THE UNIVERSITY OF NEWCASTLE AUSTRALIA

INSTITUTE FOR REGIONAL FUTURES

The Advantages and Disadvantages of Amalgamation and Federation Council's Financial Sustainability Journey

Report

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Our Team of *Bona Fide* Experts

Professor Joseph Drew

Joseph Drew is Professor of Local Government Economics at the University of Newcastle's Institute for 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*; (iii) *Saving Local Government, (iv) Natural Law and Government, and (v) Selling Public Policy*. 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 senate inquiries and is frequently in demand by leading media outlets.

Professor Drew is a qualified accountant, economist, natural law philosopher, political scientist, 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.

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Professor Diogo Ferreira is a mathematician of some note in scholarly circles with a special focus on cutting-edge data envelopment analysis (used to empirically quantify efficiency and scale). Indeed, he is a leading scholar in this field globally and is based at the leading university in Portugal (which is also one of the best in Europe).

Professor Ferreira has worked with Professor Drew on a number of Australian local government projects and also collaborated with him on academic papers. Diogo is a master of several complex mathematical techniques for analysing corporate and government performance and has demonstrated these in the best scholarly journals in the world in European, South American, and Australian contexts. Professor Ferreira's participation in projects is thus able to assure that the team's impressive empirical work is indisputably best-in-world standard.

Professor Masato Miyazaki

Professor Masato Miyazaki is one of the foremost scholars of local government economics, based in Japan. He is an extremely accomplished empiricist and sits on a number of important regulatory boards in his native country in addition to the board of the Japan Economics Society. Masato is Professor of Economics at Saitama University in Japan where he is actively engaged in teaching and research. Professor Miyazaki is often called upon to make contributions to prominent local government reforms both in Japan and Australia. His empirical prowess in all forms of econometrics makes him a leading scholar in Japan and thus in high demand also abroad. Professor Miyazaki has consulted for a number of local governments in

Australia, co-authoring reports with his close colleague Professor Drew. Professor Miyazaki is a valued adjunct at the University of Newcastle.

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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.

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Executive Summary

This report paints a picture of an amalgamated rural council which is facing significant financial sustainability challenges. Many of the problems go back decades but were sadly compounded by events circa 2016. We acknowledge that the Councillors and leadership team have implemented a number of positive changes in the last few years, but as the report will indicate, there is still considerable work to do.

The 2016 Corowa Shire proposal to amalgamate with Urana lacked rigor and detail and it is hard to understand how it might have merited serious consideration. Savings of $41 million over twenty years were never achievable (especially if the Act (1993, NSW) was to be observed). In similar vein, the proposed savings of $2.6 million detailed by KPMG and the Minister were also beyond the realms of possibility. Indeed, no rigorous evidence was ever put forward to substantiate the projected savings, and it should have been very obvious to those conducting boundary deliberations that most assumptions were implausible given the experience of Queensland less than a decade earlier (as documented in the extant scholarly literature).

The upshot of this negligence was that the already imposing financial challenges of the Corowa and (to a lesser extent) Urana local government areas were exacerbated by increased costs attendant upon the ill-thought-out amalgamation. The community is now faced with the injustice of having to pay for the mistakes of people who ought to have done better – through higher taxes and likely lower services.

Moreover, entire communities have been effectively disenfranchised by the destructive amalgamation and it is difficult to reconcile this fact with the nation's robust and energetic defence of the institution of democracy abroad.

Federation Council is now left in a rather distressed fiscal state made worse by a significant structural inefficiency. In simple terms, the Council is too large to be run with an acceptable level of technical efficiency. One has only to consider the fact that there are over thirty countries smaller than the local government area to fully comprehend the scale of the appalling error of judgement made in 2016. Indeed, our robust empirical evidence demonstrates that operational expenditure need increased by over twenty percent purely as a result of the ill-advised amalgamation. Sadly, this substantial financial burden was further compounded by imprudent spending at the behest of the former state government – a good proportion of which was approved and executed by the government appointed Administrator.

The matter of financial sustainability at Federation Council could hardly be more serious. Unfortunately, there is no quick fix to the problem and the community is faced with at least a decade of pocketbook pain and fiscal austerity.

Amidst all this gloom there is at least one bright ray of hope – the dedicated and experienced staff at Federation. Unlike other amalgamated councils, Federation has been able to hold onto key staff and maintain a harmonious work environment. Much of the credit for this state of affairs must be attributed to the General Manager and Councillors, as well as the staff themselves. Staff are the single most important asset for any local government area. The community are therefore very fortunate to have such a great group of people who generally understand what needs to be done and are willing to roll up their sleeves and do the required work.

Many in the community are understandably aggrieved at the present situation, which stands in stark contrast to the lofty projections made in 2016. On the whole, we have found the community to be co-operative and willing to work with Council to make Federation better. However, citizens should understand that there is no silver bullet and indeed a lot of pain ahead of them if they are to gain any semblance of sustainability. Getting a shared understanding of the antecedents to our current predicament, along with a clear presentation of seminal facts, will likely prove key to our ultimate success. In this regard, the present report represents the foundation for a positive and co-operative effort which will be required to move the community from where it is, to where it would rather be.

The NSW government will also need to play a key role in the recuperation of Federation Council. We acknowledge that there has been a change in the political control of the state parliament relative to 2016 but are nevertheless comforted by the fact that the current government has professed a commitment to assist communities throughout the state to flourish. There are a number of things the state government could do to improve matters and we are hopeful that decision-makers will take the opportunity to help their citizens in Federation.

Nevertheless, recuperation of Federation will ultimately require that a substantial permanent special rate variation (SRV) be approved. This is a critical part of the financial sustainability solution, albeit not sufficient in and of itself (fees and charges also need to be set correctly, the business of council needs to be restructured, and we also need a fairer allocation on the roads grants). In this regard, we must state plainly that we do not believe that Council has sufficient clarity on a range of matters nor the capacity necessary to undertake the major work required for a successful SRV this year. Instead, we urge Federation decision makers to busy themselves with the lengthy list of recommendations appended to this report so that they might be in the position to embark on a SRV campaign in July next year (for the 2025/26 financial year). We are willing to mentor Council in the many substantial tasks that will need to be undertaken if we are to set the firm foundation necessary to convince IPART to approve a permanent increase early in 2025.

We also take this opportunity to commend the Councillor group for their willingness to engage openly and proactively with us and the community regarding the immense fiscal challenges facing Federation. Indeed, the community should take great heart from the fact that the Council chose to embark on a facts-based truly independent inquiry by leaders in the scholarly community, rather than mere commercial consultants.

In similar vein, we have been pleased by the open posture of the senior decision-makers at Federation. In conjunction with a dedicated staff and co-operative community, we have good reason to believe that Federation will ultimately overcome the serious challenges that it faces and thus position residents to better flourish in the future.

We conclude this executive summary with a caution that it is no substitute for reading the whole report – including the scholarly works referred to – prior to making a sober and objective consideration of the dilemma before us.

1 The Corowa Shire Amalgamation Proposal

To address this term of reference we were provided with copies of documents produced by Corowa Shire Council for the Minister and Boundaries Delegate. We also made recourse to Independent Pricing and Regulatory Tribunal (IPART) and Independent Local Government Review Panel (ILGRP) documentation.

On the 18th of February 2016, Corowa Shire wrote to the (then) Minister advocating for an amalgamation with Urana Shire. This document lists five main arguments for the Minister to proceed with the amalgamation and it is useful to critique some of the said assertions to illuminate matters. Accordingly, we cite three contentious arguments directly from the document before examining each point in turn:

1. 'To implement the Independent Panel's recommendation that Corowa and Urana Shires merge'

This is a misrepresentation of what the ILGRP (2013) document actually stated. On page 115 of the ILGRP (2013), the recommendation was made for Corowa to be 'a Council in the Upper Murray JO *or* merge with Urana' (emphasis added). Moreover, the Corowa Shire may have been profoundly misled regarding the purported expertise of the ILGRP as well as the standard of evidence used by them in decision making. Despite claiming to be an 'evidence-based' inquiry, the ILGRP tendered no robust evidence to support their opinions – the little that was provided was justly ridiculed in the scholarly literature (see, for example, Drew and Dollery, 2015; Drew and Dollery, 2016; Dollery, 2018).

2. 'That Corowa sees a community of interest in the proposed new council area of Corowa and Urana Shires'

It seems that Corowa Shire fundamentally misconceived what was meant by the term 'community of interest' and moreover, its importance to efficiency and sustainability. Community of interest refers to patterns of activity, tastes and preferences of citizens (see Oates, 1999; Drew, 2021). It is relevant to the matter of amalgamation because of the Decentralisation Theorem and the associated homogeneity hypothesis. Essentially, when people regularly interact, they are likely to develop similar tastes and preferences for local goods and services. This makes it easier for a local government to discern the preferences and eminently more efficient for them to deliver the same.

It is clear that the two communities only had limited contact between one another. People in Urana planning to travel for shopping or medical appointments are rarely likely to travel to Corowa when a far greater array of providers are accessible at Wagga Wagga or Albury (just 20 minutes further drive). There are also few reasons for people in Corowa to travel to Urana. In addition, it is clear that the service profiles at Corowa and Urana were vastly different – the former had far higher services and far more discretionary spending (and concomitant pressure on its finances). Presumably, the services in both local government areas reflected the manifestation of tastes and preferences developed over many decades.

Thus, the idea that the two local government areas had a strong community of interest was clearly flawed.

3. 'The communities of Urana Shire and Corowa Shire support the proposal of Urana and Corowa…'

This is plainly incorrect. IPART (2015, p. 370) documents that 'the survey [made by Urana Shire] showed that 88% of respondents favoured the option of remaining as a stand-alone rural council with 8% favouring amalgamation with another council'. Moreover, the submission made by Pat Bourke (then Mayor of Urana Shire) made it plain that the Council's preference was to remain as a stand-alone entity.

Furthermore, there is considerable room to doubt that even Corowa residents were in support of the amalgamation given the observation by IPART (2015, p. 186) that 'over 70% of respondents were supportive of Corowa submitting a FFTF proposal to stand alone' (IPART, 2015, p. 186).

Corowa Shire also made a submission to the Boundaries Delegate regarding the proposed amalgamation of Corowa and Urana that is worthy of some attention. The submission was ordered according to the legislated matters of consideration (s263(3) of the Act (1993, NSW)[1]).

The Financial Advantages and Disadvantages to ratepayers

The submission by Corowa was notable for both its failure to respond comprehensively to the criteria and also its implausible evidence-free projections.

The legislative criteria clearly directs people making submissions to consider potential disadvantages. There are some fairly obvious financial disadvantages associated with rates and fee harmonisation, wages harmonisation, travel costs[2], and additional middle management that are well covered in the scholarly literature (see, for example, Drew, 2020; Drew and Dollery, 2015). Another clear disadvantage was the likely reduction to the general component of the financial assistance grants given that both the population numbers and socio-demographics were higher in the south, than the north (see our later discussion of grants and also s6(4) of the Local Government Financial Assistance Grants Act (1995, CTH)). Recent inquiries by the authors of this report have determined that these negative aspects of amalgamation – from a technical efficiency[3] perspective – were entirely neglected by the writers of Corowa's submission.

The assertion of fantastic amalgamation savings by Corowa Shire was not supported by any evidence nor were details provided for the assumptions made. Instead, readers are directed to a graph of the Operating Performance ratio over time under various scenarios. Without evidence, or details of the assumptions made, the graph is merely a set of pretty lines, devoid of meaning. It seems that Corowa Shire may have been misled into thinking that evidence-free public policy making was acceptable in view of the unsubstantiated opinion pieces produced by the ILGRP (2013) and KPMG (2015). However, this cavalier approach should never be considered acceptable in a putatively transparent and accountable developed democracy.

All of the discussion surrounding the financial benefits of amalgamation centred on the potential to reap economies of scale (see, ILGRP (2013), IPART (2015) and KPMG (2015)). It may therefore come as a disturbing surprise to find out that none of the proponents of the amalgamation troubled themselves to measure whether economies of scale actually existed (or the size of same).

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[1] The authors of the report are not legal professionals. Statements made regarding apparent legal requirements are done so in good faith and in response to a layman's interpretation of the legislation as written.

[2] Travel costs are substantial and have been estimated at over a million dollars per annum at other rural amalgamated councils. A travel survey was conducted at Federation with the following annualized results:
Recorded milage costs for staff (at 2023-24 ATO rate 85c/km) $48,846.89
Recorded mileage costs for Councillors (at current allowance) $19,762.38
Staff wages for travel time $51, 845.83
Total Travel Costs $120,455.10 p.a.
Notably, this survey yielded results far smaller than expected and the authors are also aware of a number of staff, and at least one Councillor, who failed to fill in the forms. It would thus be ill-advised to put much emphasis on the survey data from Federation.

[3] Technical efficiency (TE) is the conversion of inputs into outputs. It stands in some contrast to allocative efficiency (allocating the right inputs such that the outputs desired can be produced), and dynamic efficiency (changes to efficiency over time due to technology or learning) – see Drew, 2021.

Economies of scale refer to the neo-classical economic concept whereby it is expected that some functions of production might result in a reduction to average total costs as a result of increasing output. This potential for savings is principally attributed to benefits of staff specialisation, and also better use of surplus capacity in capital intensive equipment. It is also argued that councils might benefit from greater purchasing power attendant upon higher volumes.

However, scholars have long known that most local government functions are not characterised by scale dependent effects (see Fahey et al., 2016). Moreover, even if production functions are responsive to scale, then it must be acknowledged that neo-classical theory predicts that they will be exhausted at relatively low levels after which time an extensive domain of constant returns to scale should be expected (no change to average total costs as outputs expands). If production is expanded beyond this point, then economists would typically expect diseconomies to begin to emerge (whereby average total costs increase as production grows). Diseconomies of scale emerge because of the higher remuneration expected by managers who supervise more staff and bigger budgets, an additional layer of middle management to co-ordinate large numbers of staff, reduced transparency (around performance and perquisites), and less rigorous stewardship.

The presence of economies of scale can readily be tested through various sophisticated mathematical exercises such as multiple regression analysis, data envelopment analysis, or full hull disposability analysis. These are relatively rudimentary exercise for *bona fide* econometricians such as the team writing this report.

In Table 1 we provide the results of an econometric exercise directed towards 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:

$$\mathbf{E} = \alpha + \beta 1\mathbf{P} + \beta 2\mathbf{X} + \boldsymbol{\mu}.$$

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. Mu (**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).

Table 1. Multiple Regression Results – Unit Expenditure and Population Size[4], 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

As can be seen from Table 1, there is indeed some evidence of economies of scale if we consider the regression of the entire state (this is given by the '**' which indicate that the population variables are significant at the highest level of statistical assurance). However, anyone with even the most basic appreciation of local government understands that rural local governments are an entirely different species of entities – performing different functions to their city cousins (such as sewer services) and having a very different revenue profile (especially with respect to financial assistance grants). It is therefore necessary to follow scholarly precedent and stratify the regression into just the rural councils of NSW.

When we do so, we find that the evidence of potential economies of scale disappears entirely. Otherwise stated, there was never any evidence that the main mechanism for amalgamation savings ever existed.

Furthermore, the astute reader will notice that the population density variable was negative and statistically significant in both econometric exercises. This verified the presence of the well-attested economies of density. Economies of density occur because it is cheaper to service properties that are geographically closer to one another (think of the cost of picking up domestic waste, length of roads, or distance that needs to be spanned by water pipes). Notably, economies of density are stronger for rural local governments, which is consistent with the corpus of scholarly literature (see Drew, 2021). However, amalgamation makes absolutely no change to the presence or power of economies of density.

[4] 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, which notably yields similar results.

If economies of scale did indeed exist, then it would be reasonable to expect that larger local governments might be more financially sustainable. Moreover, the clear aim of *Fit for the Future* was to enhance financial sustainability so it would seem sensible to empirically test the association between financial sustainability and size.

Once again, the various proponents of amalgamation (such as KPMG and the ILGRP) did not trouble themselves to test their opinions against actual evidence. To remedy this negligence, in Table 2 we regress a composite of financial sustainability (produced by doing a principal components analysis on the financial ratios mandated by the NSW state government) and the regressors that we outlined in the earlier specification.

Table 2. Financial Sustainability and Size, New South Wales, 2019-2022 inclusive

PCA of Financial Sustainability Ratios	Whole State	Urban	Rural
Number of Assessments (ln)	-0.767***	-0.927***	-0.907***
	(0.207)	(0.351)	(0.413)
Operating Grants (ln)	0.541**	0.195	0.739
	(0.211)	(0.180)	(0.474)
Population Density (ln)	0.117	0.262**	0.432**
	(0.087)	(0.104)	(0.204)
Population Growth	3.263	13.469***	-4.760
	(8.755)	(3.695)	(14.187)
NESB (ln)	0.141	0.291**	0.208
	(0.113)	(0.125)	(0.217)
ATSI (ln)	-0.447***	-0.449***	-1.152***
	(0.124)	(0.148)	(0.220)
Employee Income	-0.025	0.002	-0.017
	(0.017)	(0.016)	(0.025)
Other Controls	Yes	Yes	Yes
Observations	479	227	252
Coefficient of Determination	0.301	0.342	0.270

t-statistics in parentheses

*** p<0.01, ** p<0.05, p<0.1

What we find is – that according to the NSW state government's own metrics – a negative and statistically significant association exists between financial sustainability and size. Otherwise stated, as councils get bigger, they become less financially sustainable. This result is consistent with the evidence (or lack thereof) for economies of scale but runs entirely contrary to the rhetoric of the amalgamation proponents. We note that the aforementioned association between financial sustainability and local government size has recently been accepted for publication by Australia's highest ranked public administration journal and is thus beyond reasonable dispute (Drew, Miyazaki and McQuestin, In Print).

In summary, there was never any evidence put forward to justify a belief in economies of scale which was said by proponents to be the driving force for the putative amalgamation savings. Moreover, it is an undeniable fact that smaller councils are more financially sustainable according to the state government's own financial sustainability metrics. The community of Federation Council were profoundly misled, and this should have been abundantly clear to the (then) Minister and Boundaries Commission Delegate.

Moreover, Corowa Shire repeated the dubious logical contortions of the ILGRP (2013) and the (then) Minister by claiming that the unsubstantiated predicted 'savings' could redress backlogs and fund new discretionary goods and services. It ought to have been clear that if one spent all of the projected savings, then one was unlikely to be any better off in a financial sense – especially if one was reckless enough to also promise a four-year freeze on rates.

Community of Interest and Geographic Cohesion

As we have already noted the Corowa Shire submission was fundamentally confused regarding the nature of communities of interest and also its importance to technical efficiency and sustainability.

The submission tries to build a case for shared activity but really only manages to highlight the tenuous nature of infrequent contacts between the two communities. For instance, in apparent desperation, references are made to the Murrumbidgee Local Health District – but this spans a vast area including Deniliquin in the west, West Wyalong in the north, Boorowa in the east and Albury in the south. Unless Corowa Shire was proposing to amalgamate with all of these areas, the reference to the Health District was irrelevant. Similarly, references to the Murray Darling Basin Irrigation Scheme (Charleville in Queensland down to Horsham, Victoria) and the Murray Local Land Services (Moulamein in the west, through to Tumbarumba in the east) only serves to highlight the fact that there was very little direct and frequent activity between the two former local government areas.

Attitude of Residents and Ratepayers

We have already identified the grievous misrepresentation of community attitudes made in Corowa Shire's submission.

Requirements for Elected Representation

'Council's two-way amalgamation proposal suggests that the new Council should have nine Councillors without wards' (Corowa Shire, 2016, p. 4). No reason is provided for the number chosen.

Prior to amalgamation, Corowa Shire had nine Councillors elected at large, and Urana Shire also had nine Councillors (divided evenly among three wards). The proposal (which was ultimately adopted) resulted in a halving of democratic representation for the people of the (now) Federation Council. However, for reasons that we will explicate forthwith, the reduction in democratic voice was felt most keenly in the north – indeed, it resulted in entire communities being effectively disenfranchised.

