strong feature of human interactions. Moreover, this line of inquiry is Tumbarumba-town centric and ignores the fact that the former local government area contained a number of important satellite villages.

Report

The Dissenting Report (2021, p. 31) asserts that 'having an equality of vote but a smaller voice in a large council is not undemocratic'. Perhaps this is true, notwithstanding the insights of the 20th century's most famous political and social scientists (Riker, 1982; Hirschman, 1970). However, a smaller voice is not the issue at hand for it is clear that some communities now have no voice at all. Consider, for example the villages of origin for the last two Councils at Tumbarumba and Tumut respectively:

Table 9. Domicile of Previous Councillors in the Former Tumbarumba and Tumut Local Government Areas

Tumbarumba:

2012 Councillors	Residence	2008 Councillors	Residence
Julie Giddings	<i>Paddy's River</i>	Ian Chaffey	Tumbarumba
Ian Chaffey	Tumbarumba	Rodney Shaw	Tumbarumba
Rodney Shaw	Tumbarumba	George Martin	Tumbarumba
Tony A'Beckett	<i>Mannus</i>	Tony A'Beckett	<i>Mannus</i>
Alan Becke	<i>Taradale</i>	Sue Fletcher	<i>Khancoban</i>
Brent Livermore	Tumbarumba	Brent Livermore	Tumbarumba
Sue Fletcher	<i>Tumbarumba (ex Khancoban)</i>	Graham Smith	<i>Rosewood</i>
George Martin	Tumbarumba	Ron Blyton	<i>Khancoban</i>

Tumut:

2012 Councillors	Residence	2008 Councillors	Residence
Trina Thomson	Tumut	Geoff Pritchard	Tumut
Scott Stevenson	Tumut	Ben Dumbrell	Tumut
James Hayes	<i>Adelong</i>	Trina Thomson	Tumut
Sue Bulger	Tumut	John Larter	Tumut
Peter Cross	Tumut	Suzanne Bulger	Tumut
Margaret Isselmann	<i>Batlow</i>	Audrey McKenzie	Tumut
Geoff Pritchard	<i>Tumut</i>	Jan Knott	<i>Batlow</i>

Report

It is clear that the satellite villages, within the former Tumbarumba boundaries, regularly held around half of the Councillor seats in the past. It is equally clear that there is almost no chance that these same satellite villages could hold similar voice in SVC in the future (even if all the eligible voters in Khancoban voted in a block, they would only muster up the numbers for 0.26 of a Councillor). It is beyond reasonable dispute that these villages now have *no* democratic voice on Council itself and no real likelihood of getting a voice in the future.

We note that the Boundaries Delegate and Boundaries Commissioners placed great emphasis on the representation ratios for entire former local government areas. However, our brief survey of matters should demonstrate that this is not an appropriate approach to the matter. Nor is it appropriate to suggest that s355 Committees are somehow a substitute for democratic elected representation – were this the case then we could probably dispense with Councillors altogether. The truth of the matter is that s355 Committees are subject to the will of the Council, only operate for a particular purpose, and have indeed declined in number since the amalgamation. In similar vein the much-lauded IP&R process is also not a reasonable substitute: it is merely an infrequent engagement event that is subject to the will of the Councillors⁴⁰.

A number of miscellaneous matters were also raised in the aforementioned report that warrant consideration with respect to future boundaries deliberations. First, the Boundaries Commission asserted that wards would not help matters – they are probably correct. People will vote according to where they reside in any case, so wards are largely redundant – as Tumbarumba showed when they abolished ridings some time ago. Second, the Boundaries Commission (2021) declared that they had no issue with only having seven Councillors at Tumbarumba should a de-amalgamation proceed. Our modelling suggests that this might have an unacceptable impact on the democratic voice of the villages, and we therefore disagree with this judgement. The costs of an additional Councillor is extremely marginal in terms of a local government's budget and probably not worth the trade-off in representation and workload in this instance. Third, a claim was made in the Dissenting Report (2021) that the Boundaries Delegate properly considered s263(3)(e) in 2016 – as we have shown this was clearly not done. Fourth, the dissenting Commissioner (2021) claims that it is not the role of the Boundaries Commission to review the 2016 decision. This was quite a surprising statement given how much time the relevant Commissioner devoted to 2016 in his Dissenting Report (especially with respect to his heavy reliance on the claim that the Delegate and Boundaries Commission had not perceived this to be an insurmountable obstacle in 2016). Moreover, as we have noted, s263(3)(e) makes specific reference to both the *past* and future patterns. Fifth, the dissenting Commissioner repeats previous claims that the 2016 decision was legitimate but fails to detail how he has come to this conclusion. The legality of the decision was never tested for the case of SVC and Commissioners would be well-aware that decisions had been made both for and against the (then) Minister at a number of Courts that weren't fully resolved at the time that the state government backed down on outstanding amalgamation proposals. In addition, it is clear that the government at the time had not obtained a political mandate for amalgamation – hence casting a shadow on the political legitimacy of the action. Indeed, serious questions of moral legitimacy of amalgamation have long been established in the scholarly literature (see, for example, Drew, 2021).

⁴⁰ Once again, if the IP&R were a perfect substitute then why would there be a need for democratic representation at all? Moreover, the way IP&R is commonly conducted leaves much to be desired – it usually amplifies the voices of people with vested interests to the detriment of financial sustainability and the larger body of taxpayers (the common pool problem – see Drew, 2021).

Report

Nevertheless, whether the Commissioners feel that the 2016 amalgamation was legitimate or not is largely a moot point because attitudes in the community – as we have already shown – clearly suggest otherwise.

11 Adequate, Equitable and Appropriate Services and Facilities

Section 263(3)(e1) of the Act (1993, NSW) requires that decision-makers give due consideration to 'the ability of the councils of the areas concerned to provide adequate, equitable and appropriate services and facilities'. Notably, all three key terms – adequate, equitable, and appropriate – are expressed in this single factor, rather than dispersed over a number of factors.

S263(3)(e1) exposes the key problem that has confronted SVC from its inception – a high degree of heterogeneity between the communities. As conceded by the Boundaries Delegate (2016) and the Boundaries Commission (2021) equitable services would not be considered adequate to many members of the disparate communities, nor would equitable services be appropriate in view of the vastly different local economies. Because tastes, preferences and local market conditions differ so much it would be quite impossible to treat the distinct communities 'equally' and for them to consider such treatment 'adequate'.

Moreover, the capacity of SVC to continue to provide even the extant levels of services – that have attracted the ire of some folk in Tumbarumba – must be considered to be quite uncertain. SVC has a very large financial sustainability challenge that will need to be met through both increased revenues and decreased spending. It is more than likely that further service level reductions will be part of the future for all SVC residents.

This confronting reality, less than seven years after amalgamation, stands in stark contrast to the Boundaries Delegates' (2016, p. 54) predicted merger savings which he envisaged could be used for service improvements that certainly 'should not disadvantage residents in the Tumbarumba area'. Of course, given the robust empirical work that we presented earlier we can now understand that the proposed savings – based on the opinions of commercial consultants – never had any likelihood of materialising. Indeed, reduced technical efficiency was the most plausible end result – and the rate increases and service level reductions that have followed amalgamation were therefore entirely predictable.

Indeed, the Boundaries Commission (2021, pp. 46-47) have catalogued a selection of the service level declines to which we can now add reduced hours at the Service NSW desk⁴¹. Apparently acknowledging the declines in service levels, the Boundaries Commission attributes these to either: (i) poor management, (ii) inability to correctly perceive needs and tastes, or (iii) service standardisation. We have made a thorough review of matters and believe that the most likely cause of the discrepancy between the intent of S263(3)(e1) and the Boundaries Delegate, on the one hand, and stark reality in 2023, on the other, is the large discrepancy in tastes and needs. Any failure to standardise services could readily be perceived as 'inequitable' to Tumut residents, any efforts to standardise services would likely be deemed by Tumbarumba residents as 'inadequate' or 'inappropriate'. It is difficult to see how even the most adept managers could achieve all three goals for two such disparate communities.

The dissenting Commissioner (2021, p34) states that comments received by the Boundaries Commission 'reflect the different philosophies residents in Tumbarumba have towards service provision compared to the expectations of residents in Tumut'. In so doing he underscores the problem that is at the heart of SVC's challenges – heterogeneity in tastes and preferences reflective of very different local markets. As we

⁴¹ It seems that this is mostly due to transaction numbers, however, the community are unlikely to view matters in this light.

Report

have noted several times this problem is widely accepted by economists as an obstacle to efficient service delivery (Tiebout, 1956; Dollery et al., 2006; Oates, 1972; Drew, 2021). The dissenting Commissioner (2021, p. 34) then goes on to observe that 'ultimately the Delegate considered these differing philosophies were not a barrier to the merger concluding that a new council would have options to ensure service delivery'. However, context is everything. The Boundaries Delegate – as we have seen – placed full reliance on the matters of opinion provided to him from KPMG by way of the (then) Minister. It is clear that the Delegate expected there to be substantial savings which could be used to maintain or even improve service levels. The truth of the matter is that these savings were never likely to eventuate and hence that decline in financial sustainability was an inevitable result – ultimately leading to reduced service levels and uncertainty regarding future service provision.

Undeterred by the poor outcomes achieved in the past by placing full reliance on commercial consultant opinion, the dissenting Commissioner (2021, p.34) states that 'Deloitte notes that on a comparative analysis against the assumed base case, Tumbarumba's financial capacity is more constrained than the diminished SVC's capacity'. As we (as well as subsequent events) have already shown the work produced by Deloitte was not a sound basis for financial decision-making. Moreover, a key element to financial sustainability is willingness to pay (Dollery et al., 2006; Drew, 2021). It seems that the southern community understands the need to pay for what they wish to implement and because of the incidence of the rates harmonisation and special rate variation – as well as the s218CC provisions for the state government to pay for de-amalgamation – it is expected that they will be able to do so. However, willingness to pay is less clear with respect to the northern community and for this reason we recommend additional effort be put into communicating with this cohort should a de-amalgamation proceed.

