

## AMALGAMATION – NO THANK YOU

Independent Pricing and Regulatory Tribunal of  
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Dear Sirs

### FIT FOR THE FUTURE - SUBMISSION REGARDING CABONNE COUNCIL

The Amalgamation – No Thank You Group (ANTY) represents the residents of Cabonne Council LGA who support Cabonne Council's proposal to stand alone<sup>1</sup>. In particular, ANTY is opposed to a merger of Cabonne Council and Orange City Council.

There is no evidence to support a proposal to merge with any other council. There is no evidence to support the LLGRP "merge with Orange" option.

To the contrary, an amalgamation of Cabonne Council and Orange City Council is:

#### Unnecessary

- Cabonne Council is "Fit for the Future". It consistently meets 5 of the 7 "Fit for the Future" financial benchmarks and will meet all 7 benchmarks from 2016/ 2017.<sup>2</sup>
- Cabonne Council can demonstrate scale and capacity<sup>3</sup>. It is a leader in innovation in the context of rural LGAs, winning the 2011 National Local Government Board for Innovation for its Waluwin Health Service. The Wellington Blayney Cabonne (WBC) Alliance has saved \$6 million in the past 12 years. This is in stark contrast to the Morrison Low Cabonne/Orange merger modelling which shows a mere \$400,000 administrative efficiency savings after 10 years<sup>4</sup>. Cabonne Council has been active in seeking to strengthen and extend its strategic alliances, shared servicing models and collaborative partnerships to continually improve scale and capacity with the WBC Alliance engaging KPMG in 2013 to develop a legal entity model that would allow shared services across 20 functions<sup>5</sup>. These initiatives should be supported by the NSW State Government.
- Scale and capacity must be considered in the context of the particular local government area. The current size and structure of Cabonne gives it

<sup>1</sup> Cabonne Council survey late 2013: 93% of respondents opposed a merger (1/3 of total Cabonne households responding).

<sup>2</sup> Cabonne Council proposal to IPART June 2015 (Cabonne Proposal).

<sup>3</sup> Cabonne Proposal.

<sup>4</sup> Morrison Low, Cabonne and Orange Councils, Fit for the Future Shared Modelling May 2015 (Morrison Low Report).

<sup>5</sup> KPMG Report. CTW, Blayney and Cabonne Public Report from High Level Analysis Shares Services Delivery attached to the Cabonne Proposal.

the capacity to effectively and efficiently respond to the concerns of the households and businesses spread across a large geographic area interspersed with towns and villages. A more centralised model primarily based in a city is unlikely to be capable of responding as effectively and efficiently.

- There is no evidence to support the proposition that the proposed merger will increase "strategic capacity". The Morrison Low Report concludes that a Cabonne/Orange "*amalgamation has limited impact on scale and capacity*". The risk is that the difficulties associated with a merger of such fundamentally different communities of interest could potentially diminish the existing strategic capacity of each LGA.

### **Not supported by the community**

- Cabonne Council investigated and objectively analysed the merger business case. It discussed the issues with Orange City Council and the two LGAs commissioned the Morrison Low Report before presenting the independently prepared case for a merger to the community. Cabonne arranged for an independent chair to run community information meetings to discuss the "Fit for the Future" proposal including the Morrison Low Report. These well attended and vibrant community meetings overwhelmingly rejected the merger option<sup>6</sup>.
- Based on the evidence before it, Cabonne Council ultimately resolved on 23 June 2015 to submit Template 2 (Council Improvement) proposal to IPART.
- Mr Andrew Gee MP (State member representing both Cabonne and Orange City LGAs) does not support a merger between Cabonne and Orange<sup>7</sup>. Mr Gee works closely with both Councils and the residents. He understands the issues and the potential risks of this particular merger proposal.

### **Costly**

- The Cabonne/ Orange integration expenses alone will conservatively exceed \$7 million<sup>8</sup>. However, those costs do not factor in:
  - cost overruns if any of the risks identified in the Morrison Low Report eventuate. For example, based on experience in other merged businesses and LGAs, significant cost blow outs commonly occur when integrating different administration and technology systems. This is also highlighted by Queensland Treasury Corporation's calculation of \$7,994,000 in "*first round costs*" to integrate regional/rural councils under the Qld 2004 forced mergers.<sup>9</sup>
  - the flow on costs of rationalisation

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<sup>6</sup> 350 attendees at Molong and Canowindra on 13 and 14 June 2015. Also on 21 May 400 people attended the community meeting at which ANTY was formed.