Some have tried to argue in community forums that Councillors ought to represent the entire local government area. We agree, in principle. However, the area is vast and there is a significant risk if just one (or no) Councillors herald from the north, because of the distances and workload that would have to be managed. Moreover, the fact is that Australian democracy does put a premium on the geographical location of its political representatives – this is why we have electorates at both the state and federal level with representatives expected to reside in the said electorates. To try to argue that geographical location is not important at the local level ignores s263(3) of the Act (1993, NSW), and results in a logical fallacy (see our comments on 'universalism' in Footnote 35).

At the time of the last elections prior to amalgamation (2012), the NSW Electoral Commission data reveals that there were 7,985 enrolled voters in the former Corowa Shire, but just 862 enrolled voters in Urana Shire. Simple arithmetic suggests that a Federation Council comprised of nine representatives would significantly disenfranchise people in the north. If the voters in the former Urana Shire voted in a block, then Urana would be likely to gain 0.88 Councillors[5], and Corowa the remaining 8.12. Because of the vagaries of preferential voting, the north managed to get two Councillors in the most recent elections, but an outcome like this in the future is most unlikely. To be clear, the current arrangement suggests that in most years there would be just one Councillor to cover the 3,356 km^2 northern portion of the Federation Council[6].

This state of affairs at Federation seems incongruous with the significant lengths that Australia has gone to in recent times to defend democracy. People living in Rand, Oaklands, Morundah, and Boree Creek are unlikely to recover the same kind of direct voice in the Council chambers that they once had as a near certainty (see Table 3 for a list of the 2012 Urana Councillors and their domicile). Moreover, the vast distances involved in servicing these communities, in a democratic manner, results in considerable mileage (and hence cost), but also a high workload that puts the health and wellbeing of Councillors at risk.

Table 3. 2012 Councillors and their Domicile, Urana Shire

Councillor	Domicile	Councillor	Domicile
Alan Urquhart	Boree Creek	Anthony Marsh	Boree Creek
David Fahey	Morundah	Marg Buntin	Oaklands
Peter Day	Oaklands	Ian Kreutzberger	Rand
Patrick Bourke	Urana	Barry McFarlane	Urana
Lisa Rhodes	Urana		

Under s224 of the Act (1993, NSW), a council must have at least 5 and no more than 15 Councillors. S224 (2) and (3) outline the procedure to increase the numbers of Councillors. Increasing numbers to 12 should guarantee at least one representative from the former region. However, even changing the number up to 15 would not guarantee a second representative (although it would make it more likely with a predicted outcome of 1.46 based on 2012 enrolment data). The exact number of representatives required would need to be determined by Council after it has considered other recommendations in this report that may have a bearing on the matter.

[5] Things are, of course, not quite so simple. Preferences, position of candidates on ballot papers, informal voting, and changes to the voter enrolment numbers are all matters which could lead to different outcomes.

[6] We acknowledge that Boundaries Commissions have previously argued that there is nothing preventing people from voting for others outside of their own domicile (for instance all of the voters in Corowa might vote for candidates heralding from Urana). However, a statement of this kind runs counter to how life works in rural areas – everyone is well aware where the candidates live, and voting is almost always conducted with reference to geographic lines.

An increase to Councillor numbers is clearly in order if we are concerned to at least make a token effort towards having a democratic voice for the citizens in the north. However, the process detailed in s224 of the Act (1993, NSW), is not conducive to mitigating earlier disenfranchisement – it requires a referendum to be passed by the voters at large. Given that the people we seek redress for are in an extreme minority, it would seem unjust to take this route forward. {it would have been far better had thought been put into the matter prior to the proclamation and a body constituted of sufficient size such that at least one voice for the north might be probable}. We therefore suggest that the Minister seeks a change to the legislation to make the process of mitigating disenfranchisement caused by amalgamation more probable.

We note that Corowa Shire recommended against the use of wards. Section 210(7) stipulates that wards 'must not result in a variation of more than 10 per cent between the number of electors in each ward in the area'. Therefore, it would seem quite impossible to construct sensible sized wards to mitigate disenfranchisement. Moreover, the scholarly evidence is quite clear that wards have a significant and deleterious effect on local government efficiency (see Drew and Dollery, 2017).

Notably, what we suggested thus far only partly mitigates a grave and disturbing disenfranchisement of the northern communities.

Impact of the Proposal on the Ability of the Council to Provide Adequate, Equitable and Appropriate Services

Corowa Shire claimed that their unsubstantiated and unrealistic savings claims would underpin the ability of an amalgamated council to fund adequate, equitable and appropriate services. However, as we have demonstrated, the savings were never possible and thus, according to Corowa Shire's own reasoning, the amalgamated entity would be unable to satisfy this part of the legislation.

Indeed, as we will show later in this report, the ill-considered amalgamation significantly reduced efficiency and materially added to the operational expenditure for the area. It is hardly surprising that Federation Council is now in the situation where it struggles to provide adequate and appropriate services.

Moreover, because of the significant differences in the communities of interest, it was never going to be practical or efficient to provide adequate *and* equitable services in any case (assuming that numerical equity, rather than proportionate equity, was the goal of the legislators and proponents; see Drew, 2021). As we have already noted, the two groups of citizens were fundamentally different, with disparate needs and tastes for local government goods and services as evidenced by the diverse service profiles exhibited prior to amalgamation. In the north, services were rather basic and there was a need to redress both market failure and government failure – in the south there was a much higher level of discretionary services, higher quality services, but no need to redress market failure. To be both adequate *and* equitable would clearly be impossible.

In a bid to try to argue that the impossible was indeed possible, Corowa Shire cited SEIFA (socio-economic index for areas) data as being 'similar'. This was, yet again, a misrepresentation of the facts as anyone who has travelled in the two areas can plainly see. According to the ABS (2012), the SEIFA scores and ranks for the two communities were:

Table 4. SEIFA Scores and Ranks for Constituent Councils

Local Government Area	Raw Score	Rank in NSW	Rank in Australia
Corowa	943	57	195
Urana	925	30	121

It should be noted that indexes such as SEIFA reduce the apparent gaps in data and furthermore that rankings can exacerbate the potential for misconceptions. Nevertheless, it should have been clear from the numbers cited above that there was a considerable gap between the two former local government areas – some 26 local governments sat between the NSW ranking positions, and 73 for the national rank. It was therefore patently wrong to suggest similarity.

Impact of the Proposal on Employment of Staff

Section 263(e2) has been narrowly interpreted by Boundaries Commissions and amalgamation proponents to merely refer to the number of jobs or amount of staff expenditure. However, to allow for an interpretation of this kind, one would need to add words to what is actually written in the legislation. The legislation at present refers broadly to the 'impact of any relevant proposal on the employment of staff' – not merely the staff numbers or staff expenditure.

Narrow interpretations such as these have resulted in much damage to a council's most valuable asset – the people who work to deliver goods and services to the community. Amalgamation has been shown to result in considerable stress, higher workloads, burnout, staff turnover, and significant psychological and even physical harm (Drew, 2021).

The staff of Corowa and Urana should have been considered much more carefully and genuinely consulted with.

We note that Corowa Shire 'estimates included a reduction to employment expenses, mainly in the areas of senior staff'. This was consistent with the appalling ignorant approach of KPMG (2015) in the Ministerial Proposals. It was simply reckless to project that the bulk of the savings would come through reduced staff expenditure given the robust evidence from Queensland – just a decade earlier – that entirely the opposite had, in fact, occurred (see, for instance, McQuestin, Drew and Dollery, 2017 available online prior to the NSW amalgamations) {not to mention the glaring absence of any evidence of economies of scale as we detailed earlier considered in conjunction with the neo-classical economic theory relating to diseconomies of scale}. In the next section, we outline precisely what did happen to staff costs in Federation and elsewhere in NSW – notably these outcomes were largely in line with the specific predictions made by scholars prior to 2016.

Moreover, matters are further complicated by s218CA(2) of the Act (1993, NSW) that states:

> 'the transferee council must ensure that the number of regular staff of the council employed at the rural centre is, as far as practical, maintained at not less than the same level of regular staff as were employed by the previous council at the centre immediately before the amalgamation'.

We are concerned that this legislated requirement has not been observed at Federation. We further note that proper adherence to the law makes staff savings quite unlikely (especially in view of the need for salary harmonisation, additional middle management, and higher remuneration for senior management).

The Impact on the Proposal on Any Rural Communities

This part of the Act (1993, NSW) clearly indicates that legislators recognised that there is something special about rural local governments that warrants specific consideration. Government failure and market failure are peculiar to rural local government and therefore largely explain why this directive was included in the legislation (Drew, 2019).

Government failure occurs when higher tiers (state government and federal government) fail to provide important services to some citizens (usually in response to population size). Market failure occurs when business fails to respond to need. In both cases, the only recourse that citizens are likely to have is to look to local government to fill the void.

There is clearly significant government and market failure in the former Urana local government area. Some of this was met by Council through its advocacy resulting, for example, in the medical centre.

In the south, Councillors, staff and citizens have rarely had to worry about these problems. It is therefore possible that decision-makers in the south may struggle with respect to the skills, experience, and empathy required to be sufficiently responsive to these matters in the future. Indeed, they may not even become aware that government and market failure exists unless important changes are made to how Federation operates.

At present, the citizens in the north are comforted by the fact that both their Mayor and General Manager reside in Urana. However, the likelihood of this situation persisting in time is slim. There is thus a real risk that citizens in the north will slowly become forgotten and thus exposed to chronic government and market failure. This would not be due to any ill-will, but simply the fact that if one does not live in the area, then one will be unaware of the scale and gravity of the problem (Drew, 2021).

Part of the solution will be to increase the Councillor numbers so that at least one person is likely to reside in the area and become directly acquainted with the plight of the citizenry. A second part of the puzzle would be to provide strong encouragement and also report on the attendance of the General Manager and Directors at the Urana office for at least 25 days per year[7]. However, both of these measures will likely only partly mitigate the problem, which is why proper consideration should have been given to the matter back in 2016.

We note the Corowa Shire comment that 'the merger proposal will give particular benefits to Urana Shire residents who will benefit from access to additional resources and expertise'. This statement had at least two major flaws: first, in a democracy it is necessary to test whether the people actually want the benefit and are willing to pay for it, and second, additional resources and expertise clearly suggest additional costs which run counter to much of Corowa's earlier arguments.

The Need to Ensure Opinions of Diverse Communities are Effectively Represented

Corowa Shire clearly did not feel that any effective argument could be mounted to try to portray that democratic voice might be preserved within the parameters of their proposal. They therefore did not address this criterion in any detail.

As we have already shown, simple arithmetic demonstrates that the opinion of diverse communities could not be *effectively* represented. Moreover, the wide disparity in tastes and preferences also acted as an obstacle that could only be overcome through inefficient operations.

Any Other Factors

In response to this criteria, Corowa Shire drew attention to the fact that most other local government areas stridently opposed amalgamation. The fact that Corowa Shire embraced the idea so warmly suggests; (i) that they did not fully understand the facts (as we have already demonstrated) which is

[7] We understand that contracts already call for one day a fortnight in Urana. However, there needs to be much more flexibility in when this time is spent – hence our suggestion for an annual target – so that staff can attend when they have blocks of work in the north (thus minimising disruption). Moreover, attainment of the goal should be reported for each position and also be included as a key performance indicator for the job description. Unless we have measurable and verifiable goals, then adherence is likely to wane over time.

understandable given that they lacked the expertise to do so, and (ii) that they probably recognised that their own fiscal plight was rather grim, thus making them more amenable to any potential remedy.

Clearly Corowa's support of this poorly thought-out proposal was a grave mistake. However, the greatest blame must lie with the ILGRP, Boundaries Commission, Minister and bevy of commercial consultants who all professed to have the requisite expertise to make this important decision, but utterly failed to properly examine matters foundational to the proposal.

2 The Minister’s Proposal (KPMG Report)

We have been directed to critique the Minister’s Proposal but, despite frequent requests, have not been able to obtain key documents (the Minister’s Proposal, and Delegates Report). It is disappointing that Council does not have the Minister’s Proposal and Delegate Reports in its records – these important documents explain why Federation Council exists, and their absence is therefore perplexing.

The only document we could locate was the Boundaries Commission’s report on the Delegate’s Report. Under the Act (1993, NSW), the Boundaries Commission was required to report on whether the Boundaries Delegate had fulfilled the requirements under s263(3) of the legislation. The Boundaries Commission was not required to comment on the level of competence exhibited by the Delegates (which was often sorely lacking), merely whether or not each factor had been given adequate attention. In most cases, the Boundaries Commission process was little more than a rubber stamp exercise, even when Delegates made clearly flawed judgements based on fundamental misconceptions. Notably, the approach of the Boundary Commission was consistent with court interpretations of procedural fairness.

Despite the ‘light-touch’ approach of the Boundaries Commission, it still concluded that:

> Overall, the Commission’s view is that the Report shows the Delegate adequately considered all of the factors, *with the exception of wards and diverse communities* (emphasis added).

Otherwise stated, the Boundaries Commission confirmed that the Delegate did *not* adequately address two of the legislative criteria. Given our experience as expert witnesses in other cases which contended against proposed amalgamations, we have little doubt that the Delegate Report would not have survived a legal challenge. Indeed, the (then) Minister ought to have sent the proposal back for further investigation so that the law could be satisfied. It is surprising that due process was not followed in the case of Corowa and Urana Shires, especially when one considers that the Delegate (later awarded the Administrator role for Federation) was a lawyer.

The Boundaries Commission also noted a number of other shortcomings which warrant attention in view of their serious nature.

Financial Factors

‘The Commission’s view is that the Delegate adequately considered the issues under this factor *while noting the lack of analysis in the Report of economies and diseconomies of scale’* (emphasis added).

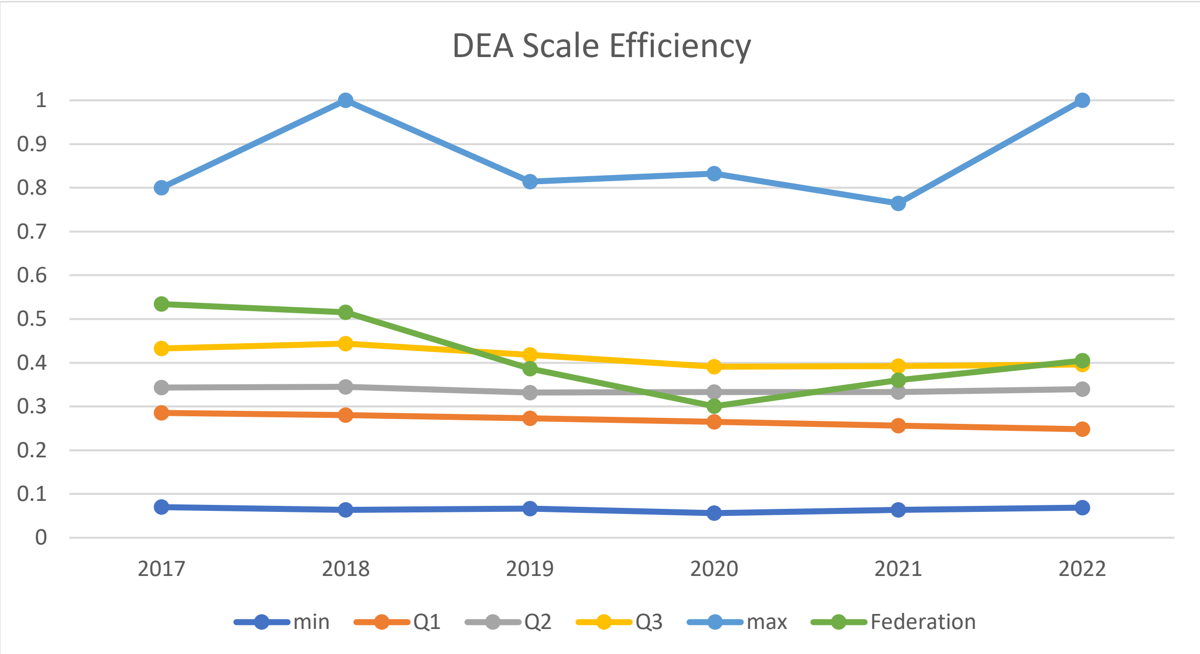
This is indeed a telling inditement, given that the main reasoning of amalgamation proponents relied on said economies of scale. In view of the robust evidence that we provided earlier, it seems clear why the Delegate decided not to investigate the matter thoroughly – economies of scale simply did not exist.

Indeed, it should have been obvious to anyone that creating a local government area far larger than thirty-odd nations in the modern world would not lead to technically efficient operations. In order to further illuminate this matter, we conducted a data envelopment analysis on a ten-year panel of data. Data envelopment analysis (DEA) is the most empirically sophisticated mathematical technique for evaluating technical efficiency and, through various extensions to the algorithm, scale.

Essentially DEA uses past audited financial data as inputs (staff expenditure and other operational expenditure respectively) and evaluates the efficiency of their conversion into a series of output proxies (number of residential assessments, number of farm assessments, number of business assessments, length of sealed roads, length of unsealed roads). It uses linear programming and weighted averages of these inputs and outputs to construct a theoretically optimal convex production possibility frontier (that is a frontier which represents the best conversions of inputs into outputs for the cohort)[8]. The efficiency of each local government is then evaluated with reference to the ratio of the radial distance of interior points to the relevant reference point on the production possibility frontier. This is referred to as the constant returns to scale (CRS) specification, whereby all local governments are compared to each other, irrespective of size. By introducing a convexity constraint of one to the equation we can ensure that relatively inefficient local governments are only compared to local governments of a similar size. This is referred to as variable returns to scale (VRS) whereby the efficiency score yielded takes into account performance relative to size. By dividing the CRS by the VRS score we yield a precise estimate of the scale effect on relative technical efficiency.

In Figure 1 we present the scale efficiency of Federation Council relative to all other rural local governments since amalgamation (where one represents optimal relative scale and zero the worse possible scale). As can be seen, the ill-considered amalgamation resulted in a council that was structurally inefficient, relative to its peers. Indeed, the scale efficiency score for 2022 was just 0.4048 which means that the conversion of inputs into outputs was hampered by a staggering 59.52 percent due to over-scaling.

Figure 1. Scale Efficiency at the Amalgamated Federation Council



It should be noted that DEA – like regression, and FDH (which we will present shortly) – is a statistically robust technique. What this means is that the mathematics strips out statistical noise through techniques such as bootstrapping (in this case over 5,000 re-samples). Moreover, because it is *relative* technical efficiency, with a two-year window we have implicitly controlled for changes in regulatory environment

[8] The mathematical expression is:

$$\min_{\theta,\lambda} \ \theta,$$
$$s.t. \quad -qi+Q\lambda \geq 0$$
$$\theta xi - X\lambda \geq 0$$
$$I1'\lambda = 1$$
$$\lambda \geq 0$$

and other externalities affecting the cohort. Otherwise stated, we are indeed comparing apples with apples.

Whilst staggering, the level of scale inefficiency should have been entirely predictable by anyone purporting to have the requisite skills required to assess the boundary proposal. Vast distances have to be traversed to deliver services, with concomitant expense (especially in terms of infrastructure). We note the appeal to communication technology made by the Boundaries Delegate, but the problem is that one cannot yet 'Zoom' earthmoving equipment or staff.

The Delegate also noted 'that rates in Urana Shire Council are currently significantly lower than average' (LGBC, 2016, p. 4). Average rates are an extremely poor way to measure the relative revenue effort of a rural local government, because of obviously skewed data, and we are surprised that a person purporting to have the requisite skills to assess a boundary process was not aware of this statistical fact (see the YouTube video at Professor Joseph Drew 'Why You Shouldn't Compare Average Rates').

'The Delegate [also] noted with concern the particularly low own source operating revenue for Urana Shire Council…did not reasonably accord with its stated preference to remain as a stand-alone council' (LGBC, 2016, p. 4). This statement of the Delegate demonstrated a surprising ignorance of the validity of this metric with reference to Australian local government financial sustainability (see the YouTube video 'A Dangerous Financial Ratio') as well as a blatant disregard for the horizontal fiscal equity objective clearly articulated in s6(3) of the Local Government Financial Assistance Grants Act (1995, CTH). Once again, we are surprised that a person purporting to have the requisite skills to assess a boundary submission would not be aware of these facts.