In sum, because of the disparate preferences and different local market conditions of the two communities it is simply not possible to provide 'adequate, equitable and appropriate services and facilities' as per the Act (1993, NSW). We believe that the legislators were deliberate in their choice to include all three terms together in 263(3)(e1), probably being well aware that it would require a careful consideration of homogeneity. This is more than a difference in 'philosophy' that can be explained away – instead it is a matter core to the efficient operation of the SVC. Another core matter to the future of SVC is the impact on employment, to which we will now direct our attention accordingly.

12 Impact on the Employment of the Staff

Section 263(3)(e2) calls for due attention to be given to 'the impact of any relevant proposal on the employment of the staff by the councils of the areas concerned'. On the whole, it would be fair to say that both the Boundary Delegates and Commissions have had a very narrow focus with respect to their interpretation of this part of the legislation (principally orientated towards full time equivalent (FTE) numbers). However, there is no reason in this part of the legislation for such a myopic view of matters. Staff are the most valuable asset of any local government – a failure to provide them with the same level of consideration as the other factors risks the wellbeing of employees and ultimately the community that they serve.

Accordingly, we spent considerable time engaging directly with as many staff as practical and also surveyed all employees. The insights of Deming many decades ago are not lost on us – it is the staff who understand the work of Council best because it is they who conduct the work every day on behalf of the community.

Below we produce summaries of the responses of staff to a survey conducted in March 2023. Staff were guaranteed anonymity by the authors and could complete the survey online (147 respondents), or via paper⁴² (44 respondents). Eight staff took the extraordinary step of contacting Professor Drew to obtain additional assurances around confidentiality. There appears to be a perception that surveys in the past have resulted in staff being bullied and there was also a concern expressed (twice) that unfavourable comments in surveys might result in dismissal. Those who contacted Professor Drew were assured that there would be no disclosures made that could be used to identify staff, or groups of staff. It is quite possible that staff might have misapprehended what has occurred in the past and that their concerns were unwarranted. However, the mere fact that a relatively large number of staff would take the time to reach out to Professor Drew indicates that there is some serious workplace stress in at least some pockets of SVC.

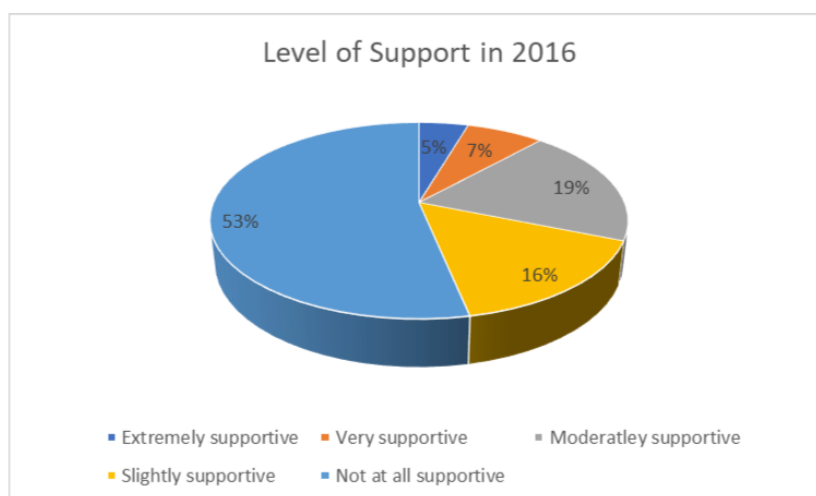
In the material that follows we set out each question asked and report on the aggregate responses for the high proportion of staff that returned surveys⁴³. We have been deliberately vague on some data so as to prevent unwarranted conclusions being drawn about the location or type of staff holding certain views. This approach reduces the information available to end-users but is consonant with our guarantees regarding staff anonymity. Broadly speaking, the results were probably at odds with most peoples' *ex ante* perceptions.

⁴² Paper surveys were posted directly to the personal PO Box of Professor Drew. It seems that staff particularly concerned about anonymity – as well as staff wishing to make extensive comments – chose to use the paper survey.

⁴³ According to the audited financial statements there were 189 FTE staff as at June 30, 2022.

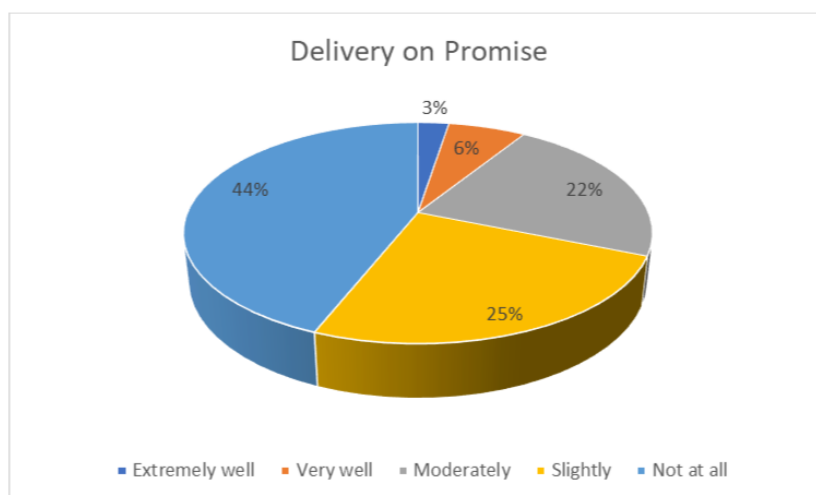
Report

What was your level of support for the original proposal to amalgamate Tumut and Tumbarumba in 2016?



It seems that staff were split on the question of amalgamation back in 2016. The promises that were made at the time – backed by several prominent expert brands – certainly did look appealing, but it seems that over half of the staff nevertheless failed to see nett benefits in the 2016 proposed boundary change program.

In your opinion, how well has the amalgamation delivered on the eight promises listed in [the Minister's Proposal]?

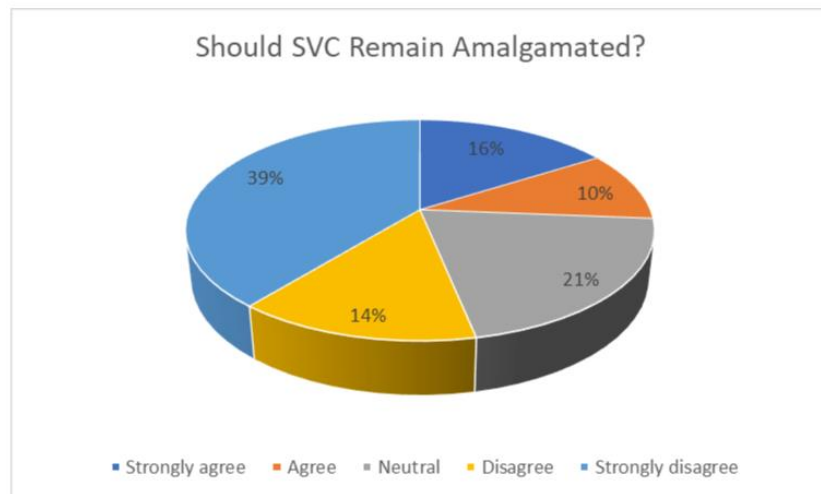


By far, most staff indicated that the amalgamation 'not at all' delivered on the promises made in the Minister's (2015) proposal. This was a surprising judgement given that it seems to us that at least some of the promises must have been delivered in at least a marginal way. Notably, the staff were not in possession of the evidence that we have presented earlier in this report regarding efficiency and the like. Instead, what we see reflected here is the judgement of people drawing on their experiences working

Report

every day in SVC. Over a third of respondents to this question were not employed by Council prior to the amalgamation.

How strongly do you agree or disagree with the following statement? 'Snowy Valleys Council (SVC) should remain amalgamated.'



Just over a quarter of staff agree or strongly agree with the statement that SVC should remain amalgamated. One-fifth of staff are undecided (neutral). Over half of the staff believe that SVC should be de-amalgamated. In Table 9, below, we provide a glimpse into the kind of thinking that may have influenced these judgements.

Report

Table 10. Reasons Given for Concerns in the Event of a De-Amalgamation

Most Important	Second Most Important	Third Most Important	Overall
Cost of De-amalgamating (29.46%)	Initial Workload (19.64%)	Having Sufficient Staff (17.86%)	Having Sufficient Staff (16.96%)
Financial Sustainability (22.32%)	Having Sufficient Staff (17.86%)	Workplace Disruption (16.07%)	Cost of De-Amalgamating (16.07%)
Having Sufficient Staff (15.18%)	Financial Sustainability (15.18%)	Initial Workload (11.61%)	Financial Sustainability (15.18%)

Staff were asked for their three most important concerns in the event that a de-amalgamation occurred. In Table 9 we list the top three responses for each of the three concerns. Notably there was a high level of concordance, and invariably a big gap between the third preference and less frequent responses. We also calculated the three most frequent responses overall.

It is clear that staff are very concerned about the cost of de-amalgamation. It is unlikely that most staff would be aware of recent amendments to the Act (1993) which have transferred the burden of de-amalgamation costs to the state government. When staff do become aware of this fact it might conceivably change their attitude to potential de-amalgamation.

