

NSW PARLIAMENTARY BUDGET OFFICE (PBO) COSTING OF COUNCIL MERGERS

BRIEFING NOTE

Policy

The policy proposes to compensate local councils for all transitional costs from merging with a one off payment made in 2015-16.

The merger of 152 councils into 38 is estimated to cost \$445 million (gross) and \$114 million (net).¹ A breakdown of gross costs per merger is provided below, including an estimation of the level of complexity associated with each merger.

Names of Councils to be merged	Total Gross costs \$M	Complexity
1. *Gosford and Wyong	15.2	Medium
2. *Lake Macquarie and Newcastle	15.4	Medium
3.* Kogarah, Canterbury, Hurstville and Rockdale	20.4	High
4. *Marrickville, Ashfield, Burwood, Canada Bay, Leichhardt and Strathfield	31.5	Very High
5. *Auburn, Holroyd and Parramatta Councils together with parts of The Hills and Ryde Councils	23.3	Very High
6. *Botany Bay, Sydney, Waverley, Randwick and Woollahra	37.6	Very High
7. Albury and Greater Hume	7.4	Low
8. Armidale Dumaresq and Guyra	5.8	Low
9. Bathurst Regional and Oberon	6.5	Low
10.Berrigan and Jerilderie	5.4	Low
11. Bland, Coolamon and Temora	10.3	Medium
12. Blayney, Cabonne and Orange	19.1	Medium
13. Bogan and Warren	5.3	Low
14. Bombala, Cooma-Monaro and Snowy River	10.7	Medium
15. Boorowa, Harden and Young	10.3	Medium
16. Conargo, Deniliquin and Murray and Wakool	14.8	High
17. Coonamble and Gilgandra	5.6	Low
18. Cootamundra and Junee	5.4	Low
19. Corowa and Urana	5.6	Low
20. Cowra and Weddin	5.5	Low
21. Dungog and Maitland	8	Low
22. Fairfield and Liverpool	13.1	Medium
23. Gloucester, Great Lakes and Greater Taree	12.5	Medium

¹ Note – not all of the 152 councils are included in the mergers – Carrathool and half of the Hills councils are not part of any merged groups.

24. Goulburn-Mulwaree and Upper Lachlan	9.6	Low
25. Griffith and Murrumbidgee	6.1	Low
26. Gundagai, Tumut and Tumbarumba	10.8	Medium
27. Gunnedah and Liverpool Plains	5.8	Low
28. Hornsby and Ku-ring-gai	10.9	Medium
29. Hunters Hill, Lane Cove, Mosman, North Sydney, Willoughby and the eastern two-thirds of Ryde	29.5	Very High
30. Kyogle, Lismore and Richmond Valley	12.6	Medium
31. Lachlan and Parkes	6	Low
32. Leeton and Narrandera	5.7	Low
33. Moree Plains and Gwydir	6.2	Low
34. Palerang and Queanbeyan	7.1	Low
35. Pittwater, Manly and Warringah	15.6	High
36. Uralla and Walcha	5.4	Low
37. Wagga Wagga and Lockhart	7	Low
38. Wellington, Dubbo and Narromine	12.3	Medium
Total cost of mergers	445.4	

* Revised costing (A114-A119)

Key assumptions and notes

The Queensland Treasury report: "Review of Local Government Amalgamation Cost Funding, Final Report Summary", August 2009, has been a key input in estimating the gross costs of mergers. In Queensland there were 157 councils which merged into 73 councils. Based on details in the report, we estimate the average cost of merging per council for the 157 councils was \$4.4 million in (2015-16 dollars).

In estimating merger costs, the PBO modelling assumes 30 per cent of costs are related to the size of the merging councils. Therefore costs for merging have been adjusted from base case estimates depending on the size of the councils, relative to the average size as measured by employees, revenues and expenses. For example, if a council was 40 per cent larger than average, 12 per cent would be added to the base case cost estimate (30 percent X 40 per cent).

In addition, the Office of Local Government (Department of Planning and Environment) have provided a desktop analysis of the complexity for each of the 38 mergers, which has also been used in the cost model.

Where a merger is estimated to be:

- Very highly complex - an additional 20 per cent has been added to the base cost estimate.
- Highly complex - an additional 10 per cent has been added to the base cost estimate.
- Medium complexity - no change has been made to the base cost estimate.
- Low complexity, the base cost estimate has been reduced by 20 per cent.