As we will demonstrate later in this section, poor evaluation of the Minister's proposal led to some significant deleterious outcomes for the communities.

Communities of Interest

'The Commission's view is that the Delegate adequately considered the issues under this factor, while noting the limited analysis provided' (LGBC, 2016, p. 5).

As we have detailed earlier, the reasons for the limited analysis can be attributed to both a fundamental misconception of what the term means (and its importance to efficiency and sustainability), as well as the fact that there was indeed no real interest between the two former local government areas.

We note that the Delegate repeated factually incorrect statements regarding the SEIFA index, first articulated by Corowa Shire (see our earlier discussion). We are surprised that a person purporting to have the skills required to assess a boundary proposal would not be aware of how indexes worked, or properly appreciate the large percentile gap between the two community rankings. Indeed, it seems particularly baffling that a Delegate who travelled to both communities did not immediately see this material gap in SEIFA.

Notably, the fact that the Delegate did not correctly perceive the gap in the SEIFA – or understand the HFE objective of the Act (1995, CTH) – probably explains why he did not pick up on the obvious financial disadvantage of lower general component financial assistance grants attendant upon the proposed amalgamation (see also our discussion of grants later in this report). This neglect further disadvantaged ratepayers.

Elected Representation

'The Commission's view is that the Delegate adequately considered the issues under this factor, while noting the limited analysis provided' (LGBC, 2016, p. 6).

The Delegate noted that having just nine Councillors for a local government area which dwarfs many nations 'potentially le[ft] residents of the current Urana Shire with a minority of representatives on the new Council' (LGBC, 2016, p. 6). As we have shown, simple arithmetic should have made it clear to the Delegate that this was not merely a 'potentiality', but rather a certainty. Indeed, the number of representatives recommended by the Delegate could potentially leave the residents in the north with absolutely no representatives at all.

The Delegate tried to claim that disenfranchisement of this kind 'was not unusual when compared with the rest of the State', which was a very bold assertion indeed.

It is disappointing that the Delegate purporting to have the requisite skills to investigate a boundary proposal did not do the simple arithmetic necessary to understand that his recommendation would result in disenfranchisement for most of the satellite communities of the former Urana Shire. Had he done so, then Federation residents might have been saved the cost and difficulties of trying to redress the extant untenable situation (along the lines that we recommended earlier).

Service Delivery and Facilities

'The Commission's view is that the Delegate adequately considered the issues under this factor' (LGBC, 2016, p. 7).

We note that the Delegate used the incorrect functional unit for assessing relative costs (most services are still delivered to properties with the exception of roads which are, in fact, negatively correlated[9] with population). Moreover, he eschewed the only robust ways to compare relative technical efficiency – DEA or FDH (we present analysis of these kinds in the next section of this report).

We also note the comment 'that although some back-office functions could be consolidated to the main locations, it would be important to maintain service centres, depots, and outdoor staff in other locations…' (LGBC, 2016, p. 7). This comment was potentially misleading because it is indeed a legal *requirement* to maintain staff numbers in rural centres (s218CA of the Act (1993, NSW) – not a mere option. Moreover, if the Delegate understood that numbers would need to be maintained and service levels preserved, then one really has to wonder how he believed that material savings would still be possible (given the well-known amalgamation obstacles of harmonisation of salaries and services, as well as the requisite additional remuneration for senior managers[10]).

'The Delegate also noted the vital role section 355 committees play in the current Councils and expressed his recommendation that these continue to be supported by a new council' (LGBC, 2016, p. 7). We agree with the Delegate on this matter. It is therefore somewhat surprising that the Delegate did not put in measures to preserve the s355 committees during his extensive Administration engagement. A complex corporate structure located hours away from the s355 committees is not conducive to the co-operation that he acknowledged would be important moving forward. A community liaison officer should therefore have been appointed to support the vitality of these associations.

Employment Impacts for Staff

In similar vein to other decision-makers, the Delegate also chose to narrowly interpret this requirement of the legislation. In so doing, he effectively added words to what was actually written (there is nothing to

[9] That is, as population goes up, road length decreases. This negative correlation is important because road expenditure is the single largest item of cost for Australian local governments. Using population as a functional unit of expenditure is therefore ill-advised because it is likely to profoundly mislead decision-makers.

[10] We note the Delegate himself increased the salaries of the senior management during his time as Administrator.

suggest that the legislators wished to constrain this examination merely to wages or full time equivalent (FTE) staff numbers).

Staff were placed under enormous stress when the amalgamation was executed and (as our survey data will show later) some still suffer. This led to the unfortunate outcome of staff turnover, with a concomitant loss to institutional memory, that continues to present an obstacle to efficient operations to this day.

This apparent disregard for council's most valuable asset was very surprising from a person purporting to have the skills necessary to not only assess a boundary change but also later administrate it.

Wards

'The Commission's view is that the Delegate did not adequately consider the issues under this factor' (LGBC, 2016, p. 8).

As we have already stated, a failure to observe the legislation should have resulted in the proposal not proceeding until such time that the Act (1993, NSW) was properly fulfilled.

'The Delegate noted that submissions broadly expressed the view that wards would not provide an effective solution for the merged council due to the population being mostly concentrated in the south, along the Murray River'. In so doing, the Delegate implicitly conceded that diverse opinions were also unlikely to be effectively represented. If the population was concentrated in the south, and just nine Councillors used, then (as we have shown) simple arithmetic would reveal an appalling disenfranchisement of the north that should not have been tolerated in a democracy.

Opinions of Diverse Communities

It thus comes as no surprise that 'the Commission's view is that the Delegate did not adequately consider the issues under this factor' (LGBC, 2016, p. 9).

We note with some bemusement the Delegate's misapprehension that diverse communities referred to minority groups such as Indigenous folk, and people of foreign extraction. To get to this dubious conclusion it seems that our Delegate, once again, added to the words actually written in the legislation. As a lawyer, the Delegate might have been expected to be aware of the Acts Interpretation Act (1987, NSW) and hence interpreted the term according to its usual meaning ('of various kinds or forms' Macquarie Dictionary, 2020). Thus, the factor should probably have been interpreted as written – that is, a query about how the different opinions of various kinds of people would be effectively represented'.

Of course, as we have already shown, it was not possible to effectively represent diverse voices according to the proposal made by the Minister.

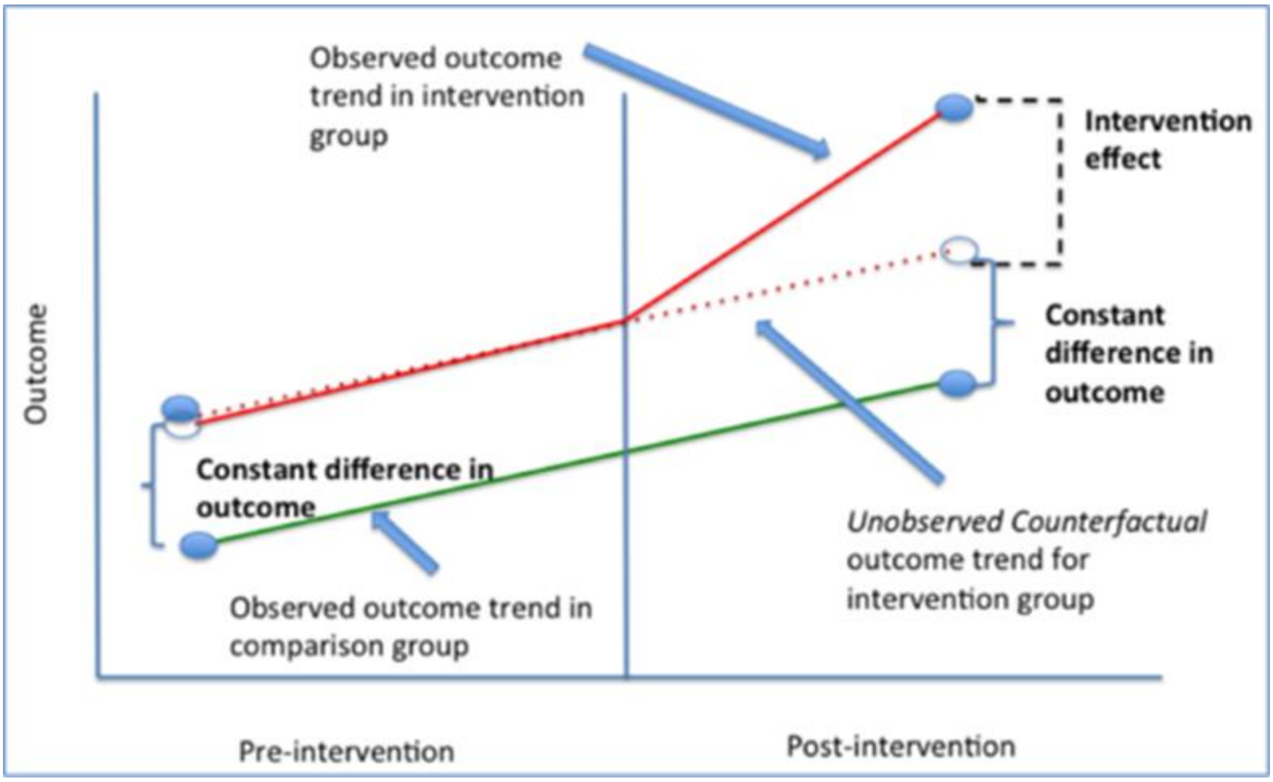
In sum, the Delegate clearly failed to fulfill the requirements of the legislation (as even recognised by the Boundary Commission). This was surprising given his legal background, and his implicit warrant that he had the requisite skills when he first accepted the role. The result of this failure has been the disenfranchisement of entire villages, potential harm to staff, and the emergence of a financially unsustainable Federation Council.

Indeed, failure to engage with the scholarly literature and robust empirical facts by the ILGRP, KPMG and the Minister resulted in much harm across the state. This has now been demonstrated beyond any reasonable doubt in three blind-peer-reviewed works published in some of the best journals in the world. To do so, we employed difference-in-difference multiple regression using long panels of data. Difference-in-difference regression allows econometricians to conduct *ceteris paribus* (holding all other factors constant) empirical evaluations of amalgamation outcomes. By controlling for all demographic and economic variables known to affect local government expenditures, and also comparing actual results of amalgamated councils against a counterfactual trend yielded by a suitable control group, we can be certain of isolating the effect of the treatment (amalgamation). These measures ensure robust estimation (that is, results that are statistically assured to be free of noise and biased comparisons), such that 'apples with apples' comparisons can be made with certainty.

In Figure 2 we illustrate the difference-in-difference strategy graphically. The mathematical expression is:

$$E_{i,t} = \beta_0 + \beta_1 period_{i,t} + \beta_2 treated_{i,t} + \delta period_{i,t} \cdot treated_{i,t} + \gamma X_{i,t} + \varepsilon_{i,t}$$

Figure 2. A Graphical Explanation of Difference-in-Difference Regression



In Table 5 we summarise the results of the aforementioned peer-reviewed publications:

Table 5. Summary of the Extant Ex-Post Studies on NSW Amalgamation

	McQuestin, Miyazaki, and Drew (2020)	Drew, McQuestin, and Dollery (2021)	Drew, McQuestin, and Dollery (2023)
Time elapsed since amalgamation	Three full financial years.	Four full financial years.	Five full financial years.
Control Used	All NSW local governments that were not amalgamated.	All NSW local governments that were not amalgamated.	Only the 26 local governments that were originally scheduled for amalgamation but escaped their designated fate.
Key Finding	Amalgamation increased unit costs by an average of 11.2% (significant at the 1% level). Staff spending up 15.2% (1% level).	Amalgamation increased unit costs by an average of 11% (significant at the 1% level)	Amalgamation increased unit costs by an average of 11.1% (significant at the 1% level)

Thus, it is clear that the recklessness of amalgamation architects cost communities dearly. To be precise, unit costs increased on average, across the state, by over 11% *ceteris paribus*. When combined with an ill-conceived four-year rate freeze, this has led to some recent hefty increases to local government taxation as detailed below:

Table 6. SRVs for Amalgamated Councils Since Rate Freeze Lifted

Local Government	Tax Increase Approved	Year Applied
Armidale	58.8% over 3 years	2023-24
Federation	39.2% over 2 years	2023-24
Snowy Monaro	52.48% over 4 years	2023-24
Central Coast	15%temporary for 7 years	2022-23
Snowy Valleys	35.95% over 2 years	2022-23
Armidale	10.5% over 1 year	2021-22
Canterbury-Bankstown	36.34% over 5 years	2021-22
Central Coast	15% temporary for 3 years	2021-22
Cootamundra-Gundagai	53.5% over 4 years	2021-22
Federation	8% over 1 year	2021-22
Georges River	32.6% over 5 years	2021-22

Source IPART (2023)

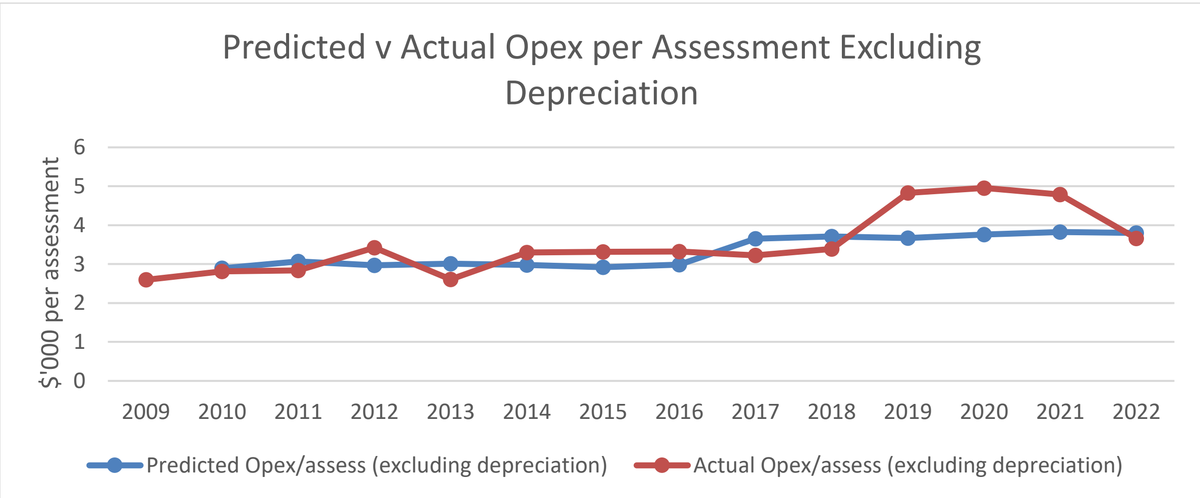
Sadly, there will be further substantial tax increases at amalgamated councils in the near future – the recognition of which probably motivated IPART to make its recent call for a review of finances of NSW local government.

For the specific case of Federation Council, our difference-in-difference regression analysis (spanning the period 2014 to 2022 inclusive and specified as detailed earlier) suggests that the likely result arising from amalgamation was a 22 percent uplift to unit costs. As it turns out, unit costs slightly undershot this projection in 2017 and 2018 but overshot for the three financial years from 2019 through to 2021. It is important to understand that this difference-in-difference projection explains what we would expect of an amalgamated local government, controlling for changes to demographic and other factors known to affect spending, as well as broader trends in the NSW local government sector (including amalgamation, regulation, change to accounting practice, change to remit and the like). It is not a measure of relative technical efficiency (see the next section for this), nor is it an evaluation of actual against potential performance (relative to the specific challenges facing Federation).

Table 7. Predicted and Actual Unit Costs for Federation Council Since Amalgamation

Financial Year	Predicted Unit Operating Cost ($'000)	Actual Unit Operating Costs ($'000)
2017	3.657	3.223
2018	3.711	3.391
2019	3.670	4.828
2020	3.763	4.957
2021	3.825	4.788
2022	3.801	3.661

Figure 3. Difference-In-Difference Projections of Federation Against Time[11]



The deleterious outcomes arising from the poorly-thought-out amalgamations have been extremely frustrating to scholars who were both aware of the disappointing results arising from Queensland's earlier amalgamations and had also conducted robust empirical work predicting what ultimately occurred in NSW (see, for example, Drew and Dollery, 2014; 2015; Drew, Kortt and Dollery, 2015; McQuestin, Drew and

[11] Please note that the results prior to amalgamation were estimated by combining predicted and actual outcomes for both the former Corowa and Urana Shires.

Dollery, 2017 (available online 2015)). If the consultants, Minister, ILGRP and delegates had troubled themselves to consult the publicly available scholarly literature, then much pain might have been avoided.

Later in this report we will present evidence of substantial SRVs that were planned by each constituent local government prior to the amalgamation. In all likelihood, these would have been necessary (and perhaps more). What the amalgamation did was to accelerate the urgency and size of the necessary SRV, whilst simultaneously making it more difficult for the community to appreciate the need for same (given the entrenching of fiscal illusion owing to the stronger communities funding and four-year rate path freeze).

3 Appropriate Political Structures (Wards, Directly Elected Mayor, Number of Representatives)

We have already detailed how the Delegate failed to adequately address the legislative requirements regarding the matter of effective political representation. Moreover, we have previously explained – on the basis of simple arithmetic – that at least twelve Councillors would be needed to guarantee just one representative for the people of the former Urana Shire (especially important in view of the population decline in the north). Moreover, one representative would still seem to be a poor outcome for a community that previously enjoyed nine – especially for the various outlying villages at Rand, Boree Creek, Morundah, and Oaklands who had Councillors in the past, but relatively little hope for the future.

Clearly the amalgamation should never have been allowed to proceed until the legislation had been satisfied and an effective way found to ensure political representation.

It must be said that three other options exist for mitigating the problem of disenfranchisement for the northern communities: (i) de-amalgamation, (ii) some sort of change that would facilitate the operation of a tiered local government system, or (iii) the establishment of a director level position at the Urana office.

There seems little appetite for de-amalgamation now that the former Opposition has come to government. Moreover, a business case for de-amalgamation might be difficult to prosecute given the loss of former staff and a significant deterioration to finances.

A second-best option might therefore be preferred. This would establish a tiered system of local government for NSW, whereby former local governments might be given some constrained powers and semi-autonomy under the supervision of a higher tier amalgamated body. Care would need to be taken to precisely define a suitable sub-set of powers and a commensurate budget for these second tiered local governments (the presumption being that the remainder of the powers would rest with the tier 1 'amalgamated' entity). Thus, for example, tier 2 (former) local governments might be given powers over road and recreation spending and be provided with part of the budget that would otherwise have been spent by the tier 1 local government. Tier 2 governments would then be responsible for funding and executing work within this remit.

A tiered local government system is not unknown elsewhere in the world (the United Kingdom comes immediately to mind). It is a way of returning some political voice and self determination to communities who would otherwise be disenfranchised. Tiered local government would be less efficient than the former stand-alone pre-amalgamated entities, but also less expensive and disruptive than de-amalgamation. Tiered local government certainly would not have been a good choice back in 2016 (prior to amalgamation) but warrants consideration as a second-best option in 2023. It would allow the NSW state government to return some of the self-autonomy that amalgamated communities have been clamouring for, but avoid the disruption, expense and uncertainty of de-amalgamation (whilst preserving a measure of the greater strategic capacity said to be had by bigger organisations).

Clearly a lot of work would need to be done to move either of the above options forward. For de-amalgamation, s218CC of the Act (1993, NSW) requires a dedicated de-amalgamation business case to be forwarded to the Minister following a resolution by the Council. For the establishment of a tiered system of local government, significant work, including changes to the legislation, would need to happen at the state government level. We reiterate that we are not proposing either option as a strong recommendation

– merely setting forth potential remedies to a most unsatisfactory outcome for the people of the former Urana local government area.

A third option became evident to us as a result of the October consultations – the establishment of a director level position at the Urana office. Either one of the existing Director positions could be relocated permanently to the Urana office, or a new director level position could be established for the Urana office. This person would also be responsible for the running of the office and would be the most senior point of contact for residents of the former Urana Shire. A similar arrangement exists at other amalgamated councils where there is some distance between former centres.