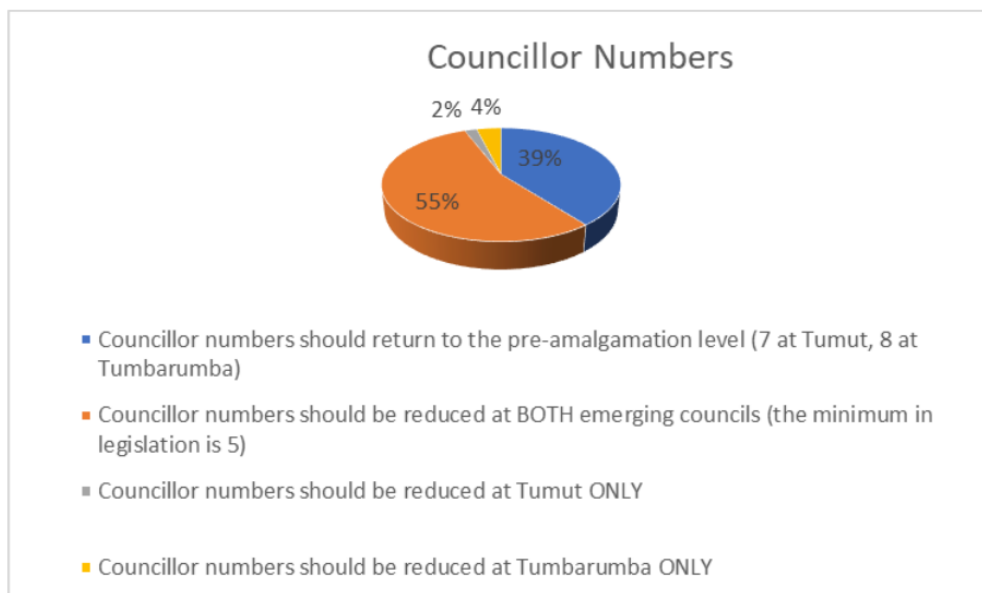
Staff are also rightly concerned about financial sustainability. As our report indicates SVC is faced with a financial sustainability challenge. It seems from comments provided that some people believe that this challenge might be more difficult for smaller councils, however, our empirical evidence is at odds with this presumption.

Staff are also worried about having sufficient numbers of suitably qualified people in key positions. Our many conversations with staff have confirmed that there is a real concern around the inability of SVC to attract skilled staff. Some are also concerned about the ability of a smaller demerged entity to attract staff, although this sentiment came up less often in conversations. We have had conversations with a prominent local government recruiter who has advised that 'the word has got around' regarding potential employment at SVC. It seems that people are hesitant to move to the Council which they perceive – rightly or wrongly – as having cultural, political (mostly relating to de-amalgamation activism) and financial problems. We have been advised by people working in this field that it is likely that SVC may have to increase pay offers to attract staff in the future.

Workload and workplace disruption are understandable concerns for the staff. The community needs to appreciate that de-amalgamation will give rise to additional work as well as a period of some stress and dislocation. Most staff that we spoke to understand that this will be an intense but one-off event that needs to be weighed against ongoing stress and disruption associated with the failure of some in the community to accept the current situation. Indeed, many staff said that they just wanted to get things 'over and done with' – apparently weary of the debate and controversy. It will be important for Councillors and management to skilfully approach any potential de-amalgamation so as to avoid exacerbating extant levels of stress in the workforce.

Report

In your opinion, what should happen to the number of Councillors if Snowy Valleys Council goes through a de-amalgamation?

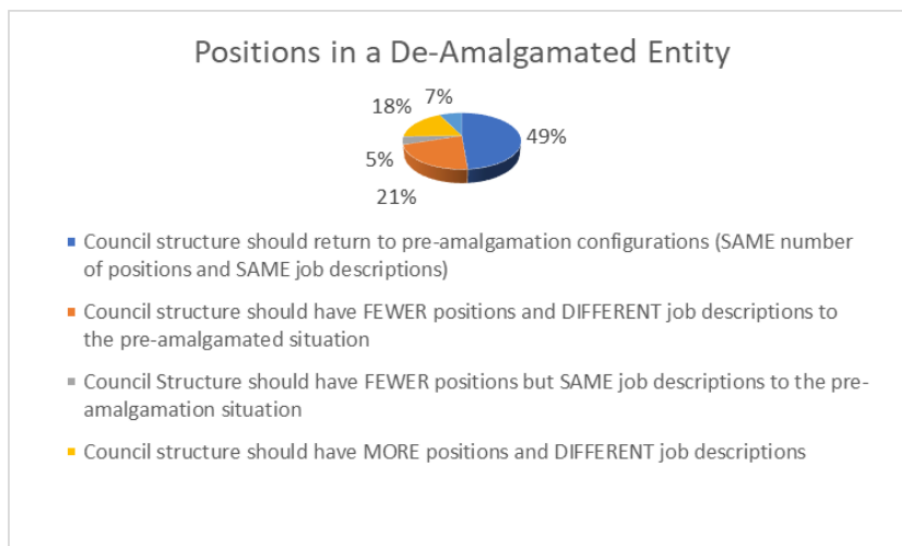


The result for this question was somewhat unexpected. Most staff would like to see Councillor numbers at both emerging entities reduced in the event of a de-amalgamation. From reading some of the additional comments provided, it seems that some staff perceive that Councillors have not always effectively communicated with them. The preference for reduced numbers seems to have been strongly influenced by this sentiment. As we have written elsewhere in this report, potential cost-savings from reducing Councillor numbers are marginal and doing so is likely to reduce the diversity of representation. For these reasons we tend to disagree with the staff preference for lower numbers of representatives⁴⁴.

⁴⁴ However, as noted earlier, we would not object strongly should a small reduction in numbers ultimately take place.

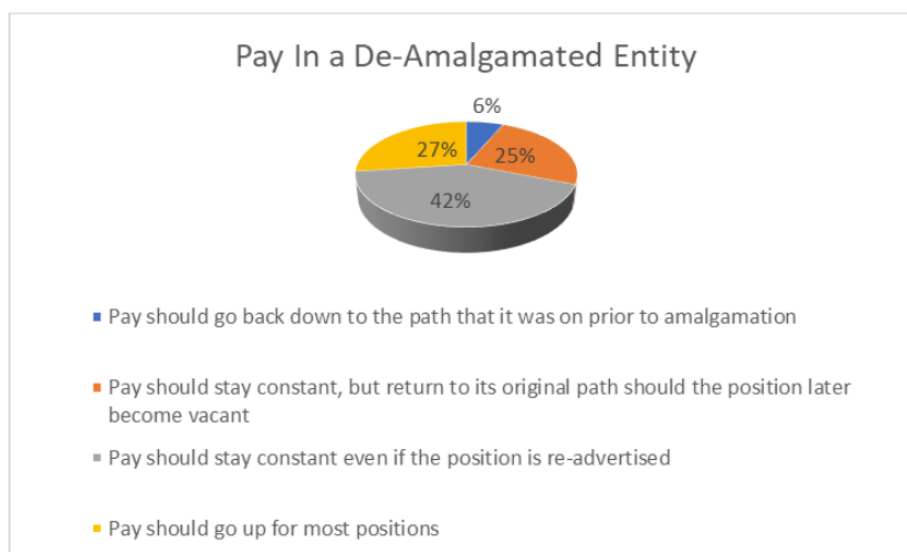
Report

In your opinion, what should happen to council staff structure if Snowy Valleys Council goes through a de-amalgamation?



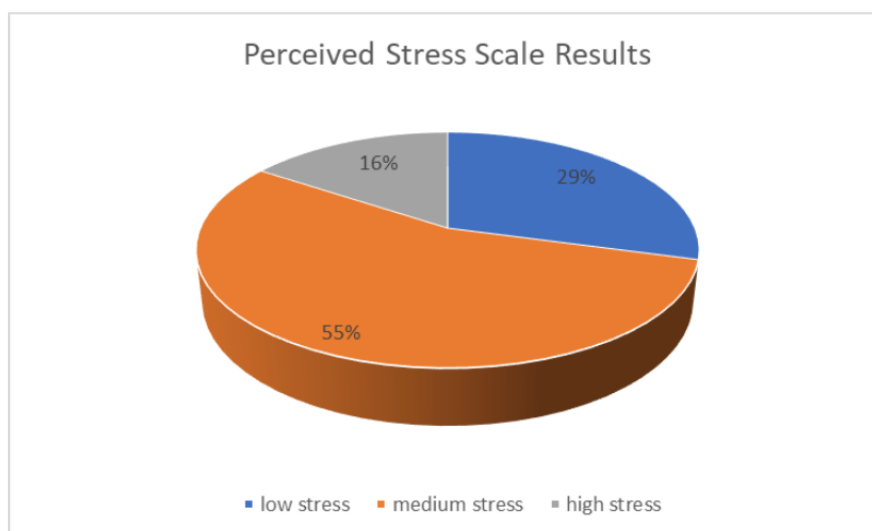
The overwhelming majority of staff have a preference for structures returning to pre-amalgamation configurations should there be a de-amalgamation. Around one fifth of staff would like to see fewer or less positions respectively. Future structures would be a matter for management and likely involve some small deviations from pre-2016 configurations to reflect changes to services and expectations. However, it is helpful for management to understand the expectation of staff and this knowledge should aid effective communications.

In your opinion, what should happen for council positions where the pay increased following amalgamation (due to wage harmonisation) if Snowy Valleys Council goes through a de-amalgamation?