<sup>7</sup> See submission from Mr Gee to IPART dated 25 May 2015.

<sup>8</sup> Based on data in the Morrison Low Report.

<sup>9</sup> Joseph Drew & Brian Dollery "Less Haste, More Speed: The Fit for the Future Reform Program in New South Wales Local Government" Australian Journal of Public Administration, 2015.

- the social costs.

- The Morrison Low merger business case fails to take into account the opportunity costs associated with the integration expenses including the \$5,000,000 State government grant. Our community would rather see the State Government inject our taxes directly into improving services such as our roads, our hospitals and our schools.
- Cabonne Council is a major employer and supporter of local businesses within the Cabonne LGA. Any statutory employment guarantee for Council staff is for a 3 year period only. Inevitably over time there is likely to be more concentration of staff in Orange to align administrative structures more closely with business and demographic patterns. The indirect economic impacts on Cabonne communities (particularly Molong and Canowindra) arising from loss of jobs and relocation of families, consequent closure of businesses and services (such as schools and medical facilities) are significant. The Western Research Institute (WRI) estimates that a loss of 25% of jobs from Cabonne Council would cost \$16.77 million per year to the Cabonne community.<sup>10</sup> (This is in stark contrast to the merger case which shows an administrative cost benefit estimate of \$40,000 per year.) As noted in the Cabonne Proposal this impact would be concentrated in Molong and Canowindra and these communities understandably feel particularly vulnerable. However, the impact will also be felt throughout the LGA as Cabonne employees reside in other towns and villages. The services and businesses in Cabonne towns and villages are fragile. Loss of a couple of families from a village would mean the difference between an extra teacher in a school or a school remaining open. Schools such as Cudal and Cummock are particularly vulnerable. When you close a school in a regional area there is even less incentive for families to reside there thus increasing the economic multiplier effect. Profit margins in Cabonne local businesses are relatively low. Many rely on the economic stimulus of Cabonne through employment and transactions. Impact of the magnitude forecast by WRI would be devastating economically and socially. This threat is real and has been borne out by experience. As Mari Samson<sup>11</sup> warns in analysing the 2004 mergers, *"three councils were merged to create Tamworth Regional Council. Equipment, workers and other resources shifted to Tamworth leading to unemployment and falling enrolments in local schools."*
- The adverse impact on community wellbeing cannot be measured. Cabonne Council plays a pivotal role in connecting Cabonne communities. They are dispersed across 6,024 km<sup>2</sup> and reside in 14 towns and villages. Councillors and staff who live in and understand their community effectively represent the residents across the whole LGA. The services co-ordinated by Cabonne Council are vital in supporting the residents in each area and in connecting those residents across the LGA.

*"The inter-relationship between community wellbeing, economic*

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<sup>10</sup> Western Research Institute Ltd, "Cabonne Council Socioeconomic profile and economic impact of council employment", 26 June 2015 (attached to Cabonne Proposal).

<sup>11</sup> Government News, "Few benefits to NSW council mergers" expert Marie Samson, Oct 28, 2014, Finance, ICT Infrastructure, Jobs, Local Management, Planning, Procurement, Sector, State.

*development, ecological sustainability, the built environment, social equity and justice have long been recognised as integral to the role of local government. This is reflected in a resurgent global interest in these inter-relationships, most evident in the Organisation for Economic Co-operation and Development's (OECD) Global Project for Measuring the Progress of Societies<sup>12</sup> and nationality with the Australian Bureau of Statistics' (ABS) Measures of Australia's Progress (MAP, ABS 2012) and Australian National Development Index (ANDI).<sup>13</sup> Ripping the "local" out of local government in the Cabonne context is regressive, not progressive, thinking.*

*As Professor Dollery says, local councils "anticipate the needs and desires of local communities and when you merge that disappears straight away. You can't put a dollar amount on it but it doesn't make it any less real".<sup>14</sup>*