Establishing a director at the Urana office means that residents would have direct access to a senior decision-maker. It would also mean that someone from Urana will be present at all MANEX (management executive team) meetings. Furthermore, a person working permanently in the Urana office will likely have lived experience of the council services in the area. Sadly, if decision-makers are not frequently exposed to council services in a specific geographic area, then they tend to not fully internalise and appreciate matters (Drew, 2021).

It could be argued that the current General Manager heralds from Urana and thus that the proposal is not warranted. However, it is highly unlikely that future General Managers will always be domiciled in the north. Moreover, the current General Manager spends most of his time at the Corowa office and therefore does not provide the constant presence necessary for the efficient and effective operation of the Urana office. It might also be argued that other geographical areas – such as Mulwala and Howlong – could warrant similar treatment. However, arguments of this kind would lack both legal force (s263(3) and s218CA of the Act (1993, NSW)), and precedent (it is an indisputable fact that Urana did have executive staff located at the office in the past).

We acknowledge that the aforementioned recommendation may involve additional costs. However, we feel that the disenfranchisement of the former Urana citizens was potentially unlawful (certainly this is the indication provided by the Boundaries Commission) and also starkly at odds with Australia’s strident defence of democracy abroad. Voice is a moral issue of profound importance and thus deserving of serious attention and remedies.

4 Other Section 263(3) Boundary Change Criteria

We have already explained how setting measurable goals around senior staff working from the Urana Office may help to assure that decision-makers are better aware of the challenges and needs facing people in the north.

In addition to this measure, it seems that minor adjustments may be in order to redress some glaring incongruencies in the extant local government boundary lines. These incongruencies should have been noted during the 2016 Boundaries Commission process and duly rectified at this time.

For example, Rand, Oaklands, Boree Creek and Morundah all belong to more than one local government area. It is difficult to understand how these residents might have their needs properly met when it is not clear which authority is responsible for meeting their needs. Furthermore, it is clearly inefficient to tolerate economic spillovers of this kind. A spillover occurs when residents frequently use local government goods and services that they have not paid for through taxation – in addition to being inefficient, it is also plainly inequitable.

In similar vein, it is hard to understand why Howlong was ever placed in the former Corowa Shire (and hence now part of Federation). The village is mid-way between Albury and Corowa, but it is clear to anyone who visits that it is indeed a 'bed-city[12]' of the former local government area. People in Howlong conduct most of their business at Albury, mostly work at Albury, and foresee development growth consistent with the outlook of Albury. It is economically inefficient – and also plainly inequitable – for Howlong residents to mostly be using the roads and facilities of Albury, but not pay local government taxation in that local government area. Moreover, it is clear that the concerning state of finances at Federation means that critical infrastructure spending required for Howlong to grow may be delayed for some time to come as matters stand. It is thus probably in the interests of the residents of Howlong for a proper minor boundary review to be conducted. We note that this would also potentially require some minor adjustments to the boundaries of Greater Hume and might also be expected to alleviate the land-locked position that inhibits growth for Albury. However, we underscore the importance of genuine consultation with residents and a competent inquiry into the economic inefficiency and inequity of the extant boundaries. This recommendation does not come without risk and potential additional work for Council. However, if we seek a sustainable and economically efficient local government structure, then clearly the matter warrants serious consideration.

[12] This is a term borrowed from Japanese scholars – bed cities refer to areas that principally offer accommodation to people who largely commute elsewhere for work opportunities.

5 Financial Performance Since Amalgamation

Amalgamation brings change – some unwanted or unintended (such as disenfranchisement and reduced efficiency), but some changes quite deliberate (a putative increase in capacity and strategic planning, and a more corporatised operating infrastructure). Moreover, the stronger communities funds which arrived in the wake of the amalgamation also resulted in considerable change (through the construction of discretionary infrastructure such as playgrounds). It is perhaps doubtful that the community fully understands the scale of the change elicited by the amalgamation. It is even more doubtful that the majority of the community wanted this change or realised that they would ultimately be asked to pay for it.

In addition to the changes elicited by amalgamation, the operating environment of local governments throughout the state has also altered markedly since 2016. There have been regulatory changes (for example, the establishment of Audit and Risk Committees and the shift to centralised auditing), changes to accounting practice (for instance, the accounting for rural fire service infrastructure), a greater realisation of the importance of financial sustainability, as well as macro-economic shocks (such as COVID and the accompanying stimulus measures).

For all these reasons it is necessary to draw on a range of techniques to properly understand the challenges faced by Federation Council (as well as its antecedents). Robust statistical techniques – such as data envelopment analysis (DEA), full hull disposability analysis (FDH) and difference-in-difference regression – allow us to make ‘like for like’ comparisons because we can account for trends in other councils, control for changes to the population (and hence spending need), and also make use of sophisticated reasoning tools (and thus mitigate for statistical noise which might otherwise mislead).

However, it is also important to chart simple metrics of Federation Council over a lengthy period of time so that end-users can quickly comprehend the direction that matters have taken with respect to the particular challenges faced by Federation. Of course, simple measures such as these do not control for shifts in demographics or regulatory environment. Nevertheless, simple statistics are important because financial sustainability is *not* a contingent concept. Otherwise stated, a council is either sustainable or it is not – having good reasons for Federation’s plight or excusing one’s performance in light of trends in the sector, does not change the fiscal reality that we must grapple with. The state government has been very clear on this point: it expects its local government to be financially sustainable irrespective of the circumstances that they might face.

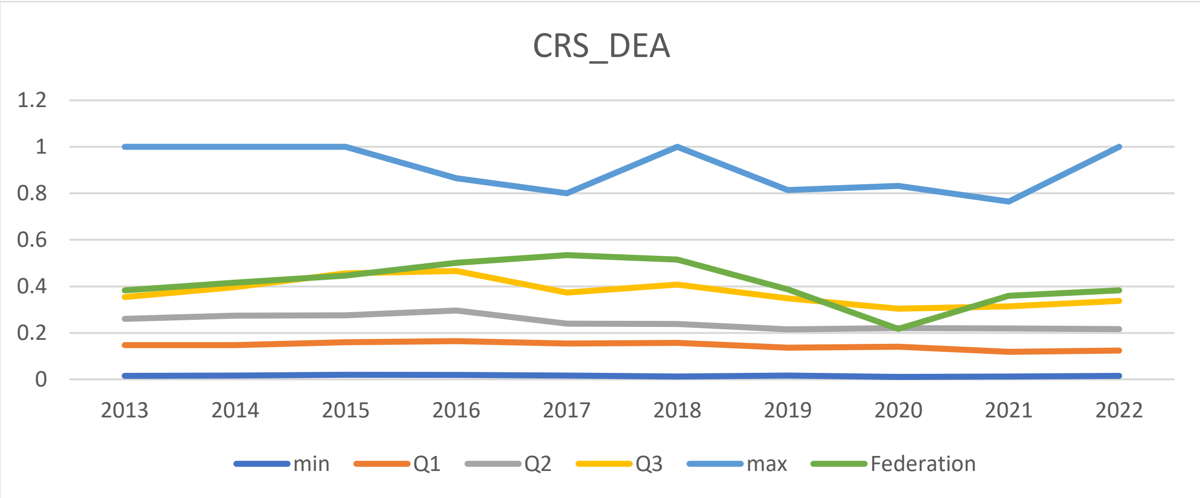
Accordingly, in this section we first present the results of our sophisticated data envelopment analyses and full hull disposability analyses to get a sense of the contextualised relative performance of Federation. Following this, we then present a number of rudimentary measures of Federation’s performance over time to clarify the circumstances that now confront us.

Data Envelopment Analysis and Full Hull Disposability Analysis

As we have already outlined, data envelopment analysis is the most sophisticated and robust way to measure relative technical efficiency over time. Constant returns to scale (CRS) DEA provides us with an evaluation of the conversion of inputs (recall: staff and operating expenditure) into a range of output proxies (recall: number of residential, business and farm assessments as well as the respective length of sealed and unsealed roads). In so doing, it makes no allowance for structural inefficiency owing to inappropriate scale that might arise because of ill-conceived amalgamations or the like. Moreover, it is important to be mindful that DEA efficiency scores are measured against a theoretically possible production possibility frontier, rather than the actual frontier.

In Figure 4 we present the CRS relative technical efficiency scores (with respect to all rural NSW local governments) for Federation from FY2013 through to 2022, inclusive. For the years prior to amalgamation, the results reflect the combined inputs and outputs of Corowa Shire and Urana Shire respectively. As can be seen, within a few years of amalgamation relative technical efficiency had dropped alarmingly and has yet to recover the levels attained just prior to amalgamation (the best reference point here is 2015 after which time most councils in NSW had optimised their efficiency in response to the Fit for the Future inquiry).

Figure 4. Constant Returns to Scale Relative Technical Efficiency for Rural NSW Local Governments, 2013 to 2022

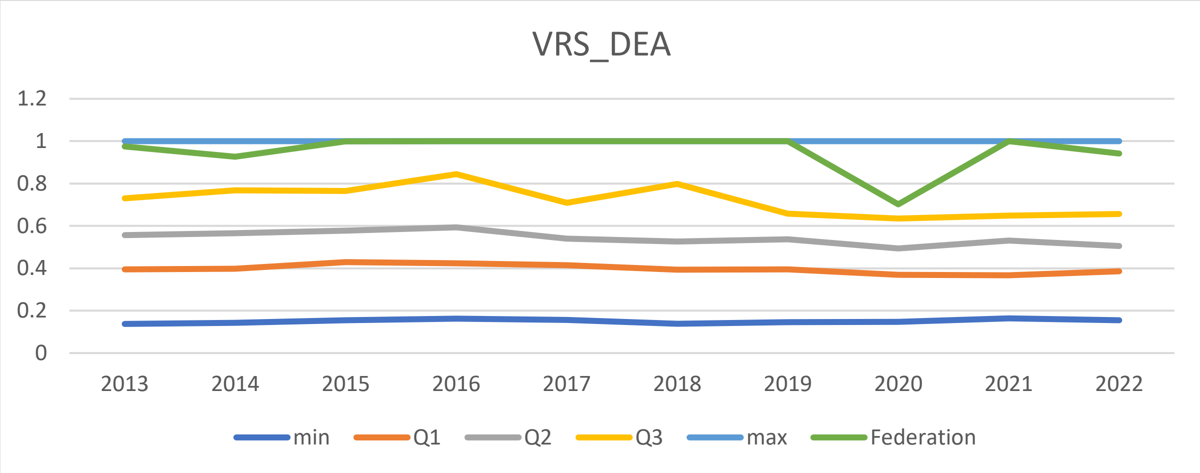


However, in the previous section we produced robust evidence to confirm that Federation is grossly over scaled and hence structurally inefficient because of the poor design of its boundaries. Accordingly, it is advisable to also evaluate the variables return to scale (VRS) relative technical efficiency which adjusts for inappropriate scale and hence provides a truer account of what has been achieved given circumstances beyond the control of Councillors and senior management.

When we do so, we find that the conversion of inputs into outputs at Federation has been one of the most optimal outcomes in the entire NSW rural local government cohort. Indeed, maximum efficiency was achieved in many years (2015-2019) and near maximum in 2022[13]. The contrast between Figures 4 and 5 highlight both the ongoing effects of the poor decisions made in 2016, as well as the commendable management of Federation by its Councillors and Senior staff over an extended period of time.

[13] Although we must note here the favorable tailwind provided by large numbers of staff vacancies which reduced a critical input and thus optimised conversion. Notably high vacancy rates are not sustainable and there are already a few departments suffering considerable stress due to insufficient staff resources.

Figure 5. Variable return to Scale Relative Technical Efficiency for Rural NSW Local Governments, 2013 to 2022



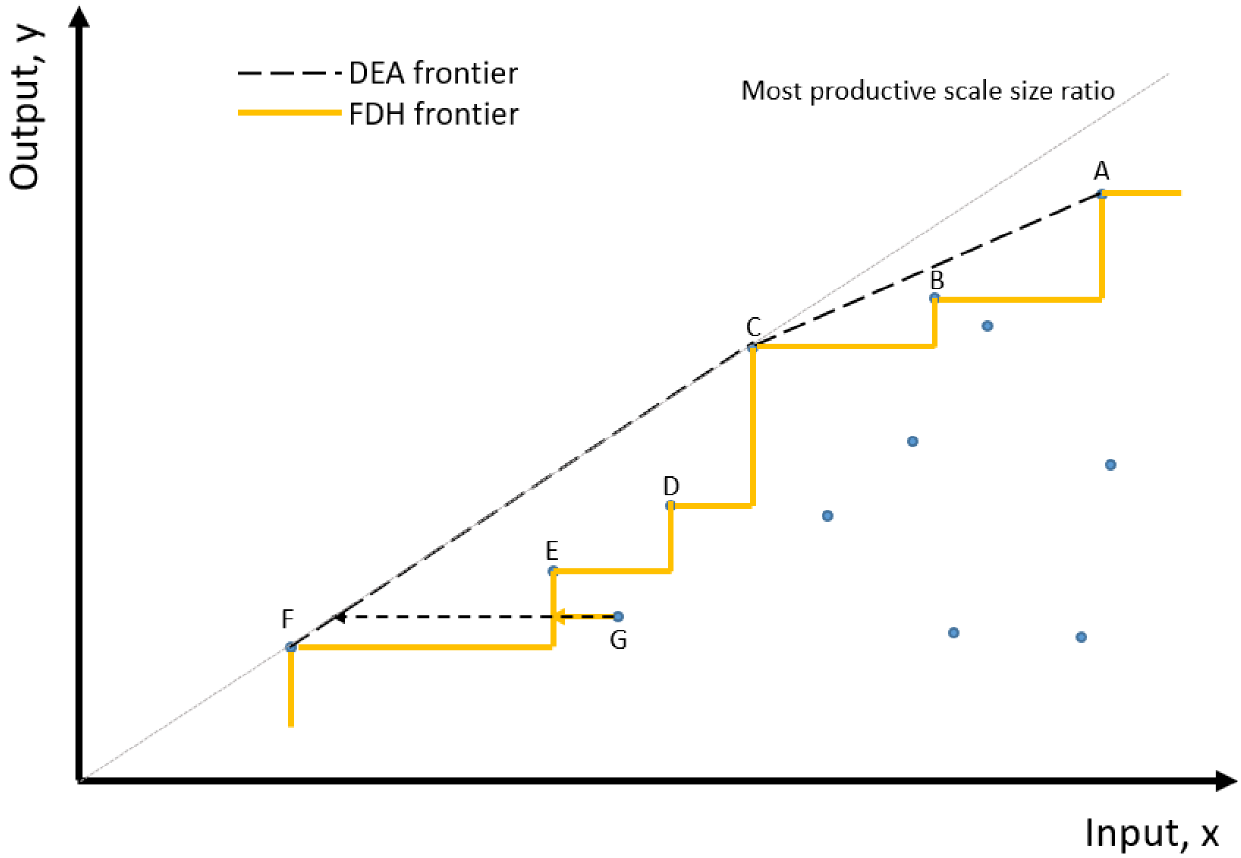
Readers will recall that DEA assesses relative technical efficiency against a somewhat idealised 'theoretically possible production frontier'. It thus usually portrays a more pessimistic account of matters than might be strictly warranted. Accordingly, it is important to also conduct full hull disposability analysis. Full hull disposability assesses relative technical efficiency against the actual step-wise frontier, rather than the theoretically possible convex frontier[14]. If councils in rural NSW are performing significantly at odds with their theoretical potential, then large differences in relative performance might occur.

In Figure 6 we illustrate the major point of difference between the two aforementioned empirical approaches.

[14] The specification for FDH is:

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

Figure 6. A Graphical Illustration of the Differences Between DEA and FDH Approaches



In Figure 7 we present the CRS full hull disposability analysis and in Figure 8 the VRS version of same. What becomes clear is that whilst Federation does indeed appear to perform *marginally* better under FDH (than it did in DEA – as largely expected), the rest of the cohort performs *considerably* better when compared to a FDH frontier. This seems to suggest that the peer NSW rural local governments are significantly underperforming what is theoretically possible for them. It thus augers well for future improvements to the sector attendant upon helpful regulatory changes and support, but unfortunately offers relatively less hope for Federation.

Figure 7. Constant Returns to Scale Full Hull Disposability, NSW Rural Local Governments, 2013 to 2022

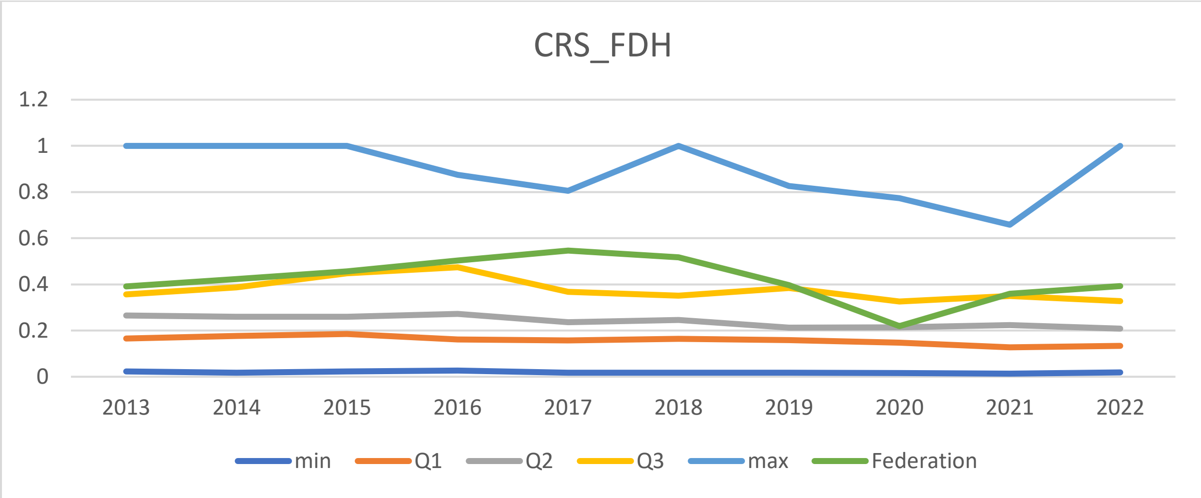
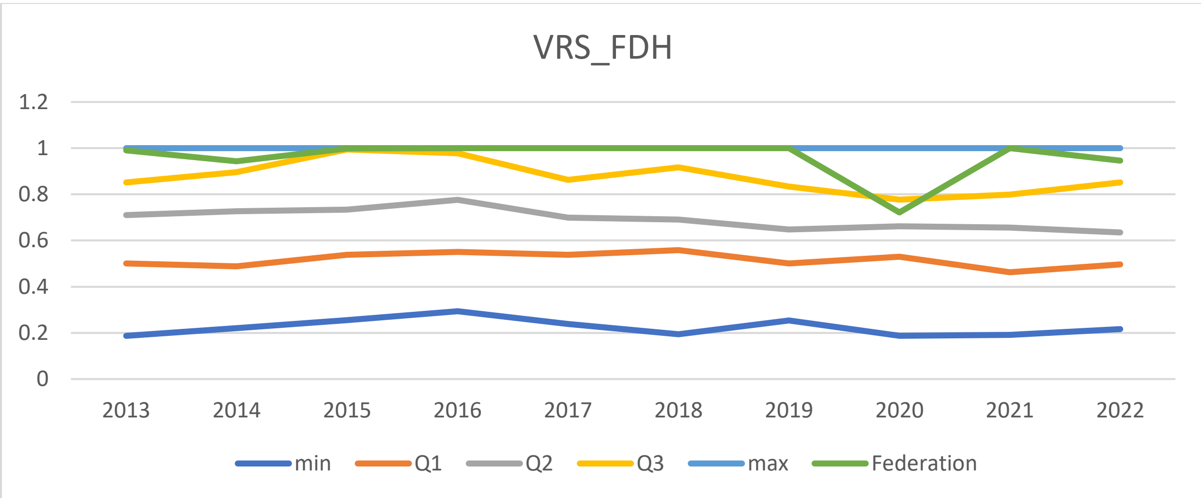


Figure 8. Variable Returns to Scale Full Hull Disposability, NSW Rural Local Governments, 2013-2022



In summary, the relative technical efficiency of Federation Council is impressive when measured against local governments facing similar operating environments (and with allowances being made for inappropriate scale). However, this good relative technical efficiency outcome is arguably less important to future decision-making than the change in fiscal circumstances at Federation Council over time. It therefore behoves us to also examine a suite of sustainability metrics in order that we might understand the seriousness of the situation and start planning a path forward.