Report

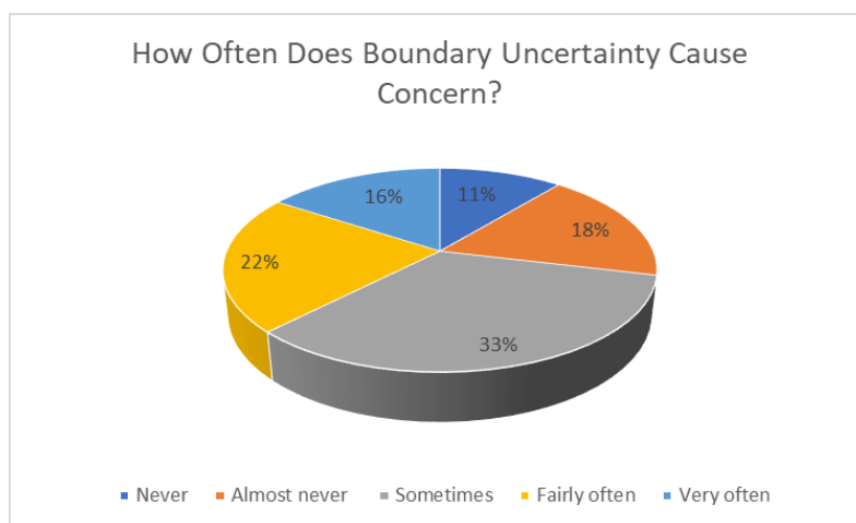
The majority of staff believe that there should be no change to pay in the event of a de-amalgamation. Around a quarter of staff believe that pay should go up – however, financial sustainability is such that this would not be advisable, unless absolutely necessary. A quarter of staff also believe that pay should remain constant until a position becomes vacant, after which time the job might be advertised at a lower level. This latter position is consistent with our preference – in *some* cases it may be possible to reduce pay when a position becomes vacant and given the fiscal circumstances it would be prudent to do so when possible.

Perceived Stress Scale Results

The perceived stress scale test is a well-regarded way of getting a sense of the workplace stress in a local government. We were concerned by the relatively high proportion of staff (16%) located firmly in the high stress domain. The current uncertainty – as well as the structural challenges of the large local government area (see our discussion below the survey results) – are undoubtedly exacerbating stress and this has led to serious health concerns.

Report

How often does uncertainty around de-amalgamation cause concern for you in the workplace?



The responses to this question tend to confirm our earlier commentary and are consonant with our interactions with staff. Indeed, it was the deleterious effects of boundary uncertainty that largely prompted the Councillor body to commission this present work. Well over a third of staff report that they are often (fairly often or very often) concerned about uncertainty with respect to potential boundary change. We believe that this uncertainty must be put to bed as quickly as possible – and it is likely that any delay in doing so would further exacerbate stress and staffing problems at SVC. For this reason, we urge Council to make a quick and final decision regarding their intentions with respect to potential de-amalgamation. We can see nothing to be gained by delaying matters should the Council elect to take the path to de-amalgamation.

OTHER STAFF MATTERS

The Boundaries Commission briefly examined staff matters in 2021. They argued that final staffing allocations would have to be negotiated by the two emerging entities – a position that we agree with. The Commission also opined that a smaller local government would struggle to get suitably qualified staff and that this would likely come at additional cost. We have made detailed and confidential inquiries into this matter and believe that an emerging council for the former Tumbarumba area would be able to field key staff from day one. We do not believe that this will come at any additional cost, beyond the salary packages expected in an organisation of the size of the former Tumbarumba Council (detailed earlier in this report). There will be relatively less positions that require filling in the former Tumut area because it is currently the larger organisational component of SVC – however, we are confident that a de-amalgamation would not result in significantly more vacancies that could not be filled. Indeed, the advice that we have received suggests that de-amalgamated entities may well experience less difficulties sourcing staff than SVC does at present.

The Boundaries Commission (2021) made much of s218CA staff number protections and also the s354F protections against forced redundancies (Local Government Act, 1993 NSW). As we will further outline in the next section, actual practice suggests that these concerns are over-blown.

Report

Furthermore, 'the Commission accept[ed] that employee mental health is a serious matter ... it [hoped] that the resolution of this Proposal [would] act as a calming influence... [but] [stated that] this is not a matter that the Commission feels qualified to address further' (Boundaries Commission, 2021, p. 51). In addition, it was noted in the Dissenting Report (2021) that the staff did not make a submission to the Commission.

We also felt that the health and safety of staff was a serious matter hence we surveyed the staff, as detailed earlier, and also conducted many conversations with workers at all levels of the organisation.

Staff expressed concerns regarding the exhaustion and risks associated with the lengthy commutes that many of them were now obliged to make on a regular basis (see the travel survey data below). The road between the two centres is not a particularly good one and there is also a risk of hitting kangaroos and brumbies – especially if travelling in low-light conditions. Frost and snow also sometimes pose additional risks to staff needing to commute between the centres.

However, the most disturbing health consequences related to the mental wellbeing of staff. Professor Drew spoke with a large number of former and current employees on this matter. He was saddened to hear stories of clinically diagnosed depression and anxiety, and also reports of suicidal thoughts, and substance abuse. Many of the current and former staff who related these matters said that they would be prepared to sign a statutory declaration, if necessary, but hoped that a summary by Professor Drew would prove sufficient.

It could be contended that these unacceptable mental health outcomes were the result of poor management – and we note that the Commission (2021) has rightly observed in the past that management failures need not be considered a direct consequence of local government boundary change. However, we have no strong reasons to believe that poor management was responsible for most of the harm sustained by employees.

Instead, our inquiries suggest that the serious harm inflicted on some staff has been a function of the current physical configuration of SVC. SVC is obliged to operate two main offices – one in Tumbarumba and one at Tumut. Quite a few staff have functions and responsibilities that overlap both offices. This necessitates travel on a regular basis which staff find to be exhausting and (for some) stressful (due to concerns about poor driving conditions). In addition, the operation of two offices, concurrently, means that it is simply not possible for some staff to be privy to all of the relevant conversations that occur between colleagues. As a result, staff have expressed that they have felt that they have not received important information and have not had their views imputed into some important decisions.

As all office workers know, it is the incidental conversations that take place in tea rooms and the like where one often comes across crucial information or one gets the opportunity to express important preferences. It is mostly these incidental conversations that staff have been missing out on, and which some staff have interpreted as sustained and distressing workplace bullying.

It is hard to see how these feelings of staff could be completely redressed under current configurations. We believe that management have been making efforts to have regular and formal meetings, however, these are often insufficient to redress exclusion from the kinds of incidental conversations that we related earlier. If these matters are not able to be redressed then the conditions that have given rise to appalling mental harm, in the past, will persist.

It has been argued by the Commission (2021) that ICT – such as Microsoft 'Teams' – could be used as a substitute for travel and it has been noted that this did indeed occur during the COVID disruptions. However, unless Teams was operating eight hours per day throughout the entire buildings it would still fail

Report

to capture the incidental conversations that seem to have been the root cause of much distress. Moreover, one can't 'Zoom' or 'Teams' – equipment and machinery. Indeed, it is notable that as soon as the pandemic came to an end most people went back to face-to-face interactions and most workplaces started to encourage staff to return to the office. As Aristotle famously observed, people are fundamentally social animals – there is simply no perfect substitute for personal interaction.

Indeed, this observation is borne out by the travel survey data that we accumulated early in February 2023. Staff were asked to complete a travel log to detail all trips between the two former centres for a single week. A total of 13,824km were travelled in just the five working days. According to the travel logs, 10,909 minutes (almost 182 hours) were spent travelling. If we extrapolate the mileage for the whole year and multiply it by the current Australian Tax Office cost allowance the cost of mileage is \$560,701 per annum. If we extrapolate the time and multiply it by the staff member's salary (where identifiable) the lost staff time comes to \$448,142 per annum. The total cost of travelling between the centres tops out at over one million dollars per year (\$1,008,843 to be precise). We note that this was a large potential saving from de-amalgamation entirely neglected by Deloitte and the earlier Boundary Commission (2021).

We have been advised by several staff that the week of the survey featured unusually low rates of travel because of certain people being absent from the workplace. It also did not coincide with the quarterly staff barbeque events. In addition, it is quite likely that some staff failed to complete and forward the surveys. As a result, our account of travel cost is likely to under-estimate matters. Indeed, the figures we cited do not include important opportunity costs (economists define this as the next best option foregone) or the time required to settle back into work properly following a journey. Both of these costs are likely to be substantial.

Notably, travel costs are likely to grow over time with inflation, and wage growth. In addition, at least two staff members are travelling in their own time and this kind of good will cannot be relied upon indefinitely. If an accident were to occur while travelling, then this would further increase costs.

As we have already noted there has been high turnover of staff since amalgamation that continues to this time. SVC has found it difficult to fill vacancies which impacts on its ability to provide services at appropriate levels. Staff turnover also increase costs substantially via induction and training expenses, as well as the use of casuals and short-term contract staff. However, the financial consequences of turnover probably pale in significance to other costs.

First, it is clear that SVC has lost considerable institutional knowledge as a result of the turnover. We have found this to be a problem several times during our investigation of the costs and benefits of a potential de-amalgamation. Indeed, staff from outside the area often lack direct knowledge of the residents and local economic conditions which may cause them to misapprehend the desired level of local government services. This has important implications for economic efficiency. In addition, lack of community roots also presages future high rates of turnover, and the literature has also noted that it may be negatively correlated with productivity (see, for example, Drew, 2021). Third, there has been some damage sustained in terms of reputation, that may hinder future recruitment.

More broadly, our investigation of staff matters has revealed a strong perception that there may exist an important communication gap between Councillors, management, and non-management staff. To be precise, the perceptions that some Councillors and Senior Management had sometimes seemed at odds to the things that lower-level staff would talk to us about. In particular, the refrain that we 'are one SVC' was not embraced by many staff below management levels. There was also some perception – whether warranted or not we cannot say – that Councillors and Senior Management were not listening to staff even when the matter related to expertise which the latter group clearly possessed. We cannot reveal the

Report

precise details due to anonymity constraints, but it was clear to us that the advice that these lower-level staff had provided was both sound and prudent and ought to have been given considerable weight by decision-makers. Had the advice been heeded this may have resulted in different outcomes for the rural communities involved – the matter to which we now turn our attention.