## Inequitable

- Other similar rural Councils on the edge of regional centres eg Greater Hume and Upper Hunter have not been the subject of recommendations to merge.
- Cabonne ratepayers carry virtually no per capita debt and yet Orange ratepayers carry \$405.95 per capita.<sup>15</sup> This reflects the distinctly different service models required for the different communities of interest. Yet a merger of such distinctively different models is unfair to Cabonne ratepayers who would inherit the Orange debt.
- The difference in the number of ratepayers in each LGA will inevitably result in disproportionate representation. Orange is a city of 40,108 concentrated in an area of 284 km<sup>2</sup> whereas Cabonne is a predominantly rural community of 13,481 spread over a 6,024km<sup>2</sup> area. No model has been proposed to ensure equal representation to protect the interests of Cabonne householders, particularly in areas remote, and disconnected, from Orange.
- Cabonne Council is cohesive. There have been no Code of Conduct issues in the last 3 years. Its Councillors are there to serve their community. They do not use it to promote any political agenda. They give their time voluntarily. Cabonne Council collaborates with its community and its staff who are integral to the communities they serve, have worked hard to develop strategic alliances, internally restructure and introduce innovative services. They have worked hard to achieve "Fit for the Future" status. To reward them with a "forced merger" with Orange City Council which has recorded the third highest costs for Code of Conduct complaints in the state<sup>16</sup>, is demoralising and counter-productive.

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<sup>12</sup> See <http://www.oecdbetterlifeindex.org/>.

<sup>13</sup> See <http://www.andi.org.au>.

<sup>14</sup> Government News, "Few benefits to NSW council mergers" expert Mari Samson, Oct 28, 2014, Finance, ICT Infrastructure, Jobs, Local Management, Planning, Procurement, Sector, State.

<sup>15</sup> Morrison Low Report.

<sup>16</sup> NSW Office of Local Government, "Your Council Report" July 2015.

## Risky

- The fundamental issue which is likely to undermine a merged entity is that Orange and Cabonne represent distinctively different communities of interest. Each Council has:
  - different stated visions (Orange is primarily about growth whereas Cabonne focuses on communities and connection to these communities)
  - different geographies and environmental constraints
  - different demographics
  - a different rate base
  - a different industry profile
  - different debt levels
  - different infrastructure levels and requirements. This is highlighted by the difference in roads infrastructure. The impact of this difference cannot be underestimated as road infrastructure is the "*single largest cost of Australian local government*".<sup>17</sup>
  - different service requirements (one example is that Cabonne maintains swimming pools servicing most villages - these are critical to the social fabric of the community whereas Orange has one public swimming pool)
  - different levels of representation
  - different levels of community engagement (evidenced by high rates of survey responses and attendances at public meetings in Cabonne compared to a very low level of engagement in Orange)<sup>18</sup>
- None of the financial information upon which both the Cabonne and Orange City "Fit for the Future" proposals is based has been audited. Does each Council adopt the same approach to depreciation, application of grant allocations and asset valuations? As Drew and Dollery warn, there can be "*serious*" and "*unintended consequences*" of recommending mergers relying on inconsistent financial data.<sup>19</sup>
- The merger of similar sized rural councils in 2003 (Palerang, Greater Hume and Glenn Innes) highlight the risks. 12 years on and these merged Councils are all struggling to meet their financial benchmarks.

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<sup>17</sup> Joseph Drew & Brian Dollery "Less Haste, More Speed: The Fit for the Future Reform Program in New South Wales Local Government" Australian Journal of Public Administration, 2015.

<sup>18</sup> Orange City Council public consultation meeting on Fit for the Future held on 10 June 2015 had four Orange residents out of a population of over 40,000 in attendance compared to Cabonne's 350 attendees.

<sup>19</sup> Joseph Drew and Brian Dollery "Inconsistent Depreciation Practice and Public Policymaking" Local Government Reform in New South Wales: Australian Accounting Review No. 72 Vol 25 Issue 1 2015.

- The Morrison Low Report states that there are "*significant potential risks arising from the merger*". It identifies 14 categories of risk. The overriding risk is that a merger will weaken rather than strengthen two LGAs that are currently functioning to the level expected under the "Fit for the Future" framework. Why risk it?

While amalgamation may be appropriate for some local government areas, particularly where there are relatively common communities of interest, a proposed merger of Cabonne and Orange is distinctly different. The Morrison Low Report highlights that there are minimal, if any, benefits. The risks and flow on impacts are significant. A recommendation to force a merger of Cabonne Council and Orange City Council is potentially costly, destructive and counterproductive. There is no evidence before IPART to support the merger option.

We support the Cabonne Proposal and urge IPART to recommend that Cabonne Council stand alone.

Yours faithfully



Jock Haynes  
Chairman  
Amalgamation – No Thank You Group (ANTY)



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Dated: 27th July 2015