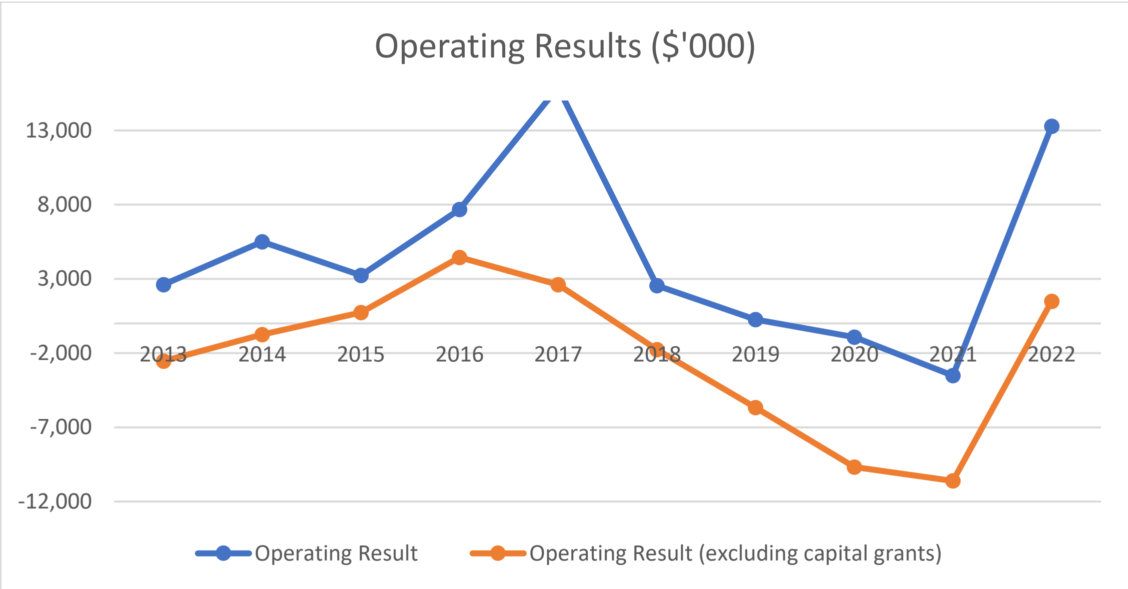
Simple Statistics Over Time

The place to begin any ratio evaluation of financial sustainability is with the operating result (surplus or deficit for any given year). In general, the goal should be to break even over an average of three years. It is important to view this metric over a reasonable three-year period because spending at the local government level tends to be lumpy (due to the nature of grants and the lags involved in planning and executing maintenance or employing staff).

Moreover, matters are further complicated by the presence of capital grants. Capital grants are monies provided by state or federal government for the express purpose of building a specific piece of infrastructure or purchasing a particular piece of long-lived equipment. The money can only be lawfully spent for the purpose that it was provided for. Moreover, there are often lengthy lags between receiving capital grants and fully expending same. In addition, capital projects regularly overshoot their budgets (partly as a result of the lags involved during an inflationary period, but also because of a lack of spending discipline). For all of these reasons, it is prudent to exclude capital grants when considering the operating outcomes for a given council.

In Figure 9 we provide details of operating results from 2013 until 2022 inclusive. For the period prior to amalgamation, we simply combined the operating results of the constituent local governments. Excepting the most recent year, it would be reasonable to conclude that matters have deteriorated at an alarming level since 2018 (excluding capital grants). However, Federation Council has some of the most skewed data that our team has ever encountered – owing to extraordinary gains and losses on disposal in most years[15].

Figure 9. Operating Results 2013-2022

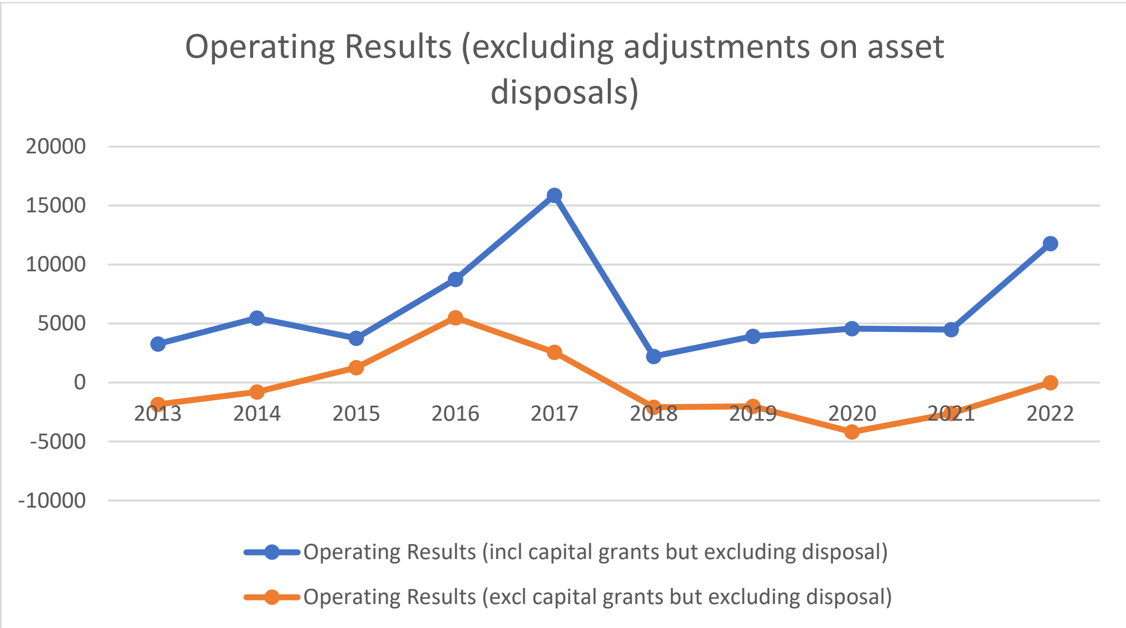


Accordingly, in Figure 10, and henceforth, we re-present the results excluding unusual accounting adjustments.

[15] Mostly gains and losses on disposal are the result of inaccurate depreciation accruals and valuations in prior periods – sometimes going back decades or more (depending on the life of the asset) (Marquardt and Wiedman 2004).

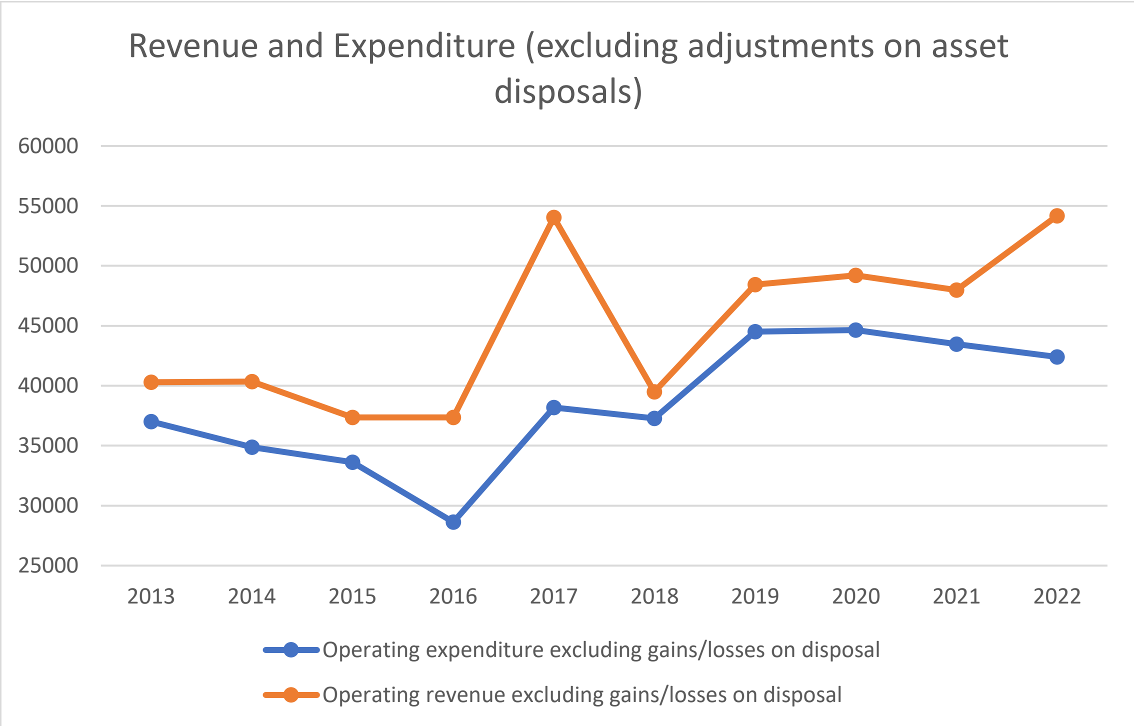
When we do so, it becomes more apparent that Federation suffered a number of unsustainable and large deficits from 2018 onwards (with the important exception of a modest surplus in 2022). It should be noted that the administration period came to an end in September 2017, but that budgets and spending which would dictate outcomes for the 2018 financial year had already been set in train (indeed some projects and commitments extended into FY2019). In addition, it must be remembered that the state government made it law that rates could not increase beyond their pre-amalgamation path for a period of four years following the consolidations – thus making it extremely difficult for Council to arrest operating result shortfalls during this period. Moreover, we can clearly see the effect of extraordinarily large capital grants for the construction of various (mostly discretionary) projects during this time. This accelerated capital spending diverted the attention of council, permanently added to Federation's cost base, and was generally ill-advised (albeit pushed heavily by a state government desperate to portray the 2016 amalgamations to be a success).

Figure 10. Operating Results Excluding Accounting Adjustments, 2013-2022



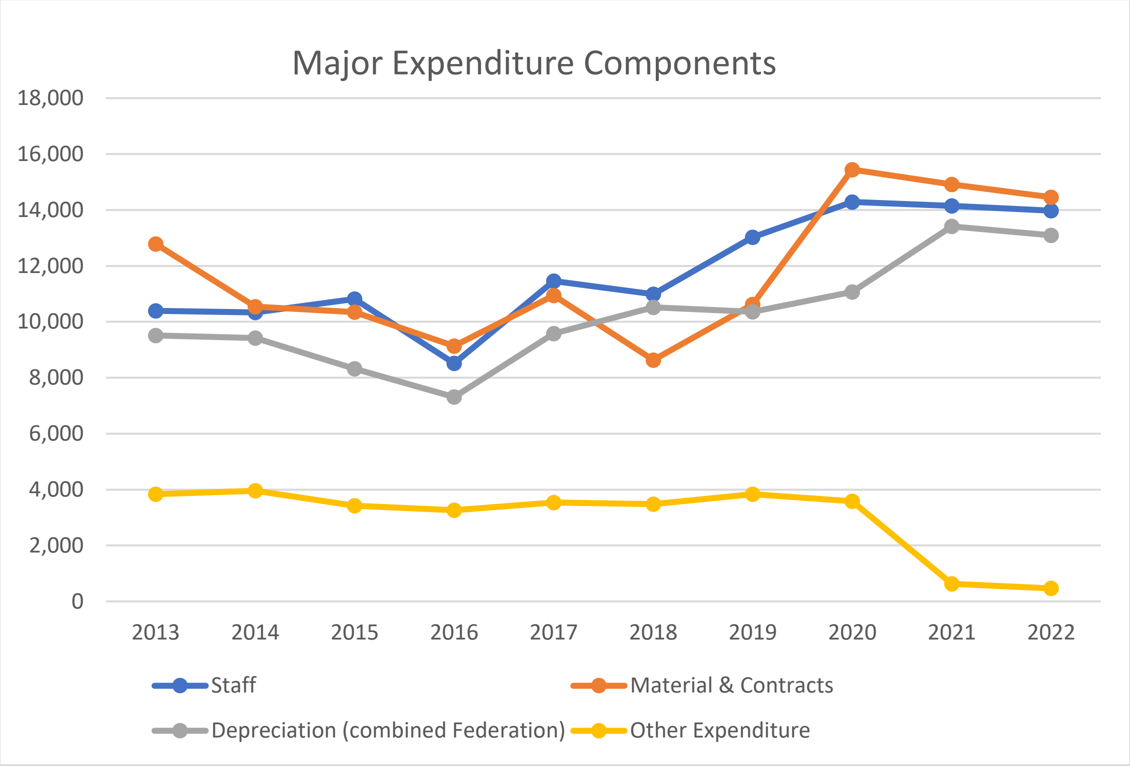
The fiscal predicament is made somewhat clearer by examining revenue and expenditure trends over time. As readers will note, expenditure increased dramatically from combined levels prior to amalgamation (the best reference point is 2015 because the state government chose to conduct the amalgamations part way through the financial year, thus distorting comparisons by making FY2016 some six weeks shorter than usual and FY2017 correspondingly longer). There was another large jump in expenditure in 2019 and only slight moderations since. Against this trend, revenue accelerated significantly following the amalgamation – mainly due to large flows of capital grants. The main results of these sudden and material changes to long-run trends were to: (i) make it more difficult for decision-makers to perceive the true nature of their circumstances, and (ii) permanently increase the cost base associated with the depreciation and maintenance of assets (more on this later).

Figure 11. Revenue and Expenditure Excluding Accounting Adjustments, 2013-2022



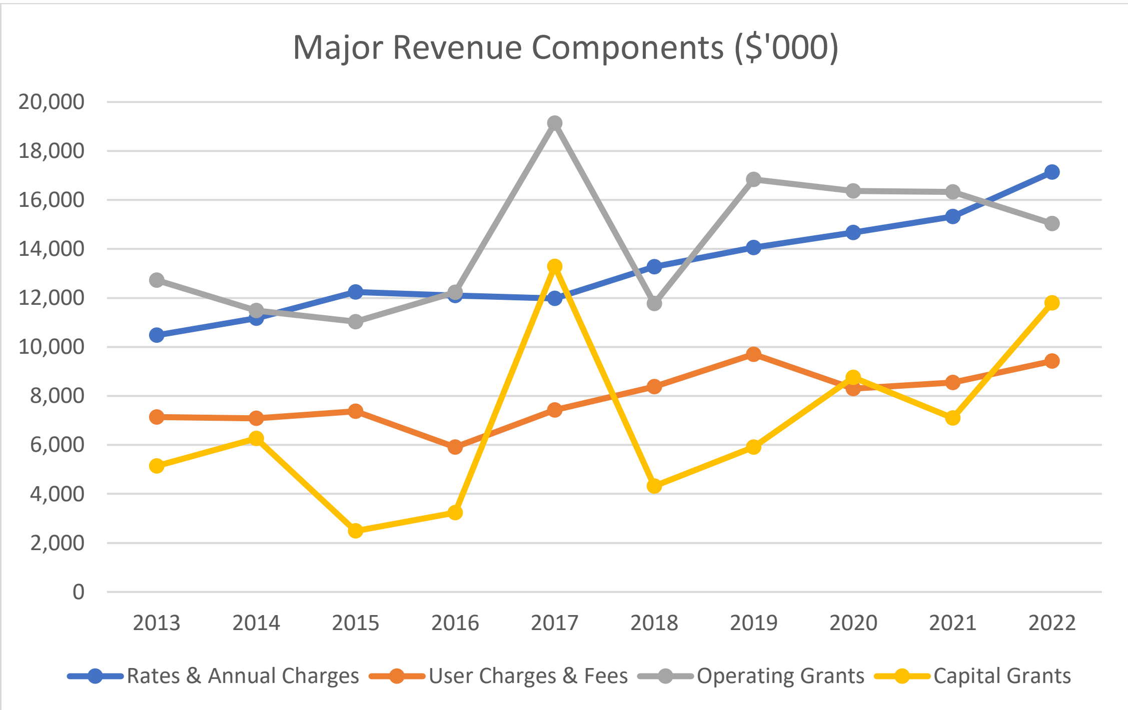
In Figure 12 we set out the changes to major expenditure components since FY2013. As can be seen, staff expenditure increases significantly following amalgamation (we provide details of changes in salary component expenditure later in this report). This is problematic because the main savings envisaged by amalgamation proponents were in the area of staffing costs. From FY2020 onwards, material and contract expenses also rose substantially which may provoke questions regarding the appropriateness of capitalisation practices. Higher material costs are also a function of maintaining a larger asset base. Notably, from 2020 onwards there was a large increase to depreciation expenses. Depreciation is the apportioning of expenses associated with long-lived assets over time. Since the advent of centralised auditing the level of depreciation accruals has increased across the sector (McQuestin et al., 2020). Moreover, prior to amalgamation many Councils had elected to engage in deliberate manipulation of accrual data (Drew, 2017). In addition, a larger asset base presages larger depreciation expenses (more on this later). The change in 'other costs' were mostly a result of altered accounting guidelines.

Figure 12. Major Expenditure Components, 2013-2022



In Figure 13 we present the details of major revenue components over time. As can be seen, operating grants improved considerably following amalgamation. This is important because it went some way to mitigating poor operating results, but it also presents a risk should operating grants reduce further in the future (more on this later). Rates and annual charges have increased because of the special rate variation (SRV) already in hand prior to amalgamation and also due to the SRV for the Corowa Aquatic Centre (rates will increase further in the future due to the temporary SRV and even more so after a clearly needed permanent SRV). Capital grants continue to be elevated when compared to pre-amalgamation levels and this also presents risks in addition to those that we have already outlined – as we shall show later, an important proportion of staff expenditure is currently being (rightly) capitalised, but if grants fall off in the future (as seems likely) then this will no longer be possible to the same extent. Lastly, user charges and fees have fallen since 2019 – although we must be mindful of the effect of drought (on water usage revenue), and COVID (which will have effected receipts for pool use and the like). Declining user charges and fees are problematic because it may be further indication that appropriate attention has not always been given to full cost recovery, which can result in cross-subsidisation from the tax pool (and may also reflect an unhelpful focus on SRVs being the entire solution to the financial sustainability problem). It bears stating that there is no single solution to financial sustainability woes – what is required is careful attention to all revenue and expenditure components.

Figure 13. Major Revenue Components, 2013-2022



As we have already seen, financial assistance grants (FAGs) are a major source of revenue from the federal government which is supposed to be allocated by the NSW local government grants commission (LGGC) according to the Local Government (Financial Assistance) Act (1995, CTH). The principal objective of the Act (1995, CTH) is outlined in s6(2)(a) as 'the need to ensure that the allocation of funds for local government purposes…is made as far as practical on a full horizontal equalisation basis' which is later defined in s6(3)(a) as 'ensures that each local government body in a State is able to function, by reasonable effort, at a standard no lower than the average standard of other local governing bodies in the State' and s6(3)(b) 'takes account of the difference in the expenditure required to be incurred by local governing bodies in the performance of their functions and in their capacity to raise revenue'.