13 Impact on Rural Communities

The Act (1993, NSW) requires decision-makers to consider 'the impact of any relevant proposal on rural communities in the areas concerned' (s263(3)(e3)). The Boundaries Delegate (2016) thought that this directed him to pay particular attention to the impact on small towns, and the Boundaries Commission (2021) seem to have also adopted this line of reasoning. However, doing so requires that one substitute the words deliberately used by the legislators ('rural communities') with quite different words 'small towns' (or 'outlying villages'). If this was indeed the intent of the legislators, then one would be left to wonder at their competence or perhaps ponder their limited vocabulary.

It would be much more consistent with Maimonides' dictum⁴⁵ (1952) to assume that the legislators meant what they said, not a different thing. The question then naturally arises as to why the impact of rural communities would be mentioned specifically. Clearly, it must have been thought that amalgamation might have a potential impact that would be peculiar to rural communities. Three matters would seem to be particularly salient:

1. The greater reliance of rural communities on their local governments to correct for market failure or government failure.
2. Related to this, the greater familiarity of rural people with respect to their local government, local government staff, and local government representatives.
3. The greater impact of local government on rural economies (in terms of employment, fiscal flows, and procurement).

To his credit the Boundaries Delegate (2016) made reference to the local economy, albeit with a distorted sense of how amalgamation would affect same. The Boundaries Commission (2021) instead conducted a redundant discussion of representation issues and then focussed on the effect of (ill-defined) 'smaller communities', before turning to the matter of rates harmonisation (a financial disadvantage). Boundaries Commissioners (2021, p. 40) focussed on largely unspecified 'fruits of the effort undertaken up to now' and the problems of 'starting from scratch again' if a de-amalgamation were to proceed. Because all three parties focussed on something besides what was written by the legislators there is little benefit to be had from critiquing their remarks in detail. Instead, we will focus on the aforementioned impacts that are peculiar to rural communities.

Rural communities have a greater reliance on local government especially with respect to correcting market failure and government failure (Drew, 2021). This truism is particularly evident in the former Tumbarumba area where the combination of small population and relative remoteness means that local government has had to intervene directly in the provision of childcare, aged care, property development and the like. In addition, the former Council elected to provide state government services out of its premises and continues to do so until this time (albeit at reduced levels). This contrasts sharply with the willingness of private providers and state governments to provide such services directly at Tumut. The Tumbarumba community was understandably worried in 2016 about the potential for an amalgamated Council to either withdraw from interventions aimed at correcting market failure or reduce the scope of

⁴⁵ This philosophical 'rule' suggests that if there is a simple explanation then this should be preferred over a more complex explanation in most instances. A similar idea occurs in the (later) principle of parsimony and also Occam's razor.

Report

such interventions. Former Tumbarumba residents were given assurances that this would not happen, but actions over the subsequent seven years may have instead validated some of these fears⁴⁶.

We do not believe that the reduced willingness of SVC to intervene to correct important gaps in service provision has been due to any ill-will as suggested by some. Instead, partial withdrawal from this role is likely to be due to a combination of failure to understand the problem, lack of familiarity, and also financial stress. Unless one lives with pronounced market and government failure one is unlikely to fully appreciate the risk that it poses to communities. Moreover, when key decision-makers don't live in a community they are unlikely to notice the failures in the first instance. Senior management is for the most part now located in Tumut, and this means that decision-makers simply aren't noticing the things that they once did (nor are they personally feeling localised consequences of decisions made – see Drew, 2021). In addition, the need to pursue savings will inevitably result in decision-makers looking to reduce services or being averse to future interventions.

The impact of local government on rural economies will also be determined in large part by differences in local economies. For relatively small areas such as the former Tumbarumba Shire, local government is often one of the largest employers and also the employer of choice (because of relatively good conditions). Through both employment and local procurement local government can have a substantial influence on the fiscal flows and even underwrite local economies through the multiplier effect. The relative effect of Council in the former Tumbarumba area was greater than for Tumut due to the size of the local economy. Moreover, flows have clearly been reduced at the former area since amalgamation.

Most of the focus of the Boundaries Delegate and Commission has been on full time equivalent (FTE) numbers. This has been encouraged by a narrow interpretation of ss218CA(2) and 354F that warrant some examination. Section 218CA states that the 'transferee council must ensure that the number of regular staff of the council employed at the rural centre is, *as far as is reasonably practical*, maintained at not less than the same level of regular staff as were employed by the previous council at the centre immediately before amalgamation' (emphasis added, the Act, 1993, NSW). Amalgamated Councils throughout the state have found it impractical to maintain numbers and moved staff accordingly (a case in point is Tamworth). It appears that rural centre staff numbers are not actively monitored by the regulators and reductions have mostly gone unchallenged. Thus, it seems misleading to suggest that s218CA provides strong assurance to the Tumbarumba and Khancoban communities. Section 354F of the Act (1993, NSW) states that 'the employment of [staff] other than a senior staff member, must not be terminated, *without the staff member's agreement*, within 3 years after the transfer day...' (emphasis added). This section of the legislation has been invoked many times to explain why the assumed savings from amalgamation were not realised. However, the truth of the matter is that it does not prevent staff from being terminated – it just requires agreement (which has happened a number of times at SVC and elsewhere). Moreover, robust empirical evidence from both Queensland (McQuestin et al., 2021; Drew et al., 2016) and New South Wales (Drew et al., 2021; 2023) show that staff costs have not gone down in a statistically significant manner subsequent to the expiry of protections in the past (indeed the opposite has often occurred). Thus, it would be misleading to suggest that re-triggering s354F through a de-amalgamation would act as a significant financial sustainability constraint.

Moreover, the focus on FTE staff numbers somewhat misses the point with respect to local economic effects in any case. What is important to rural economies is the quantum of cash being injected, and the prospects for career progression. There can be little reasonable doubt that the total wage bill for

⁴⁶ Many of these are listed in existing works such as the reduction to Services NSW access in Tumbarumba, and the failure to act on aged care extensions, property developments and the like.

Report

Tumbarumba staff will have decreased as a result of management positions being transferred to Tumut. Moreover, there is now no clear path for promotions to senior levels for staff wishing to remain in the Tumbarumba area. Both of these factors would be having important negative effects on the Tumbarumba local economy, and relatively marginal positive effects for Tumut.

Before closing this section of the report, it is important to investigate some of the claims, associated with this legislated factor, made in previous reports and inquiries. The first such claim is the assertion that technology can act as a substitute for in-person interactions. Sometimes this is indeed true, but often it is not an option because of the age of the person or poor internet services (both of these constraints are relevant to Tumbarumba and outlying villages). People have pointed to the new ways of working during COVID but tend to neglect the fact that productivity has declined, many employers are working hard to get people back into the office, and that most people quickly reverted to their old ways. Our travel survey data presented earlier also supports our contention that technology is not an acceptable substitute in many instances. Second, it was observed that the rates harmonisation shifted a significant burden to Tumbarumba landowners. What was not pointed out is that this shift likely meant less money would potentially be spent by landowners in the Tumbarumba economy. Moreover, in concert with the shift of management to Tumut, the shift in taxation burden undoubtedly resulted in an export of taxes to the Tumut area. Third, much continued to be made of the projected decrease to population⁴⁷. However, Australian local government has a land-based taxation system that is considerably less susceptible to population decline than many seem to suppose. Indeed, recent research by Drew, Miyazaki and Kortt (2023) empirically demonstrates that *increases* to population size have a negative effect on unit revenues, and hence financial sustainability. Fourth, the dissenting Commissioner (2021, pp. 39-40) asserted that if de-amalgamation did not occur that:

‘SVC will be in a position to continue with the work that it has undertaken over the last 4 years to create a united community. This is not finished.... this work will [otherwise] be wasted and with it the chance to deliver to the rural community the fruits of the efforts undertaken up to now’.

In so doing, the relevant Commissioner (2021) confirms one of the points that we made earlier – that Council is being diverted away from its core functions in order to try to redress the heterogeneity problem. Moreover, extant evidence suggests that this work has only met with limited success, if any. In addition, the fruits that the dissenting Commissioner alludes to unfortunately include special rate variations and reduced financial sustainability and it seems to us that some of this may not be welcomed by the community at all.

⁴⁷ Population ageing is a much greater problem but is distinct to population decline.

14 Other Factors

Section 263(3)(f) directs decision makers to pay due regard to 'other factors as it considers relevant to the provision of efficient and effective local government'. For the most part, previous inquiries into the matters affecting residents of the SVC have largely used this opportunity to merely restate claims and assertions raised earlier in their reports.

For instance, the Boundaries Delegate (2016) focussed mainly on assumptions surrounding population decline and economies of scale that we have already shown were at odds with robust empirical evidence. However, he did note that both Councils had been declared by IPART to be financially sustainable and suggested that if the challenges noted in his report could not be overcome then sufficient scale could be achieved by working within the Joint Organisation. This would remain an option should a de-amalgamation be executed in the future. Indeed, there is no reason why some of the existing working relationships between SVC staff could not be preserved through use of carefully constructed shared service arrangements in the (relatively few) areas where there is potential for savings.

In 2021 the focus was on the untimeliness of the proposal with it being claimed that 'any changes to a newly merged council's operations would take time, and that any savings arising from the merger may not be apparent for some time' (Boundaries Commission, p. 56). Indeed, the Dissenting Report (2021, p. 42) asserted that 'it was not expected that SVC would have by now achieved the material savings anticipated at the time of the merger'. However, the fact is that these statements are at odds with the Minister's Proposal (2015, p. 20) which clearly promised 'savings of around \$600,000 every year from 2020 onward'. As we have conclusively shown, there is no good reason to believe that economies of scale ever existed for this amalgamation, and hence no good reason to expect them to save the day in the future. Moreover, our evidence puts it beyond dispute that efficiency has in fact declined. Furthermore, financial sustainability has also reduced and is now approaching the point where serious intervention is required. Indeed, over seven years have now elapsed and there is still no good reason to expect meaningful improvements in the future. Evidence from Queensland and abroad suggests that such hopes are little more than wishful thinking at this point (McQuestin et al., 2021; Allers and Geertsema, 2016; Blom-Hansen et al., 2016).