Indicative net cost estimate

An indicative net cost for all the mergers has been estimated at \$114 million, based on information and the time frame (one local government term) used in the Queensland Treasury report. The report found the average net cost for the set of mergers was 25.6 percent of the gross cost. This estimate is a reasonable guide as to the likely net costs of the proposed mergers under a medium term time horizon.

However, this aggregate figure is provided as an indicative guide only, and has not been broken down for each individual merger scenario because of a number of considerations. Net costs for any particular merger will vary depending on a number of factors:

- The timeframe under consideration. The Queensland Treasury Report considered cost savings over one local government term (4 years and 3 months). Mergers incur upfront costs, whereas most of the savings will continue to accrue over the long term. Hence the longer the time frame under consideration, the lower the net costs of the merger. Many of the proposed mergers may have a net benefit under a long term time horizon. The net cost estimate is also sensitive to the discount rate used to calculate the present value of these future savings.
- How quickly and how well the mergers are conducted.
- How willing the councils are to merge, a greater willingness to merge is likely to result in greater net savings and lower upfront costs.
- The overall complexity of the merger and compatibility of councils. It may be expected where a merger is complex, the net costs may on average be higher than 25.6 per cent of gross costs, and vice versa for mergers of low complexity.

Based on a detailed review of local council mergers, we estimate the major cost items to be IT and communications systems expenditure (around 45%), employment transition costs (around 20%), branding and other change management activities (around 5%). Depending on the compatibility of IT systems across councils, actual costs may vary considerably from the \$4.4 million estimate per council. As costs are assumed to arise predominately from IT systems and employment transition costs, population is not considered to be a key driving factor in the costs of mergers.

It is assumed the council mergers would be voluntary, not forced, therefore any costs arising from legal challenges to or disputes about the merger have not been included. The cost estimate may in practice be significantly higher if the merger combinations were forced.

Appendix 1 – Individual Council data 2013-14

Council Name	Full time equivalent employees	Capital Grants \$	Total income from operations \$	Total expenses from operations \$
Ashfield	173	1,048,000	36,461,000	35,854,000
Auburn	278	4,870,000	66,938,000	60,103,000
Botany Bay	328	18,192,000	75,794,000	57,295,000
Burwood	170	7,766,000	45,553,000	40,579,000
Canada Bay	296	17,524,000	91,455,000	72,653,000
Canterbury	525	9,796,000	107,736,000	97,577,000
Gosford	1,012	19,314,000	279,222,000	266,403,000
Hills	577	66,060,000	257,531,000	130,106,000
Holroyd	520	4,236,000	87,395,000	86,470,000
Hurstville	317	4,229,622	71,566,309	66,255,203
Kogarah	242	3,738,000	50,188,000	47,596,000
Lake Macquarie	927	44,824,000	236,716,000	194,422,000
Leichhardt	466	8,523,000	87,368,000	74,323,000
Marrickville	536	5,651,000	98,176,000	94,495,000
Newcastle	870	18,000,000	241,826,000	223,072,000
Parramatta	759	20,109,000	201,719,000	181,021,000
Randwick	522	6,203,000	134,670,000	125,051,000
Rockdale	341	15,014,000	90,237,000	82,867,000
Ryde	440	14,229,000	110,351,000	94,781,000
Strathfield	145	3,781,000	34,777,000	32,461,000
Sydney	1,773	81,784,330	597,481,340	500,738,870
Waverley	601	9,865,000	123,078,000	113,026,000
Woollahra	376	3,364,000	75,571,000	78,468,000
Wyong	927	15,765,000	243,215,000	221,977,000
Albury	453	19,248,000	121,166,000	100,676,000
Greater Hume	122	2,512,000	29,808,000	31,584,000
Armidale Dumaresq	225	2,108,000	48,462,000	50,003,000
Guyra	61	385,000	11,785,000	12,853,000
Bathurst Regional	353	8,797,000	91,701,000	77,770,000
Oberon	78	707,000	15,117,000	13,846,000
Berrigan	87	1,710,000	18,913,000	18,686,000
Jerilderie	42	1,171,000	8,433,000	9,128,000
Bland	115	1,307,000	22,674,000	25,363,000
Coolamon	63	497,000	11,682,000	11,626,000
Temora	86	1,589,000	17,064,000	16,591,000
Blayney	70	2,341,000	15,207,000	14,901,000
Cabonne	170	6,473,000	39,572,000	32,285,000
Orange	366	45,436,000	127,382,000	81,551,000
Bombala	48	498,000	10,372,000	11,893,000
Cooma-Monaro	160	1,492,000	25,195,000	30,115,000
Snowy River	139	4,109,000	32,280,000	30,791,000
Boorowa	58	1,854,000	11,504,000	10,174,000
Harden	62	1,940,000	14,479,000	15,954,000
Young	111	2,537,000	25,276,000	22,733,000
Bogan	83	143,000	13,178,000	14,270,400
Warren	71	0	11,020,000	11,690,000
Carrathool	91	5,120,000	18,907,000	12,633,000
Griffith	287	6,510,000	54,381,000	45,946,000