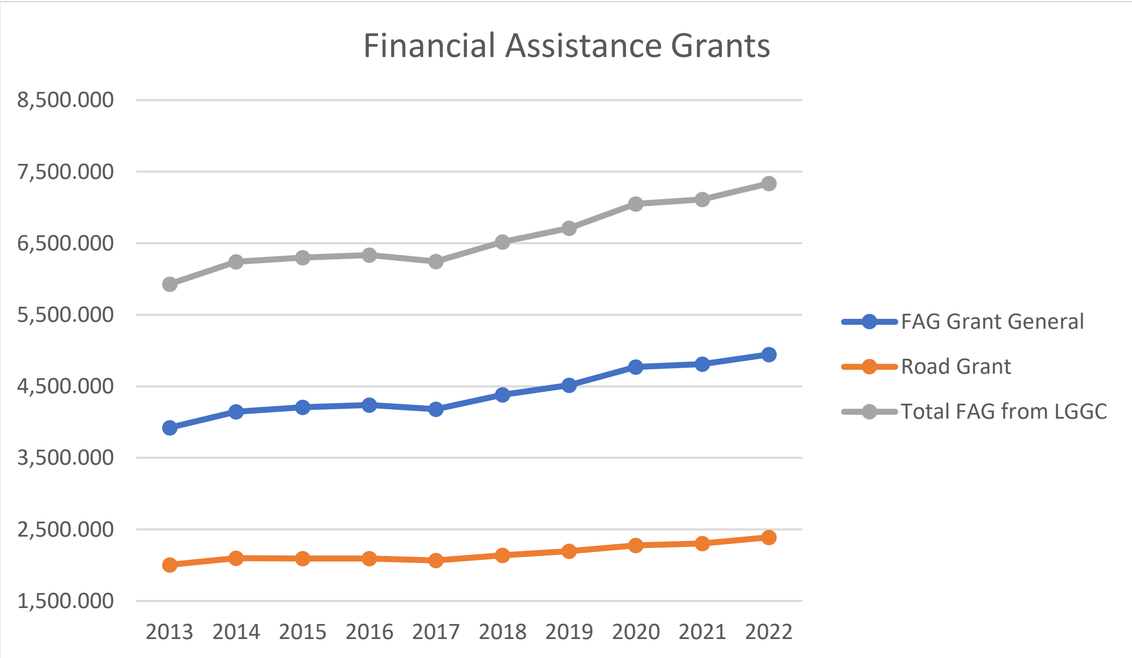
Moreover, the LGGCs are required in section 3(4)(a) of the Act (1995, CTH) to 'increase the transparency and accountability of the States in respect of the allocation of funds under this Act' and s3(4)(b) 'promote consistency in the methods by which grants are allocated to achieve equitable levels of services by local governing bodies'. As we will see, there is good reason to believe that the NSW LGGC is either unaware of these requirements or feel that they do not apply to their particular practice.

'On the 7th February 2006, the federal minister for Local Government, territories and roads proclaimed a variation under subsection 6(4) of the Local Government (Financial Assistance) Act 1995 including a national principle. This relates to Council amalgamations and is to be used for the allocation of General Purpose Grants payable under the Act in the year beginning 1 July 2006 and thereafter…as follows…where two or more local governing bodies are amalgamated into a single body, the general purpose grant provided to the new body for each of the four years following amalgamation should be the total of the amounts that would have been provided to the former bodies in each of those years if they had remained as separate entities'.

We acknowledge that we have provided significant detail in our introduction to the financial assistance grant data for Federation Council, but as will be seen, this is absolutely necessary to fully appreciate what appears to have occurred.

As we have already shown, the socio-economic status of people in the north was significantly lower than those in the south (see our earlier discussion of SEIFA scores above). Moreover, the population size in the north is dwarfed by that in the south. Therefore, it would be reasonable to expect that the sum of the relative levels of general component grants (which are supposed to be allocated according to need) would reduce following amalgamation (something that ought to have been obvious to the 'experts' and Boundaries Commission, but sadly was entirely neglected). In Figure 14 we plot the total FAG grants as well as the two components of the grants for the period FY 2013 through to FY 2022. We caution that people need to interpret this data in the knowledge that State FAG allocations are indexed according to CPI[16] (s8(1)(a) of the Act (1995, CTH) – therefore the grants ought to rise over time.

Figure 14. Financial Assistance Grants, 2013-2022



[16] The exception to this was the FAG freeze which occurred briefly subsequent to Joe Hockey's first federal budget.

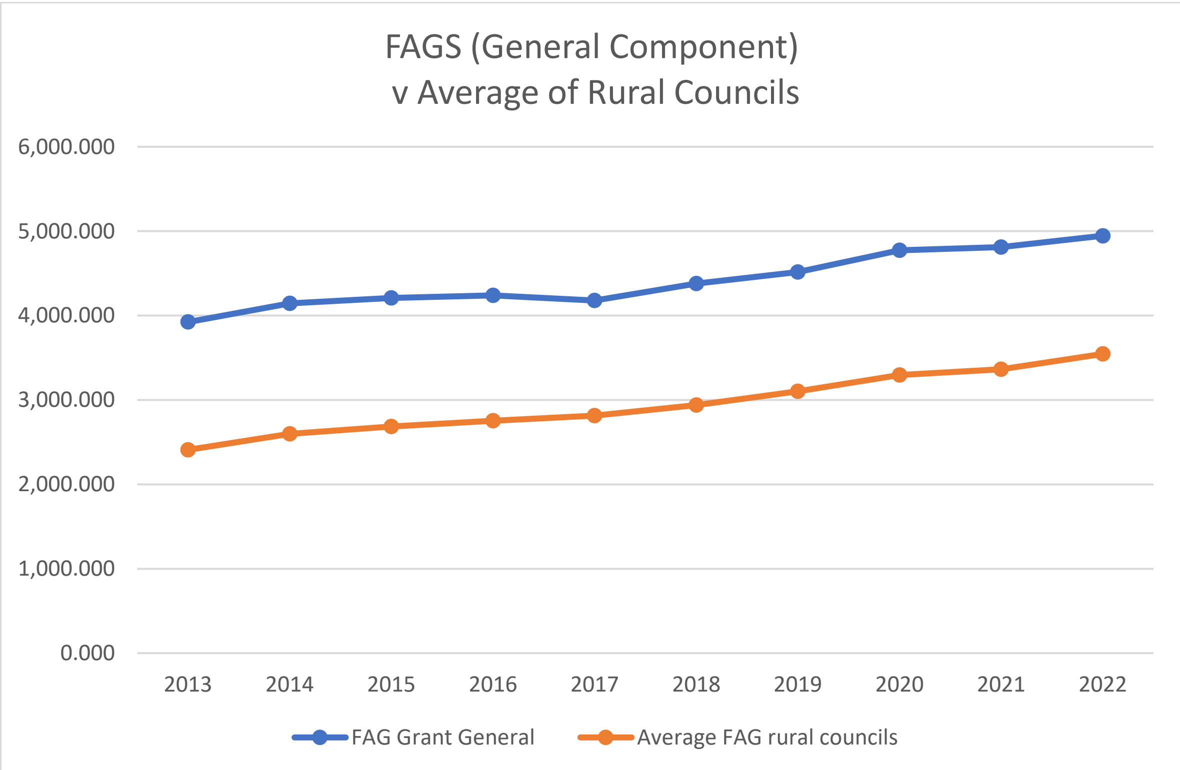
A problem emerges when we look at the general component of the FAGs for the four years subsequent to the amalgamation and compare these figures to what was happening on average at other rural local governments in NSW. FAGs actually *decreased* in nominal terms in 2017 and growth in the FAGs lagged the rural average substantially in 2019 (by some 2.43%) and 2020 (by 0.58%). This seems extraordinary given the four-year protection which is supposed to safeguard amalgamated councils under the proclamation that we recounted earlier.

Unfortunately, the NSW LGGC does not seem to think that s3(4)(a) of the Act (1995, CTH) applies to them. We are simply not provided with sufficient information to check that the allocation was made correctly according to the law. Indeed, in 2016-17 the NSW LGGC do not even appear to have produced an annual report! (see https://www.olg.nsw.gov.au/commissions-and-tribunals/local-government-grants-commission-information-and-key-resources/).

There is, however, good reason to believe that Federation Council may not have received its lawful entitlement during the first four years subsequent to amalgamation and we therefore strongly recommend to Councillors that they write to the Minister for Local Government and ask him to investigate the matter on behalf of the citizens of the local government area.

In addition, there is some reason to believe that residents of Federation may not be receiving their due entitlement for road grants – this matter should also be raised with reference to the comparative data that we will present later in this report.

Figure 15. General Component Financial Assistance Grants Over Time and Against Sector Trends, 2013-2022 inclusive



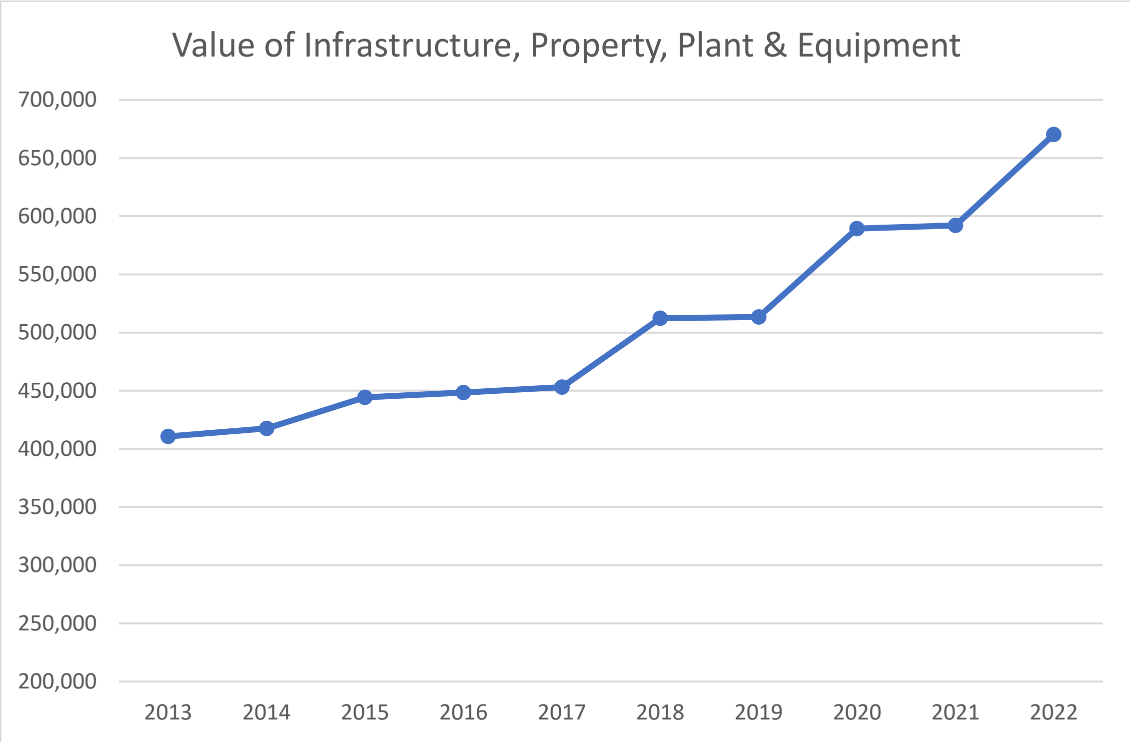
One of the intended (but poorly thought out) outcomes from the amalgamations was a significant increase to the value of infrastructure, property, plant and equipment (IPPE) (mainly in the area of infrastructure). Part of the (then) state government amalgamation proposal involved the establishment of a new stream of grants (mostly capital in nature). For instance, the first round of Stronger Community Funds topped over a quarter of a billion dollars, and subsequent rounds added to this figure. If this money had been used to maintain roads, as well as water and sewer infrastructure, then it would have set communities up for a bright future. However, the grants were largely and deliberately targeted at new discretionary infrastructure in the hope that it might convince people that amalgamations were beneficial. Many of these programs were approved and set in motion by the NSW government appointed Administrator subsequent to the amalgamation and we have it on good authority (from contacts at other amalgamated councils) that significant pressure was put on local governments to quickly build playgrounds, bicycle tracks and the like to aide government marketing endeavours.

In Figure 16 we chart the value of IPPE since 2013. As can be seen, since amalgamation the asset base at Federation has increased by over fifty percent (50.89% to be precise). Notably, some of this has been due to revaluations reflective of rising costs, however, there has undoubtedly been some significant new IPPE built since amalgamation. The increase to IPPE has essentially increased the council's cost base by a similar amount in terms of ongoing depreciation expense, as well as maintenance costs. What troubles us is that most of this spending was directed to discretionary goods, without proper randomised surveys of citizen demand, and with no testing of willingness to pay. However, ultimately this permanent increase to the cost base will have to be paid for by the larger body of ratepayers and it seems to us that if they were not consulted, with the full details of the ongoing costs of the discretionary items, then they might have good reason to object to being asked to pay for the items.

Moreover, whilst council staff were being pressured to build playgrounds, toilet blocks and the like, they were not doing more important things such as resealing roads and maintaining table drains proximate to the roads. A large gap has now emerged between required maintenance and actual maintenance. This is important because when timely maintenance is not done it results in considerable additional expenditure for Council down the track. For instance, engineer acquaintances at other councils have advised us that a single coat reseal costs around $8 per square metre, but if this is not done in a timely fashion, then a full rehabilitation becomes required (involving lime stabilisation) which will cost in the order of $60 per square metre. If residents reflect on the fact that Federation has some 964 km of sealed roads it quickly becomes apparent that a failure to conduct required maintenance could lead to financially disastrous outcomes.

Moreover, delivering a large quantum of new discretionary infrastructure during a period when local governments were legislatively prevented from increasing rate paths for a period of four years was a very bad idea because it was clearly going to entrench fiscal illusion. Drew (2021) describes fiscal illusion as a pernicious economic disease because it results in people no longer understanding the true cost of goods and services demanded, nor the true state of council's finances. The result is that residents demand more than is economically prudent and stridently resist any attempt to increase their contributions to council revenue. This seems to be what has occurred in Federation Council, and it is largely a consequence of reckless policy by the former NSW state government. Unfortunately, it falls to the current Councillors and staff to fix this problem that was largely the doing of others who ought to have known better.

Figure 16. Value of Infrastructure, Property, Plant & Equipment 2013-2022 inclusive

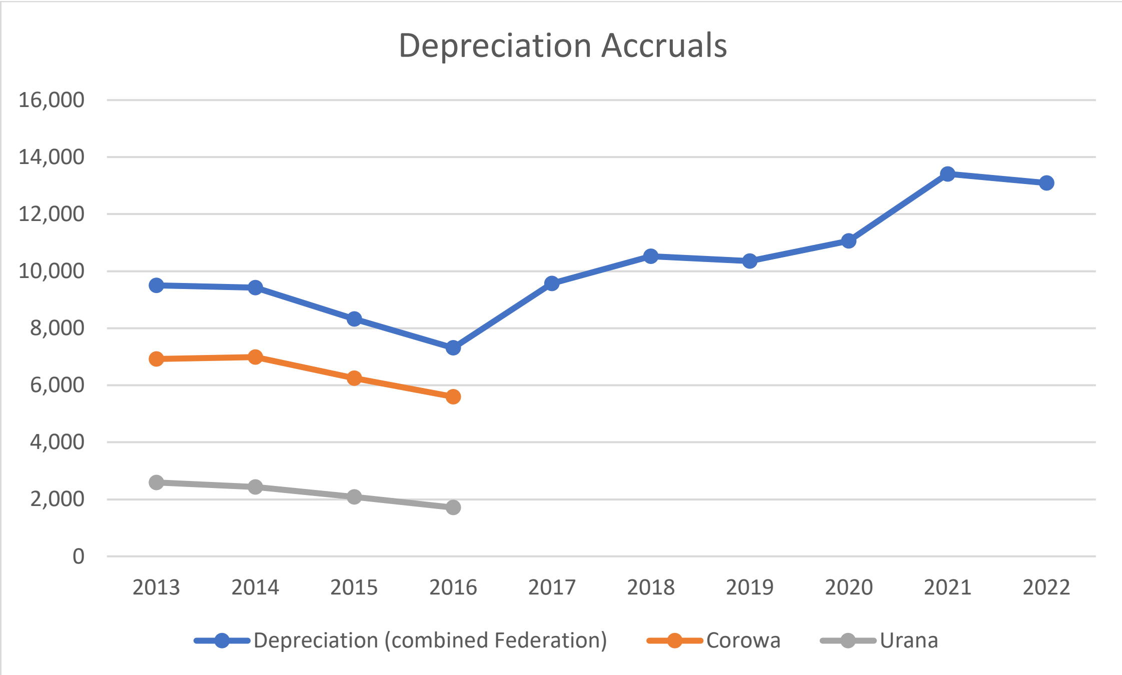


Given the foregoing evidence, Figure 17 should come as little surprise to readers. The only points to note are the decreases to depreciation in the years leading up to amalgamation which were a feature of most local governments in NSW, and largely the result of accrual manipulation (Drew, 2017). The other point to remember is that depreciation for the sector, as a whole, has increased since the advent of central auditing (McQuestin et al., 2020) as well as the shift of responsibility for the rural fire fleet to local government.

In general, a failure to depreciate IPPE accurately can be expected to resolve in large accounting adjustments following periodic revaluations or large gains or losses on disposal of the asset (Marquardt and Wiedman, 2004). It thus presents a pronounced risk to future financial sustainability.

In the next section, we will present some comparative data which should prove to be a useful guide to decision-makers with respect to the asset classes which probably require more attention.

Figure 17. Depreciation Accruals, 2013-2022 inclusive



When councils spend more than they earn in a given year, then the deficit must be funded by either drawing down cash reserves or drawing up debt. Repeated deficits over a long period of time will likely result in cash levels reducing and potentially becoming exhausted. As Roosevelt famously observed: 'any family can for a year spend a little more than it earns…but you and I know that a continuation of that habit means the poorhouse' (cited in Borna and Mantriprgada, 1989)

Local government cash positions are somewhat complicated by the fact that they are accounted for in three distinct categories – externally restricted funds (capital grants, developer contributions and monies collected for a purpose that must be quarantined under legislation – such as sewer funds), internally restricted funds (monies for important and specific obligations that the council knows must be met such as plant and equipment replacement, tip restoration works[17], employee leave entitlements) and unrestricted funds (monies with no specific purpose that are best used to meet unanticipated demands or deficits). Moreover, some councils (such as Federation) internally restrict prepaid FAGs – which is a prudent thing to do – because it is likely that these monies will not always be prepaid in the future. Notably, changes to internal accounting practice – such as the aforementioned internal reserving of prepaid FAGS (which only commenced in 2021) – can further obscure matters[18].

A good rule of thumb – used in other states – is that Councils should aim to have between two to three months of operating cash expenditure in unrestricted reserves. For Federation Council, in 2022, this would be about $4.9 million through to $7.3 million. However, as can be seen from the dark blue line in Figure 18 this prudent level of reserves has eluded Council since amalgamation: in 2022 the unrestricted cash balance was $2.799 million, in 2021 just $11,000, in 2020 $1.925 million, in 2019 just $498,000.

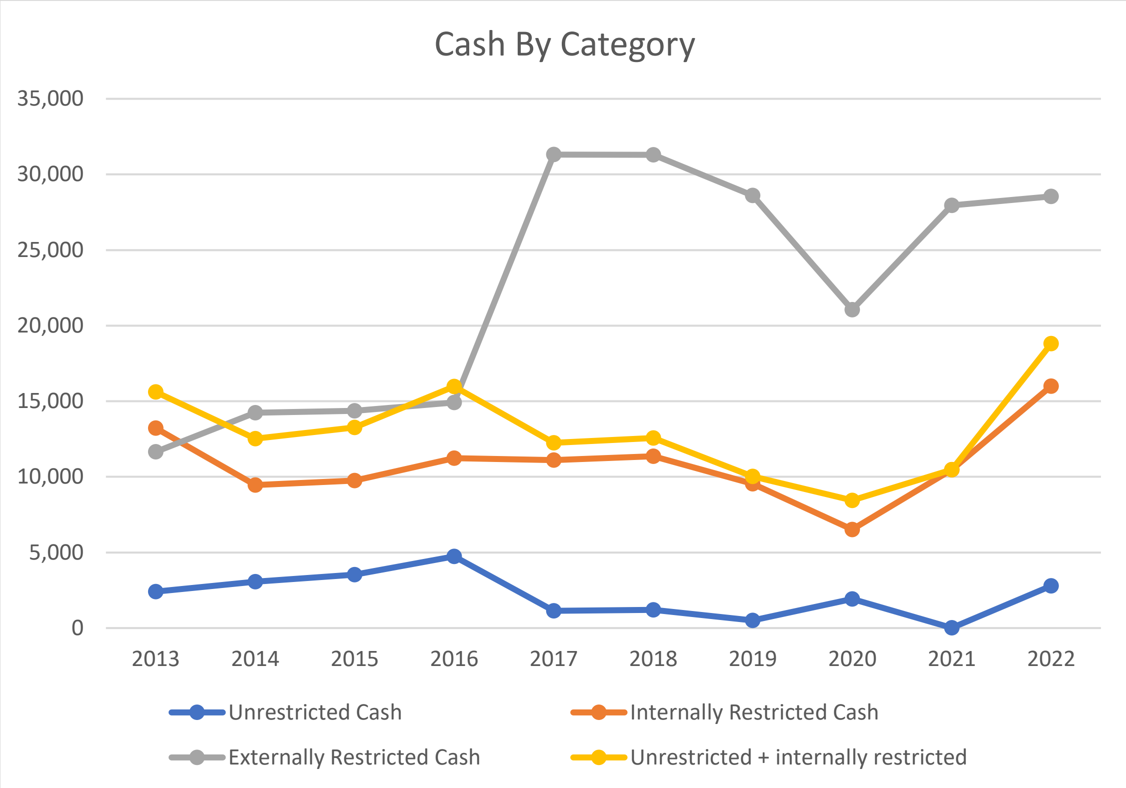
Indeed, the 2022 cash position was significantly helped by a sale of real estate ($3.77 million) as well as the 75% prepayment of the FAG grants (internally reserved).