SVC faces some very difficult challenges over the next few years with respect to financial sustainability. The most important question is whether it would be better to face these challenges as two separate and considerably more homogeneous communities – with the potential to claw back some of the lost efficiencies over time – or instead, to face these challenges with a structure that we know has considerable problems and is objected to by a significant portion of the community.

Indeed, we must be mindful that there are still significant sums of money to be spent if SVC remains merged. For instance, the finance system⁴⁸ requires work and money to be spent on it. Moreover, the difficulties attracting staff to a complex Council that has experienced some employee reputational damage will probably only be resolved through additional financial incentives as well as improvements to communications. The workplace health and safety issues which we have discussed will continue to pose a risk to staff and political representatives. Furthermore, much time and resources will be required to try to mitigate the anger felt in large swathes of the community – indeed, this is likely to become an even bigger challenge if SVC takes the steps necessary to assure financial sustainability.

⁴⁸ To be clear; here we are not talking about the finance software but instead the broader finance system which includes *inter alia* internal audit, budgeting reconciliation, processing, ARIC and the like.

Report

The Dissenting Report (2021, p. 42) ends with a plea against implementing the proposed de-amalgamation by asserting that this would 'necessarily create[ing] wastage and destroy opportunities which were identified in the merger process'. However, the 'wastage' is a consequence of the decision made in 2016 – not what is done now (in economic terms it is a sunk cost already). Moreover, any reasonable consideration of matters must be set against the costs and monies that would otherwise be required to try to remedy the various problems at SVC. Even more compelling is the robust empirical evidence which clearly shows that the assumed financial benefits for the future are little more than a mirage.

De-amalgamation does involve expense and considerable work for staff. However, it is a one-time cost that potentially opens the door to greater efficiencies for the future (subject to management decisions) and ultimately removes important workplace health and safety risks. The balance of robust evidence is at odds with the forlorn hopes embodied in earlier inquiries. For these reasons, we recommend that the Council pursue a de-amalgamation as quickly as practical. Ultimately the decision will be one for the Minister and the current state government – we stand ready to answer any questions that they might have or assist in any other way.

It will be critical to carefully manage communications with staff should a de-amalgamation proceed. It is absolutely imperative for staff and the community to know that a potential de-amalgamation is not the result of any local staff failure. Staff (and Councillors for that matter) have clearly worked hard to make a success of SVC, despite the structure being inappropriate and hence likely to end badly (with respect to the objectives articulated in the Minister's (2015) proposal). It is important for Councillors and the community to acknowledge the sterling efforts of staff and also try to preserve as much of the work and relationships as practical in any emerging entities. As we have noted, a number of times, staff are a Council's most important asset: it is imperative that we do all that is possible to protect this precious community resource.

With respect to the matter of Batlow – which had previously sought inclusion in the former Tumbarumba Shire boundary – we agree that this matter requires consideration in the long-run. However, to capture the benefits of de-amalgamating under s218CC of the Act (1993, NSW) our advice has been that we would need to return to the former boundaries. Finally, we caution against either potential emerging entity retaining the Snowy Valleys' Council name (contra the previous Boundaries Commission (2021)). We also feel that it would be a mistake to adopt the former names of Tumut Shire or Tumbarumba Shire. Instead, local government names should be chosen that reflect the fact that the two communities are moving forward – not going back to something that they had in the past. In general, the best practice is to name local government areas after dominant geographical features such as ranges, rivers and the like.

Report

Conclusion

It is the firm belief of the three internationally recognised professors who co-authored this report that the balance of evidence suggests that Snowy Valleys Council should be de-amalgamated as quickly as possible. The empirical evidence is extremely compelling. Moreover, the continued risk posed to the mental and physical wellbeing of staff, representatives, and the community – arising from the unsuitable configuration of the local government area – demands urgent redress.

We commend our report to the Councillors, citizens of Snowy Valleys Council, and ultimately the Minister.

References

- Allers, M., and J. Geertsema. (2016). The Effects of Local Government Amalgamation on Public Spending, Taxation and Service Levels: Evidence from 15 Years of Municipal Consolidation. *Journal of Regional Science*, 56 (4): 659–682. doi:10.1111/jors.12268.
- Andrews, R. (2013). Local Government Amalgamation and Financial Sustainability: The Case of England and Wales. *Public Finance and Management*, 13 (2): 124–141.
- Aristotle (2012). *The Politics*. Penguin: London.
- Aristotle (1998). *Nicomachean Ethics*. Oxford University Press: Oxford.
- Baird, M. (2014). *Media Release: Record \$1 Billion Package to Help NSW Councils Become Fit for the Future*.
- Blom-Hansen, J., K. Houlberg, S. Serritzlew, and D. Treisman. (2016). Jurisdiction Size and Local Government Policy Expenditure: Assessing the Effect of Municipal Amalgamation. *American Political Science Review*, 110 (4): 812–831. doi:10.1017/S0003055416000320.
- Boundaries Commission (2021). *Examination of a Proposal to Alter the Boundaries of Snowy Valleys Local Government Area and Create a New Local Government Area*.
- Dollery, B. (2018). Policy-Based Evidence Making in Local Government: The New South Wales' Municipal Merger Program, 2011 to 2017. *Economic Papers*, 37(4): 363-373.
- Dollery, B., Crase, L., and Johnson, A. (2006). *Australian Local Government Economics*. University of NSW Press: Sydney.
- Drew, J. (2017). Playing for Keeps: Local Government Distortion of Depreciation Accruals in Response to High Stakes Public Policy-Making. *Public Money & Management*, 38(1): 57-64.
- Drew, J. (2020). *Reforming Local Government*. Springer Palgrave: Singapore.
- Drew, J. (2022) *Saving Local Government*. Springer Palgrave: Singapore.
- Drew, J., and Dollery, B. (2014). Estimating The Impact of the Proposed Greater Sydney Metropolitan Amalgamations on Municipal Financial Sustainability. *Public Money & Management*, 34(4), 281-288.
- Drew, J. and Dollery, B. (2015) Less Haste More Speed: The Fit for Future Reform Program in New South Wales Local Government. *Australian Journal of Public Administration*, 75(1): 78-88.
- Drew, J. and Dollery, B. (2015). Rejoinder to Sansom. *Public Money & Management*, 35(6): 395-396.
- Drew, J. and Dollery, B. (2015). Inconsistent Depreciation Practice and Public Policymaking: Local Government Reform in New South Wales. *Australian Accounting Review*, 25(1), 28-37.
- Drew, J. and Dollery, B (2015). Breaking Up is Hard to do: The De-amalgamation of Delatite Shire. *Public Finance and Management*, 15(1): 1-23.
- Drew, J. and Dollery, B. (2016). Summary Execution: The Impact of Alternative Summarization Strategies on Local Governments. *Public Administration Quarterly*, 40(4): 814-841.
- Drew J, Kortt MA, Dollery B (2014). Economies of scale and local government expenditure: Evidence from Australia. *Administration & Society*, 46(6): 632-653.

Report

- Drew, J., Kortt, M. and Dollery, B. (2015). No Aladdin's Cave in New South Wales? Local Government Amalgamation, Scale Economies and Data Envelopment Specification. *Administration & Society*, DOI: 10.1177/0095399715581045.
- Drew, J., Kortt, M. and Dollery, B. (2015). Peas in a Pod: Are Efficient Municipalities Also Financially Sustainable? *Australian Accounting Review*, 77(26): 122-131.
- Drew, J., McQuestin, D. and B. Dollery. (2019). Good to Share? The Pecuniary Implications of Moving to Shared Service Production for Local Government Services. *Public Administration*, <https://doi.org/10.1111/padm.12575>
- Drew, J., Dollery, B. and Miyazaki, M. (2023). A Policy Approach to Minimising Fiscal Illusion in Australian Local Government. *Australian Tax Forum*. In Print
- Drew, J. and Grant, B. (2017). Means, Motive and Opportunity: Distortion of Public Policy Making Performance Management Data. *Australian Journal of Public Administration*, 75(1): 237-250.
- Drew, J., Kortt, M. and Dollery, B. (2015). 'What Determines Efficiency in Local Government? A DEA Analysis of NSW Local Government'. *Economic Papers*, 34(4): 243-256.
- Drew, J., Kortt, M. and B. Dollery. (2016). Did the Big Stick Work? An Empirical Assessment of Scale Economies and the Queensland Forced Amalgamation Program, *Local Government Studies*, 42(1): 1-15.
- Drew, J., McQuestin, D., and Dollery, B. (2021). Did Amalgamation Make Local Government More Fit for the Future? *Australian Journal of Public Administration*, DOI: 10.1111/1467-8500.12530.
- Drew, J. McQuestin, D. and Dollery, B. (2023). Fiscal Outcomes Arising from Amalgamation: More Complex than Merely Economies of Scale. *Public Management Review*, <https://doi.org/10.1080/14719037.2023.2174586>.
- Drew, J., Miyazaki, M., Kortt, M. (2023). The Other Side of the Local Government Ledger – The Association Between Revenue Growth and Population Growth. *Australian Journal of Public Administration*, DOI: 10.1111/1467-8500.12583.
- Drew, J., Razin, E., and Andrews, R. (2018). Rhetoric in Municipal Amalgamations: A Comparative Analysis. *Local Government Studies*, doi:10.1080/03003930.2018.1530657.
- Finnis, J. (2013). *Human Rights & Common Good*. Oxford University Press: Oxford.
- Friedman, M. (1993). *Why Government is the Problem*. Hoover Institute: Stanford.
- Gaffney, M., and J. Marlowe. (2014). Fiscal Implications of City-City Consolidations." *State and Local Government Review*, 46 (3): 197–204. doi:10.1177/ 0160323X14550719.
- Gleeson, G. (2021). *Examination of a Proposal to Alter the Boundaries of the Snowy Valleys Local Government Area and Create a New Local Government Area: Dissenting Report by Commissioner Gleeson to the Minister for Local Government*.
- Hirschman, A. O. (1970). *Exit, Voice, and Loyalty: Responses to Declines in Firms, Organisations, and States*. Harvard University Press: Massachusetts.
- Levine, H., Justice, J. and Scorsone, E. (2013). *Handbook of Local Government Fiscal Health*. Jones & Bartlett Learning: Burlington.
- McQuestin, D., Drew, J. and Dollery, B. (2017) Do Municipal Mergers Improve Technical Efficiency? An Empirical Analysis of the 2008 Queensland Municipal Merger Program. *Australian Journal of Public Administration*, DOI: 10.1111/1467-8500.12286.
- Snowy Valleys Council – Evidence Regarding Advantages and Disadvantages of De-Amalgamation