Murrumbidgee	39	5,964,000	11,955,000	7,041,000
Conargo	33	103,000	6,732,000	7,506,000
Deniliquin	72	784,000	17,337,000	16,260,000
Murray	85	1,036,000	18,946,000	19,106,000
Wakool	76	1,244,000	16,963,000	17,376,000
Coonamble	101	270,000	16,732,000	18,324,000
Gilgandra	185	167,000	24,694,000	23,829,000
Cootamundra	82	1,264,000	15,895,000	16,714,000
Junee	65	1,131,000	12,418,000	12,858,000
Corowa	112	4,730,000	33,065,000	27,529,000
Urana	41	1,534,000	8,542,000	7,336,000
Cowra	167	712,000	28,569,000	29,850,000
Weddin	58	205,000	8,484,000	11,497,000
Dubbo	330	20,178,000	106,917,000	93,310,000
Wellington	111	1,940,000	22,814,000	24,420,000
Narromine	92	1,575,000	17,459,000	17,998,000
Dungog	65	3,254,000	15,000,000	14,223,000
Maitland	354	52,140,000	125,379,000	74,571,000
Fairfield	705	7,997,000	152,564,000	149,544,000
Liverpool	662	42,715,000	185,884,000	151,429,000
Gloucester	86	1,995,000	14,469,000	18,616,000
Great Lakes	277	5,940,000	69,452,000	65,725,000
Greater Taree	250	15,799,000	68,417,000	65,437,000
Goulburn Mulwaree	252	4,493,000	58,506,000	56,627,000
Upper Lachlan	133	7,711,000	30,050,000	22,862,000
Gundagai	51	451,000	8,768,000	10,115,000
Tumbarumba	102	4,886,000	24,564,000	20,446,000
Tumut	141	7,522,000	35,594,000	29,291,000
Gunnedah	166	1,048,000	35,894,000	30,825,000
Liverpool Plains	120	3,268,000	22,986,000	20,870,000
Gwydir	165	1,772,000	23,348,000	30,867,000
Moree Plains	220	2,832,000	65,085,000	60,916,000
Hornsby	550	13,424,000	142,714,000	122,544,000
Ku-ring-gai	420	12,924,000	116,869,000	100,828,000
Hunters Hill	59	903,000	14,214,000	13,834,000
Lane Cove	184	10,843,000	49,676,000	36,842,000
Mosman	161	2,922,000	44,312,000	38,972,000
North Sydney	383	11,414,000	120,157,000	93,414,000
Willoughby	406	16,962,000	128,548,000	96,411,000
Kyogle	95	2,094,000	19,983,000	24,615,000
Lismore	400	9,936,000	100,749,000	97,203,000
Richmond Valley	210	5,791,000	45,967,000	46,043,000
Lachlan	131	812,000	28,963,000	35,827,000
Parkes	158	6,673,000	41,204,000	33,722,000
Leeton	135	1,161,000	23,122,000	23,271,000
Narrandera	129	1,815,000	20,216,000	19,507,000
Lockhart	48	554,000	10,099,000	7,509,000
Wagga Wagga	462	15,767,799	119,097,866	116,962,057
Manly	359	2,616,000	64,273,000	59,681,000
Pittwater	308	3,873,000	77,084,000	72,339,000
Warringah	589	4,750,000	156,356,000	145,016,000
Palerang	119	3,247,000	33,492,000	32,869,000
Queanbeyan	271	22,911,000	91,351,000	75,338,000
Uralla	105	1,588,000	18,526,221	17,919,000

Walcha	67	1,015,000	10,968,000	10,980,000
Average	269	8,573,066	68,174,813	59,957,481