The cash situation at Federation is thus a concerning state of affairs that requires prompt mitigation.

[17] Notably the most recent financial statements do not show any internal restrictions for plant and equipment, nor for rubbish tip remediation. This is a matter of great concern, and we suggest that council restricts some of its current monies as soon as practical – although we note that it will take some time to build up sufficiently large reserves in these areas (to understand the scale of the problem it is important to know that contingent liabilities for rubbish tips usually sit at many millions of dollars).

[18] Another example is the 'borrowing' from unrestricted cash in lieu of formal debt. For all these reasons it is important to also conduct comparative analysis of cash positions as we do later in the report – with the assumption that other councils are likely to have similar confounding influences and hence that relative changes can better illuminate matters.

Figure 18. Cash Balances at Federation Council, 2013-2022 inclusive



The other way that successive deficits might be resolved is through an increase in liabilities[19]. Rarely are liabilities explicitly incurred to fund deficits – instead the debt is usually attributed to a desirable project and the fungible nature of government accounting employed to achieve the necessary outcome (Oates, 1972).

In June 2020 $2.7 million was borrowed to progress the Mulwala land subdivisions. In November 2020 a further $2 million was borrowed to progress the Howlong subdivisions. In January 2021 just over $3 million was borrowed to fund a number of projects including the Corowa swimming pool, LED lighting, an all-abilities playground, and the Urana Aquatic Centre building. We will not comment on the validity of specific projects – this is rightfully the purview of the validly elected Council in a democracy – however, we do note that the recent borrowings far exceeded the slight uptick in unrestricted reserves in recent years. If government money is indeed fungible – as asserted by the bulk of the scholarly literature – then one must wonder whether debt has obscured the true nature of the cash position.

Moreover, we take this opportunity to clarify some significant misunderstandings regarding the role of debt in establishing intergenerational equity. There has been a lot of ill-advised commentary on this matter since the advent of the ILGRP (2013). For instance, it has been erroneously argued that debt *must* be taken out to effect intergenerational equity – however, this argument neatly side-steps the fact that most of us inherited large portfolios of public assets which were entirely unencumbered. It *may* be appropriate to fund some debt under certain carefully defined conditions, but we must be sure to do so in a way that is fair to the next generation of ratepayers.

[19] We mean this in the broad economic sense. Failing to do required maintenance has the same effect of a debt at a bank and should be considered as a liability. As we relate elsewhere in this report we are very concerned about delayed maintenance as this may result in substantial costs – such as the remaking of pavements that form the foundation of roads – which might have been avoided had matters not been deferred. Readers are directed to our detailed discussion of asset ratios and our recommendations to provide additional assurance around these numbers.

The best way to understand when debt might be appropriate is to consider it from the perspective of the personal finance metaphor. When it comes to our personal finances, most people only contemplate taking out debt for long-lived assets of enduring value. Furthermore, most of us acknowledge that we should ensure that the servicing of the debt is well within our capacity relative to our incomes. In addition, we expect that repayments on the debt will commence more-or-less immediately and that this will come at the cost of some sort of sacrifice (either reduced spending elsewhere, or alternatively additional exertions to secure higher flows of revenue). Indeed, in our personal finances we also assume that the consequences for our choices will be borne by us personally, not our children or strangers.

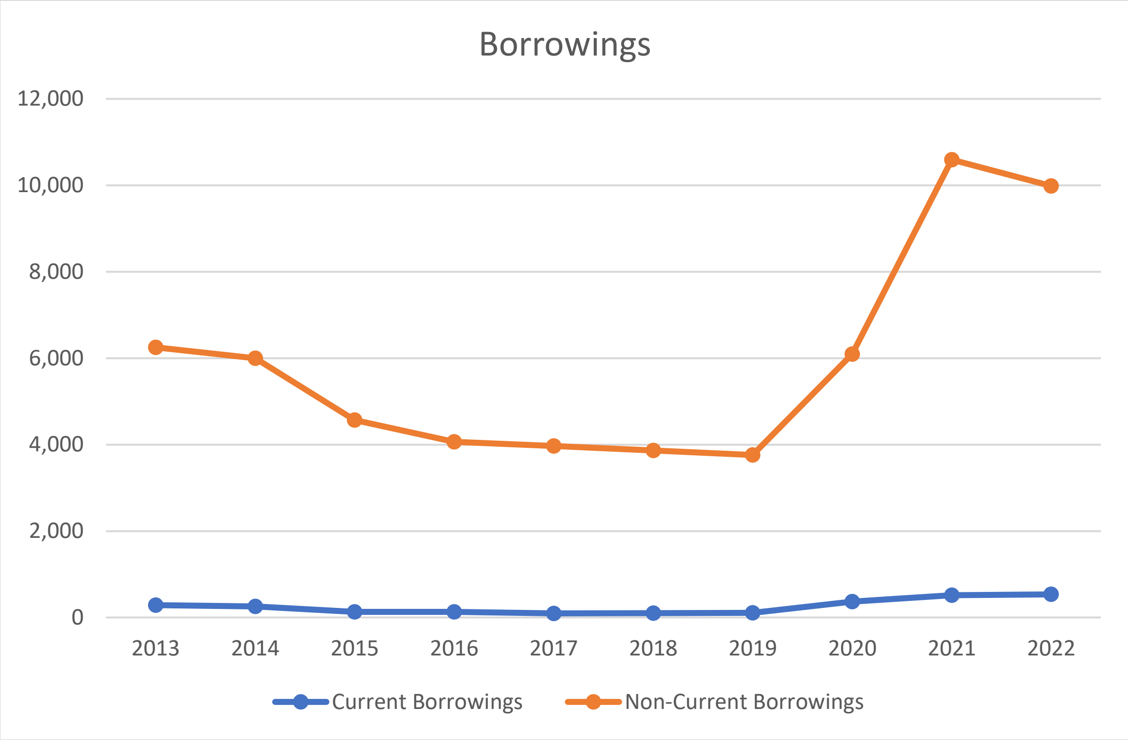
The only way to conduct sustainable borrowing that does not run afoul of a large potential moral hazard[20] is to adopt similar principles at the local government level. To this end, Drew (2021) established six rules that ought to be observed regarding local government debt:

1. Debt must be only taken out for capital expenditure and not operational expenditure.[21]
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.[22]
4. Debt must be assumed for good moral reasons.[23]
5. Repayments must at least be equal to the rate of consumption of the asset[24] and be quarantined in future budgets.
6. Repayments must involve sacrifice[25] so that a *quid pro quo* is established.

It is not at all clear that the debt recently drawn down by Council has met these criteria. Sadly, many local governments do not observe these rules and thus condemn the next generation of ratepayers to a future that is far more bleak than what we ourselves inherited.

[20] A moral hazard is established because the current generation of taxpayers can bind a future (perhaps unborn) generation to paying off debt that they had no say in and obtain no benefit from.
[21] By definition, operational expenditure comprises items that are expected to be fully consumed within twelve months. It is not morally defensible to obligate future taxpayers to debt for items that are fully consumed well before they are paid for.
[22] Because we are obligating future citizens to pay for the asset, it must be something that they are likely to want. For example, it would not be reasonable to make them pay for some kind of technology that is likely to become rapidly redundant.
[23] Examples of reasons that are not sound include debt bias and misguided efforts directed at fiscal stimulus (a measure best assigned to central governments that have the requisite tax capacity and influence over monetary policy).
[24] That is, repayments should at least equal the annual accrual of depreciation.
[25] If there is no sacrifice involved, such as higher taxes or reduced spending in other areas, then we are really not making repayments at all, but rather delaying repayment in the form of implicit debt (such as deferred maintenance).

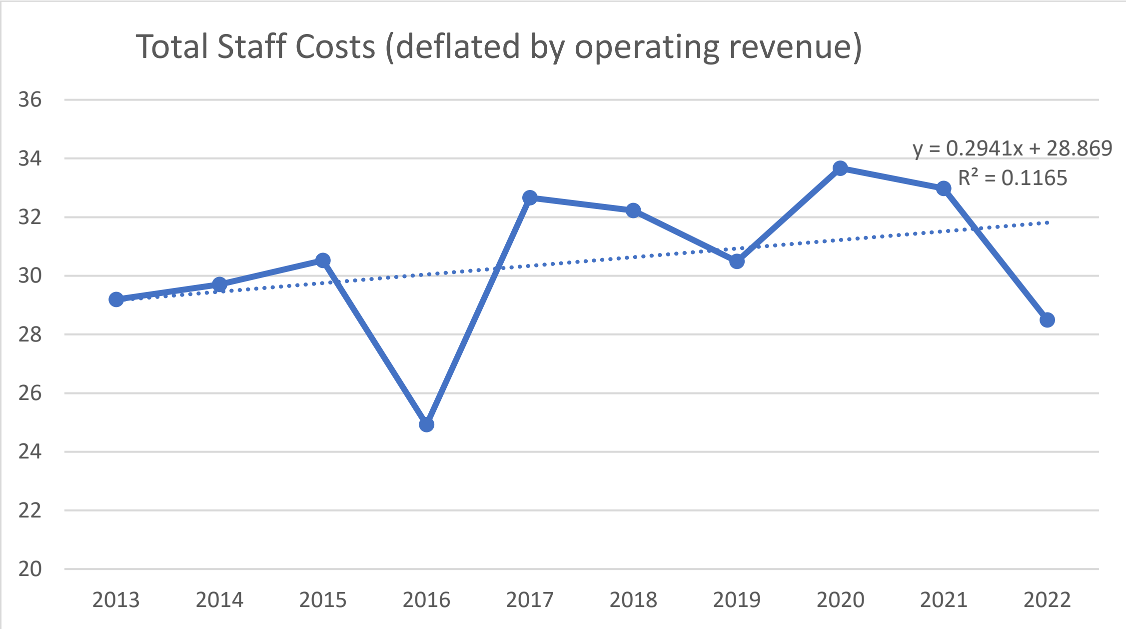
Figure 19. Federation Council Borrowings Over Time, 2013-2022.



Readers will recall that the main savings from amalgamation were supposed to arise from reductions to staff expenditure. At a statewide level, on average, most amalgamated local governments actually experienced an increase to staff costs in the order of 15.2% *ceteris paribus* (McQuestin et al., 2020). It is thus apposite to carefully examine what happened at Federation Council.

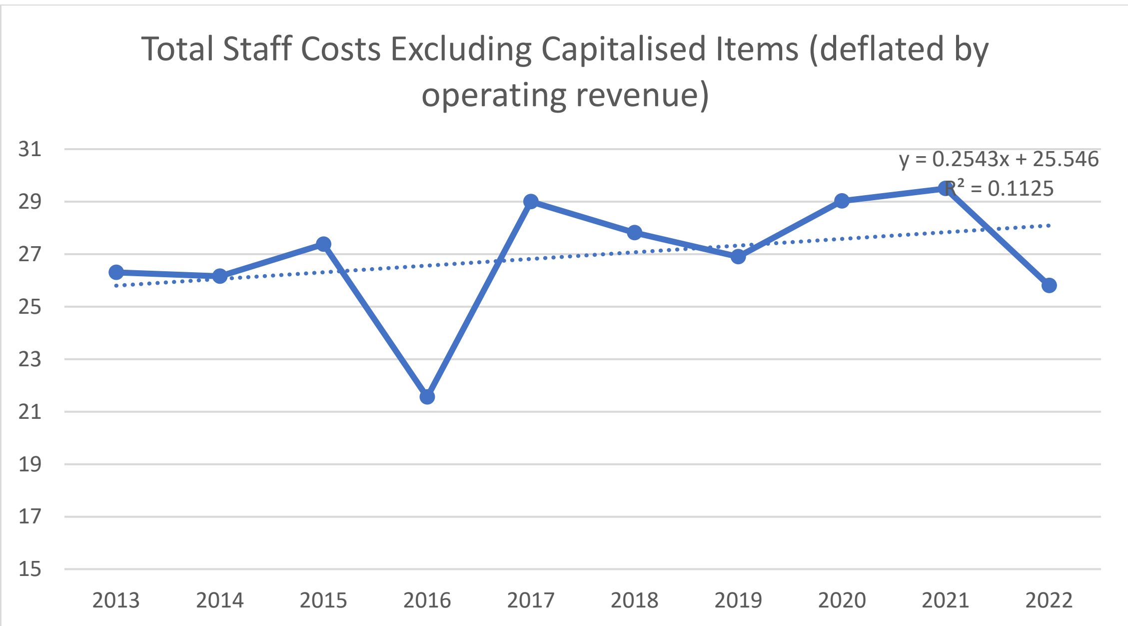
In Figure 20 we present staff costs, deflated (divided) by operating revenue for the period 2013-2022. It is important to deflate the costs so that 'like for like' comparisons can be made between periods. What becomes immediately clear is that staff costs did not reduce as a result of amalgamation (generally the trend line is upwards sloping (positive)). It should also be noted that the dip in staff expenses in 2022 is somewhat attributable to vacant positions that Council has been unable to fill. Indeed, large numbers of vacancies have put significant pressure on critical departments within council and these gaps will need to be filled shortly if we are to avoid undesirable outcomes.

Figure 20. Total Staff Costs Deflated by Operating Revenue, 2013-2022



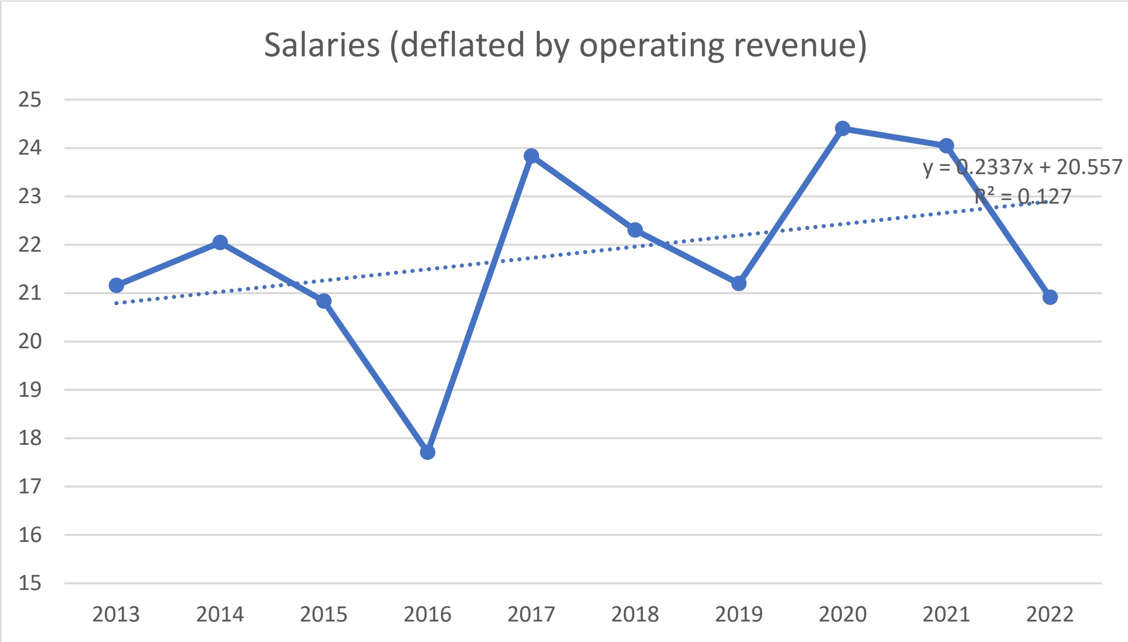
However, the above graph does not tell the whole story, and also fails to fully illuminate some emerging risks to Federation Council. Accordingly, in Figure 21 we present staff costs excluding capitalised items. When staff time is used to construct assets of a long-lived nature, then accounting standards allow that some of these costs can be capitalised, rather than immediately expensed (capitalised items are accounted for by depreciation in the future). As can be seen through a comparison of Figures 20 and 21, significant staff costs have indeed been capitalised (as per accounting rules). The problem is that the unusually high flow of capital grants are starting to come to an end because state governments are struggling to balance their own budgets in the wake of the COVID-induced spending. This means that there will likely be fewer opportunities to capitalise staff expenses in the future and that instead these costs will need to be directly expensed (thus contributing more immediately to deficits or smaller surpluses).

Figure 21. Total Staff Costs Excluding Capitalised Items (Deflated), 2013-2022



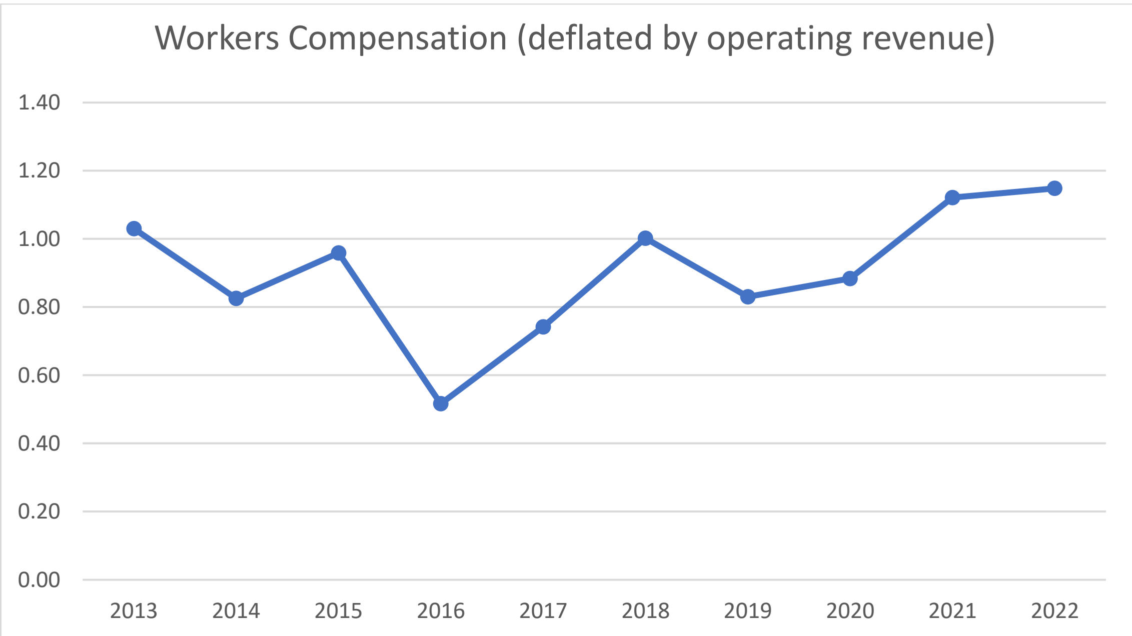
It is also illuminating to look at the components of staff expenditure. In Figure 22 we present just the salary component. The large variation between years (relative to the earlier charts) suggests that other costs (which we will explore forthwith) have also had a large bearing on the staff expenditure trends that we observed earlier.