Report

- McQuestin, D., Miyazaki, M. and Drew, J. (2020). Do Amalgamations Make a Difference? What We Can Learn from Evaluating the Policy Success of a Large Scale Forced Amalgamation, *Public Administration Quarterly*, 45(3): 278-298.
- McQuestin, D., Drew, J., and Iboshi, H. (2021). The Temporal Dependence of Public Policy Evaluation: The Case of Local Government Amalgamation. *Local Government Studies*, DOI: 10.1080/03003930.2022.2039128
- McQuestin, D., Noguchi, M., and Drew, J. (2020). The Association between Budget Inaccuracy and Technical Efficiency in Australian Local Government. *Public Money & Management* (in print).
- Messner, J (1952). *Social Ethics*. Herder Book Co: St Louis.
- NSW Government (2016). *Merger Proposal: Tumbarumba Shire Council, Tumut Shire Council*. NSW Government: Sydney.
- Nockles, R. (2016). *Examination of the Merger Proposal: Tumbarumba Shire Council, Tumut Shire Council – As Proposed by the Minister for Local Government, the Hon Paul Toole MP*.
- Oates, W. (1972). *Fiscal Federalism*. Edward Elgar: Cheltenham.
- Oates, W. (1999). An Essay on Fiscal Federalism. *Journal of Economic Literature*, 37(3): 1120-1149.
- Rhonheimer, M. (2000). *Natural Law and Practical Reason*. Fordham University Press: New York.
- Riker, W. H. (1982). *Liberalism Against Populism: A Confrontation Between the Theory of Democracy and the Theory of Social Choice*. Waveland Press: Illinois.
- Roesel, F. (2017). Do Mergers of Large Local Governments Reduce Expenditures? – Evidence from Germany Using the Synthetic Control Method. *European Journal of Political Economy* 50: 22–36. doi:10.1016/j.ejpoleco.2017.10.002.
- Spicer, Z. (2012). Post-Amalgamation Politics: How Does Consolidation Impact Community Decision-Making? *Canadian Journal of Urban Research*, 21(2): 90-111.
- TCorp (2013). *Financial Sustainability of the New South Wales Local Government Sector*. TCorp: Sydney.
- Tiebout, C. (1956). A Pure Theory of Local Expenditures. *Journal of Political Economy*, 64(5): 416-424.



THE UNIVERSITY OF NEWCASTLE | NEWCASTLE.EDU.AU

NEWCASTLE | CENTRAL COAST | SYDNEY | SINGAPORE | CRICOS PROVIDER NO: 00109J



Snowy Valleys Council – Evidence Regarding Advantages and Disadvantages of De-Amalgamation

Appendix

12/05/2023

Appendix

The University of Newcastle acknowledges the traditional custodians of the lands within our footprint areas: Awabakal, Darkinjung, Biripai, Worimi, Wonnarua, and Eora Nations.

We also pay respect to the wisdom of our Elders past, present and emerging.

© The University of Newcastle 2022. Apart from any use as permitted under the Copyright Act no part may be reproduced by any process without the permission of the publishers.

Disclaimer: The information contained herein is believed to be reliable and accurate. However, no guarantee is given as to its accuracy or reliability, and no responsibility or liability for any information, opinions, or commentary contained herein, or for any consequences of its use, will be accepted by the University, or by any person involved in the preparation of this report.

NEWCASTLE | CENTRAL COAST | SYDNEY | SINGAPORE
NUspace Cnr Hunter and Auckland Streets IRF@newcastle.edu.au T +61 2 4055 3300
Newcastle, NSW 2300, Australia CRICOS Provider Number: 00109J newcastle.edu.au

Appendix

Contents

Appendix 1 – Definitions and Means of Variables, 2013-20221

Appendix 2 – Financial Sustainability Measures That Should be Implemented at SVC3

Appendix 1 – Definitions and Means of Variables, 2013-2022

Variable	Definition	All NSW	Rural Councils
Regressand			
Opexpercapita	Operating expenditure per capita	2.037 (1.330)	2.917 (1.487)
PCA rfp1	PCA of financial ratios	Not applicable	-0.282 (0.867)
Population			
Pop (ln)	Natural log of the population for each local government area	10.151 (1.378)	8.866 (0.630)
Pop2 (ln)	The square of the logged population	104.930 (28.148)	79.002 (11.027)
Density (ln)	Natural log of population density data for each local government area	2.857 (3.259)	0.074 (1.271)
Controls			
Median employee income	Median employee income (lagged), divided by 1,000	45.465 (8.367)	41.219 (5.606)
Median unincorporated business income	Median unincorporated business income (lagged), divided by 1,000	11.379 (5.347)	10.477 (6.686)
Aged	Proportion of people on an aged pension	12.059 (4.179)	13.621 (3.268)
Under 15	Proportion of people under the age of 15	19.041 (2.556)	19.848 (2.115)
DSP	Proportion of people on a Disability Support pension	4.020 (1.817)	4.685 (1.516)
Newstart (ln)	Proportion of people on a Newstart allowance, logged	3.642 (1.879)	4.249 (1.899)
Unsealed	Length of sealed roads	621.894 (634.639)	1048.832 (555.471)

Appendix

Sealed (ln)	Length of unsealed (graded) roads, logged.	6.067 (0.714)	5.898 (0.625)
Operating Grants (ln)	Operating grants taken from audited financial statements, logged	9.305 (0.621)	9.108 (0.421)
Year	A dummy variable to control for the effect of different years	Not applicable	Not applicable
Amalgamation	A dummy variable to control for whether or not a council was amalgamated in 2016	Not applicable	Not applicable

Appendix 2 – Financial Sustainability Measures That Should be Implemented at SVC

We were commissioned to provide advice to Council regarding the advantages and disadvantages of a potential de-amalgamation. However, during the course of our work it became apparent that SVC faces some serious challenges and would require significant mitigation works in the event that it was not de-amalgamated. Moreover, our extensive experience working with councils in distressed conditions suggest to us that it would be prudent to start to redress some of the problems at SRV, as soon as possible – even if Council elects to pursue a de-amalgamation. Indeed, the quicker Council acts, the less pain that is likely to be felt by the community.

The following are dot points of the most important matters that need to be redressed, organised according to the topics of (i) special rate variation, (ii) capital expenditure program, (iii) financial sustainability plan, (iv) staffing, (v) financial information, and (vi) communication. Professor Drew will elaborate on these matters in his extensive workshop with Councillors on Thursday 27th April.

We stress that the following is a value-add service that we have elected to provide in view of the pressing problems confronting SVC. It is not meant to take the place of a dedicated analysis of financial sustainability and further recommendations may be warranted should additional investigations occur. We also underline the importance of exerting maximum effort to redress perceived problems as quickly as possible – irrespective of what happens on the de-amalgamation question. Some of these matters are very serious and simply cannot be allowed to continue unchecked.

(i) *Special Rate Variation (SRV)*

- It is important to realise that the cost-base of Council has been increased permanently.
- By our estimate an SRV for an *additional* 15-30% above the cap will be required shortly (this is on top of the SRV that has already been approved by IPART). Indeed, even more rate increases may ultimately be required. Unfortunately, we were unable to obtain sufficiently robust accounting data which would be required to be more precise (especially an updated and plausible long term financial plan). {We would also need to thoroughly assess capacity to pay (especially the econometric estimation of same), assess debt capacity (through econometric estimation), and know what decisions Councillors have made with respect to de-amalgamation as well as regarding the matters that follow}.
- We believe that Council should seriously consider applying for a SRV in the next round, which commences November 2023.
- It is important to understand that the existing SRV has also probably permanently altered the location decision calculus of prospective residents. A future SRV will do likewise. Thus, spending to improve the liveability of the region – and hence attract population growth – is offset, at least in part, by the rise that it brings about to shelter costs.

(ii) *Capital Expenditure Program*

- The capital expenditure program needs to be revisited and scaled back wherever possible. It is simply too large for a council of this size and has been distracting staff from key tasks that now stand in need of urgent redress.

Appendix

- Indeed, Councillors may be well advised to take a much more critical view of potential grants for works of a discretionary nature in the future. It is sometimes appropriate to say 'no' to opportunities – especially when faced with pressing financial sustainability concerns or an over-stretched staff.
- Whole-of-life project costing needs to be adopted in the future. Notably maintenance, staffing and ultimate replacement costs are usually not covered by grants. These substantial costs may not have been considered carefully in the past.
- Furthermore, the willingness to pay (WTP) of the community must be assessed rigorously. This is best done through the use of sufficiently large, *randomised* surveys that cite the whole-of life cost for the asset, as well as the average cost to each individual ratepayer. Failure to robustly assess WTP can lead to entrenched fiscal illusion and hence significant financial sustainability challenges.
- More extensive and comprehensive community engagement needs to occur for large infrastructure spending with reference to whole-of-life cost and WTP. It has become clear to us that many in the community feel that some projects in the past were not consistent with the preferences of residents.
- All new programs and capex decisions should make reference to the long-term financial plan (LTFP) – specifically where surplus funds can be found in the LTFP, or alternatively, specific expenditure cuts or additional revenue streams that will be executed.
- Since amalgamation there has been greater attention given to the villages. However, it is not always clear that the level of services provided have been commensurate with the population size and needs of the said villages. Council may need to better manage the expectation of the villages or better convey the cost of providing higher-than-normal levels of services to some of these areas.
- More focus needs to be had on maintaining current infrastructure rather than new construction – especially in the Tumut area. When one travels around Tumut it is clear that there is a considerable maintenance deficit that needs to be addressed. It is possible that the large program of new capital expenditure in Tumut, in particular, has resulted in less attention being given to the state of the existing asset base.
- The robustness and detail of asset management and construction plans could be improved. Council should prioritise a better appreciation of asset conditions and also better understand the impact that this will have on the LTFP and financial sustainability.
- It appears that Council might benefit from hearing more often from the manager-level staff. It is our contention that most of the middle management are well-aware of the problems facing Council and could offer excellent advice on the way forward. However, for them to feel comfortable enough to provide sage counsel they need to feel that they are being listened too, and understand the high respect that Councillors have for their wealth of experience.
- Budgeting practice needs to improve considerably at SVC – please see the finance information section for more detail.

(iii) Financial Sustainability

- On the whole it would be fair to say that the extant Financial Sustainability Plan is inadequate and misguided on several matters.

Appendix

- For instance, it recommends price benchmarking. This is the incorrect strategy in most cases. Council is urged to instead practice long-run marginal cost pricing¹ for most discretionary prices. Discretionary prices should be allocated to one of four years and each price reviewed on a revolving four-year cycle. In inter-cycle years prices should, in most cases, be increased by the relevant sub-index of the Producer Price Index (PPI) – the Consumer Price Index (CPI) should only be used for items where capacity to pay (rather than cost recovery) is the main concern.
- The financial sustainability focus needs to be far broader than the two ratios mentioned in the Financial Sustainability Plan. In particular, there needs to be a much stronger focus on the adequacy of reserves (and trends in reserves), the accuracy of budgets, and the plausibility of the LTFP. In this regard Council should expect the ARIC to closely monitor a broad suite of metrics consistent with those presented in this report.
- Care needs to be taken with respect to the assumption that shared services will definitely result in savings and efficiencies. Indeed, research by Drew et al. (2019) has shown that shared services often result in higher unit costs. However, if designed well collaborative arrangements can result in savings and in this regard, readers are referred to the guidelines in Drew (2020), pages 87-102.
- There seems to be a need for greater accountability regarding budget over-runs.
- Rigorous monthly budget reconciliations should be re-instated as soon as practical.
- It is important for Council to make subsidies both more rigorous and also more transparent. For each subsidised good or service Council ought to articulate in a publicly available document: (i) the virtue or positive externality that the subsidy addresses, (ii) the target group for the subsidy, (iii) the measurable goal for assessing the success of the subsidy, (iv) the minimum rate necessary to achieve this goal (as well as the discretionary pricing or survey evidence to support this contention), (v) how the subsidy will be clearly communicated to both donors and beneficiaries, (vi) the date that the subsidy will be reviewed (this should occur at least every four years). It is particularly important to send clear price signals in order to combat fiscal illusion. Thus, receipts for subsidised services should prominently display the quantum of the subsidy provided by the wider body of taxpayers.
- Indeed, all discretionary goods and services should be reviewed each Council term. The best approach to this is to divide the current list of discretionary projects into four equal portions and have Councillors confirm that the discretionary items are still appropriate each cycle. This decision-making should be informed by (i) the cost of the service, (ii) the measured success of the service, and (iii) Council's current financial sustainability position. Unfortunately, services of a discretionary nature are often implemented to meet a particular need but continue to be funded even when the need no longer exists, or where the service has failed to address the need (Friedman, 1993).
- Community grants should require annual applications which ask applicants to explain (i) the value, facilitated by the grant, that they will provide to the wider community, (ii) the measures the organisation is implementing to reduce grant dependency in the future, (iii) the contributions made by the members of the organisation (both financial and in-kind), (iv) what other options the organisation explored to meet their needs (such as community donations or grants from other bodies). These completed applications should be publicly available.

¹ This is the cost of producing just one more item taking into account overheads, capital replacement costs, maintenance and the like.

Appendix

- Council would be well advised to conduct some targeted education of staff regarding (i) financial sustainability (as a general concept), (ii) the financial sustainability position of SVC, and (iii) an improved financial sustainability plan. Staff should also be asked for their suggestions for improving efficiency and generating savings. A number of councils run appropriately incentivised schemes of this kind with great success.
- Council would be well advised to better educate the community regarding the financial sustainability challenge faced by Council. At a minimum, Council should clearly display on rates notices: (i) a chart of total debt over the last 5 years, (ii) a chart of operating results over the last five years, (iii) a pie chart showing sources of revenue, and (iv) a pie chart showing expenditure destinations. Regular information of this kind is essential to dispelling fiscal illusion.
- It may be appropriate to institute a capital advisory committee for major infrastructure projects. A committee of this kind should include people with local knowledge, decision-makers, and also staff skilled in the particular area. Committees of this kind have been implemented with great success elsewhere and have reduced budget over-runs as well as improving the utility of the infrastructure constructed.
- A service level review, heavily informed by *randomised* survey input, would seem to be in order.
- The LTFP needs to be scrutinised much more rigorously by ARIC and the Councillors. We do not believe that the current LTFP is plausible. Constructing a plausible LTFP is key to decision-making regarding assets and financial sustainability and thus should be viewed as a matter of priority.
- Consideration should be given to financial sustainability training for senior staff, Councillors, and perhaps members of ARIC.
- Consideration should be given to investigating the potential for new revenue streams associated with the green energy transition.

(iv) Staffing

- In general, there are limited further savings available in the area of staffing.
- However, it is clear that overtime has increased significantly in recent years and risks being permanently imputed into the personal budgets of some staff. Savings in the order of 40% may be indicated in this particular area.
- There are some minor savings that might be realised with respect to untaken leave, especially in the works area.
- There is an emerging training deficit that should be monitored carefully and redressed where appropriate.
- Staff turnover is a significant problem for SVC. High staff turnover results in a loss of institutional memory and may also damage the SVC brand with respect to future recruiting. In addition, it should be acknowledged that staff recruited from areas outside of the region will take time to understand the tastes and preferences of the community, and hence delay the necessary task of improving efficiency. Indeed, staff recruited from outside of the area often do not have the same kinds of social and family roots, and therefore may presage even more rotation in the future. For this reason, it would be wise to identify existing staff who – with appropriate training, mentoring, and opportunity – might be suitable for promotion in the future.

Appendix

- There is a high likelihood that problems recruiting and retaining staff are likely to result in higher costs in the future. For this reason, it would be prudent to also establish a staff retention strategy.

(v) Finance Information

- We hold some concerns about what finance data could be accessed and the accuracy of the data. This statement should not be interpreted as a comment on the current Manager of Finance who has recently come to the organisation and is doing his best to identify and resolve problems which stretch back to the original amalgamation as well as the extensive period when the duties were apparently performed by a consultant.
- It is imperative that Councillors and the community can have absolute faith in the rigour of accounting information. Recent events – as well as our own experience – suggest that this may not be completely the case at present. Accordingly, it might be prudent for Council to appoint an experienced local government accountant with the sole task of identify and mitigating problems in the extant system. To be clear we are not talking about a consulting firm, but instead a suitably qualified and experienced person – possibly recently retired – on a six-month contract (with an option to extend for a further six months).
- It appears that there may be some gaps in the internal audit processes. This matter should be investigated and rectified as soon as possible.
- There may be some reason to believe that ARIC is not providing comprehensive advice to Council – particularly with respect to internal audit, financial sustainability, and performance improvement elements of their remit. This perception should be investigated, and measures taken to improve matters if necessary.
- Monthly budgeting reviews need to be conducted promptly, comprehensively and rigorously. Past performance with respect to budgeting suggests that redress of monthly budget reviews should be prioritised. Moreover, in view of the high turnover of staff it is important for monthly budget reviews to be documented in detail.
- As we have already noted the LTFP needs to be reviewed and revised as a matter of urgency.

(vi) Communication

- *Random* surveys need to be used to find out local priorities including the possibility that people are happy with existing infrastructure and services (and instead want downward pressure on rates).
- There is clearly a case for improving the communication between Council and the community. We have already suggested some measures relating to price signals and the like. We acknowledge that matters are difficult because of some ill-will relating to past events.
- Better communication needs to occur with staff – specifically, the impression of senior management sometimes seems to be at odds with an important portion of the staff. There also appears to be an element of fear amongst some staff (regarding the likelihood of retribution for speaking out) as well as a feeling that staff haven't always been listened to or genuinely consulted with. We make no judgement regarding whether these fears and feelings are indeed warranted. Better communication should reduce the likelihood of further losses of staff and also improve perceptions amongst potential recruits.

Appendix

- If SVC were to remain amalgamated then there would be a strong case for increasing the numbers of Councillors, especially to facilitate greater voice in the villages who may feel somewhat disenfranchised. Unfortunately, as we showed earlier, the original boundary inquiry – and the Minister’s Proposal – failed to rigorously engage with s263(3)(e) the Act (1993; NSW). This has clearly caused some problems that likely warrant redress.



THE UNIVERSITY OF NEWCASTLE | NEWCASTLE.EDU.AU

NEWCASTLE | CENTRAL COAST | SYDNEY | SINGAPORE | CRICOS PROVIDER NO: 00109J