Figure 22. Salary Component (Deflated), 2013-2022



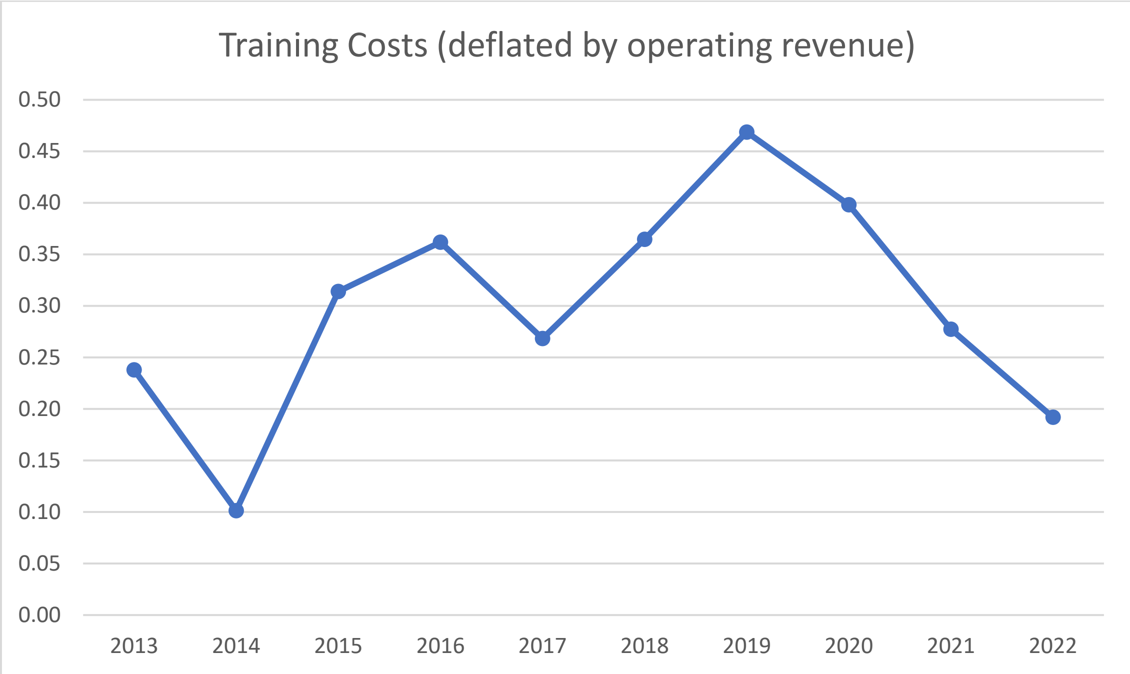
In Figure 23 we can see that worker's compensation, even when deflated by revenue, has been increasing in recent times. It may therefore prove to be an area that warrants further investigation.

Figure 23. Workers Compensation (Deflated), 2013-2022



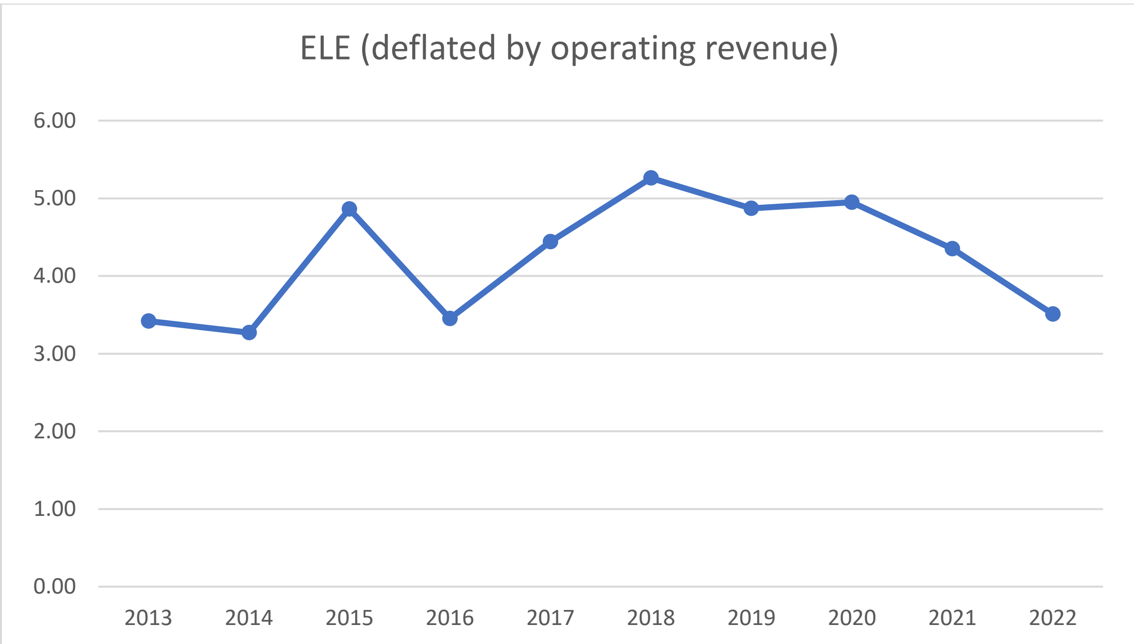
By way of contrast, staff training expenditure – which had been significantly elevated – has moderated in recent years (albeit with the potential to accelerate again in response to COVID-induced disruptions and lags).

Figure 24. Training Costs (Deflated), 2013-2022



Similarly, employee leave entitlements (ELE), which were elevated since 2017, are now more manageable. Continued focus should be given to ensuring that staff do take their leave when it falls due within the parameters set out in the enterprise bargaining agreements. Deferred leave not only represents an important contingency cost, but also grows in nominal value as salary increases take hold. Therefore, prudent management of ELE can present as an important part of the financial sustainability puzzle.

Figure 25. Employee Leave Entitlements (Deflated), 2013-2022



Regulatory Financial Ratios

Readers may recall that ten financial ratios were used by the TCorp (2013) to evaluate financial sustainability in 2013 and this provided a 'foundation' for the ILGRP's amalgamation ruminations. What people may not be aware of is the fact that this is a prime example of what scholars term extreme synecdoche – taking a very small part to stand for a whole (Drew et al., 2018). One cannot sensibly assess financial sustainability without looking at a much wider suite of financial metrics. Indeed, absolute reliance on crude ratios, and their accompanying arbitrary benchmarks, is almost certain to mislead.

Moreover, many do not know that the TCorp (2013) failed to reveal the empirical methodology that it employed to reduce its ten synecdochical metrics into a single financial sustainability rating. Indeed, in peer reviewed work Drew and Dollery (2016) showed that the most important determinant of the financial sustainability ratings that TCorp assigned was indeed the unknown summarisation method that they used[26].

In Table 8 we provide a summary of the TCorp financial sustainability ratings provided to the former Urana and Corowa Shires. Statewide, TCorp (2013) asserted that 0 NSW local governments were very strong, just 2 were strong, 32 sound, 79 moderate, 34 weak, 5 very weak, and 0 distressed. It was notable that Central Darling Shire which went into administration for financial reasons in December 2013 was not deemed distressed (very weak) by TCorp (2013).

Table 8. Summary of TCorp Financial Sustainability Ratings

Council	TCorp Financial Sustainability Rating	TCorp Outlook
Corowa	Moderate	Negative
Urana	Weak	Neutral

We disagree with the TCorp (2013) ratings for these former shires and note that they failed to properly take into account both the scope of services provided and the magnitude of future spending needs. Corowa Shire had significant money to spend on water, road and sewer assets across the local government area, and also had higher future spending needs associated with growth, higher community expectations, as well as a considerable list of discretionary goods and services. Moreover, many citizens in Corowa Shire were labouring under heightened levels of fiscal illusion elicited by the large gap between rates and fees paid, compared to the benefits received. By way of contrast, Urana had a very small service remit, mostly focused on roads, no growth pressure, and relatively low expectations from its citizens (although it did have the burden of redressing market failure as detailed elsewhere in this report). It thus seems rather peculiar that Corowa would be deemed to be more sustainable by TCorp (2013) than Urana. Indeed, we are very surprised when some people heralding from the south try to assert that the rate increase that they are now faced with has arisen because of the burden generated in the north.

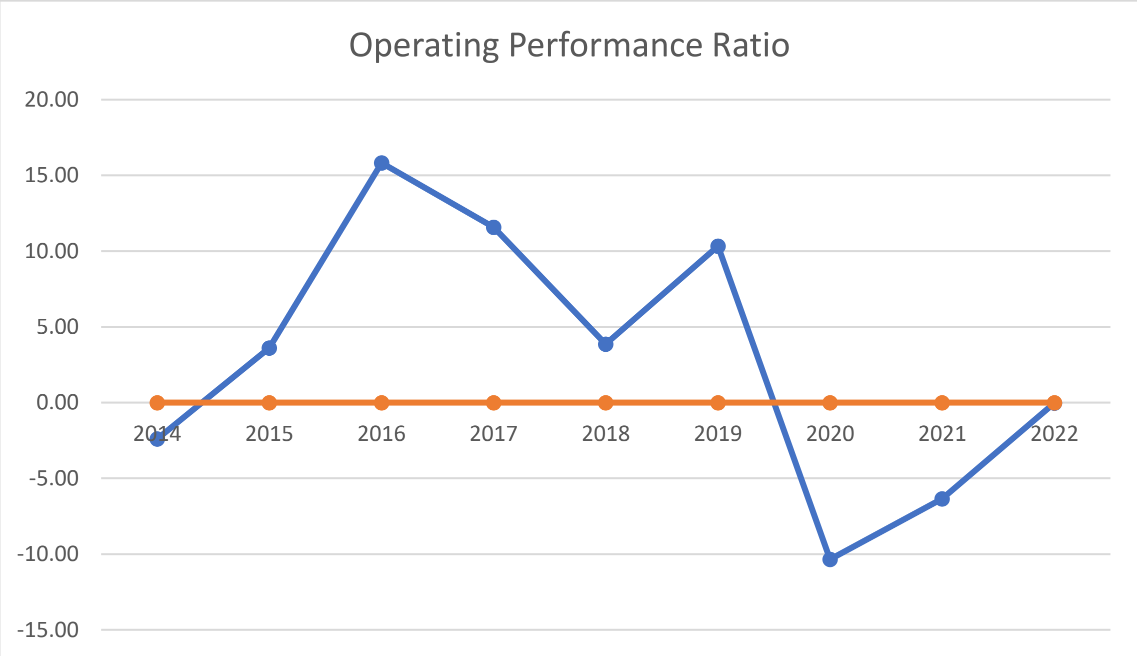
Fit for the Future – the program that ultimately gave rise to the forced amalgamations – was clearly intended to improve the financial sustainability of local governments. It is therefore important to examine

[26] In this paper, Drew and Dollery (2016) summarized the various financial ratios by using the seven most likely robust mathematical techniques known to scholars. What they found is that each technique gave widely different rankings to the cohort of NSW local governments – leading them to the obvious conclusion that the summarization method was indeed the major determinant.

how the seven surviving financial sustainability ratios (a subset of the suite of ten employed by TCorp (2013) and mandated for publication in financial statements) have altered over time.

The Operating ratio takes the accounting surplus (less capital grants) and deflates this by the operating revenue to allow for fair comparisons. The benchmark for the ratio is set at 0.00% (break-even), although it has changed a number of times in the recent past (it was once -4%, and it has also been previously set at break-even over three years). Because of the lumpy nature of local government expenditures, this ratio tends to be quite volatile, and we therefore feel that an average over three years is probably the most sensible approach. However, either way one views things, the outcomes over the last three financial years (in particular) have not been good and it would be difficult to argue that there has been an improvement from the pre-amalgamated situation.

Figure 26. Operating Performance Ratio, 2014-2022[27]



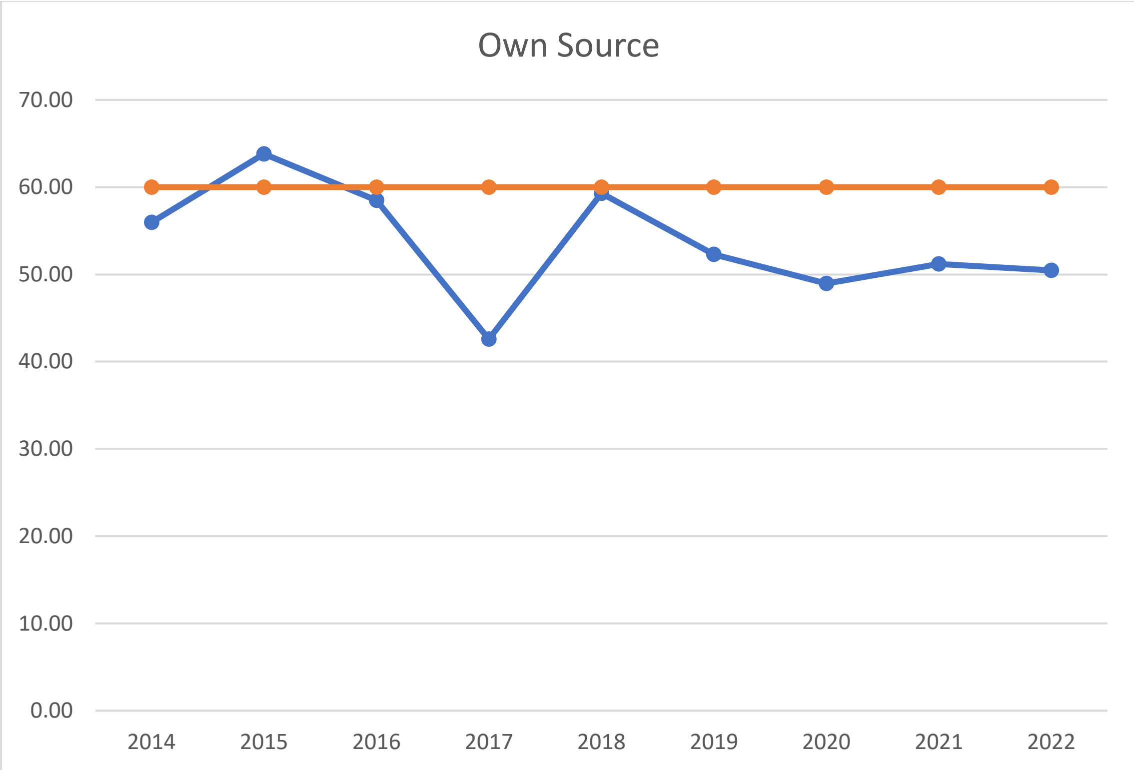
The Own Source ratio, on the other hand, is a dangerous metric that should be disregarded by all local government decision-makers. It was imported – with apparently little thought – from the USA where the local government funding context is completely different. The idea behind the ratio is that own source revenues are more reliable than revenues such as grants. However, as we have already discussed, in Australia we have a Local Government (Financial Assistance) Act (1195, CTH) which clearly defines a horizontal fiscal equalisation objective. Given this legislation, it is not reasonable to assert that grants are any less reliable than own source monies – indeed, if one casts one's mind back to COVID, the errors in this thinking should become immediately apparent. Moreover, having a single benchmark for the disparate local governments that make up the sector is completely at odds with the relevant legislation – more disadvantaged communities, and communities in low-density rural areas, ought to be getting more grants according to the legislation – therefore trying to hold all councils to the same benchmark seems quite illogical.

Unfortunately, the Own Source ratio has done much harm to the sector and exposed residents to considerable risk because Councils have been encouraged by the rhetoric surrounding this metric to go into commercial operations to augment their tax and fee incomes. Councils are not businesses, they are

[27] For the pre-amalgamation period we reconstructed a combine financial ratio from inputs obtained from the audited financial statements.

governments. Trying to accommodate both business and government perspectives into a single organisation is bound to distract staff from their core[28] functions. Moreover, government is burdened by considerable additional regulations, and it is hard to see how they could be expected to run a commercial operation as well as might be done by the private sector. The result is likely to be inefficient and ineffective business operations that do much to distort and hold-back the local economy[29].

Figure 27. Own Source Ratio, 2014-2022



The unrestricted current[30] ratio compares the value of current assets (less externally restricted funds) against current liabilities {readers should be mindful that there are a number of significant problems with this ratio that we explore in the comparative analysis section of this report}. It is a ratio used frequently in the commercial world where high leverage levels are regularly a feature of profitable commercial operations (and where the risk of leverage is acknowledged by investors). The apparently arbitrary benchmark used for this ratio is set far too low for government where the risk return proposition is entirely different. Indeed, just six of the one hundred and twenty-eight councils in NSW failed to meet this benchmark in 2022.

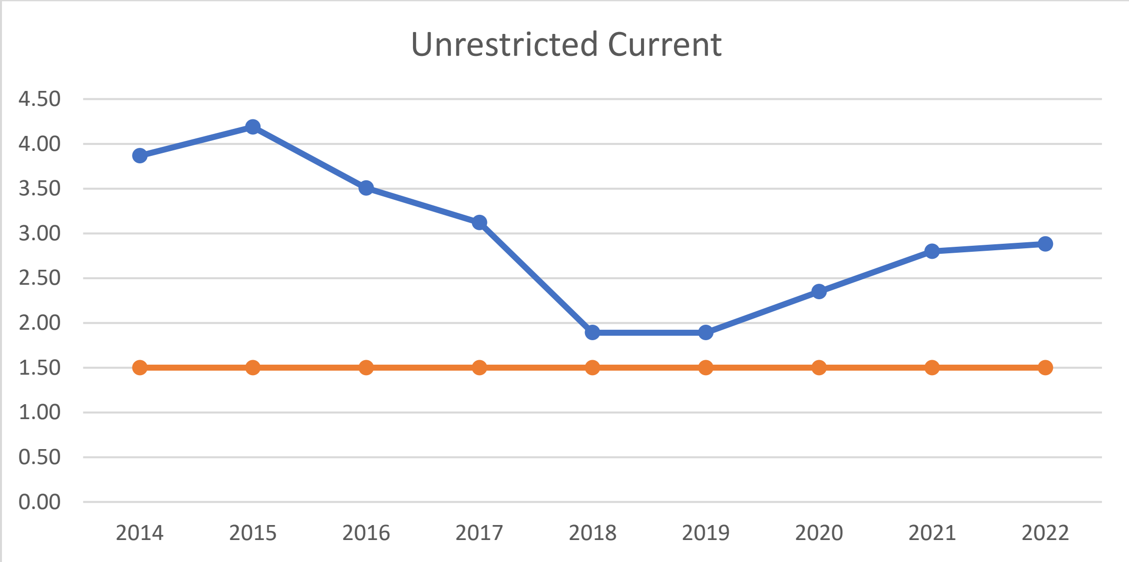
[28] Defining terms such as core and discretionary precisely is a vexed matter which probably explains why the legislation has demurred from doing so. What is 'core' and 'discretionary' is something that needs to be negotiated each council term with the people elected to make decisions on behalf of the community (in response to changing expectations and needs). Mandatory services – as per the Act (1993, NSW) are clearly 'core'. In addition, services provided by most similar councils are likely to be deserving of the categorization 'core'. Indeed, redress of market failure or government failure are core in small rural communities (Drew, 2021). Finally, where good moral arguments can be made – consistent with the raison d'etre of government described in this report (especially public goods and merit goods) – then it would be reasonable to label a service 'core'. Clearly there is scope for genuine differences to emerge on a small number of services – but we believe, in the main, that it is quite clear what is core to most people. It is the services that might be subject to debate that form a principal locus of political inquiry consistent with our democratic system.

[29] The exception to this rule – as we shall explicate later – is the case of market failure where it is entirely reasonably (nay, the duty of government) to step in when private operators cannot or will not.

[30] Current in accounting parlance means anything that can be realised within twelve months.

Council should therefore take little comfort from achieving the benchmark over recent years. Indeed, there is some reason for concern with respect to the decline in outcomes, especially for the years 2018 and 2019.

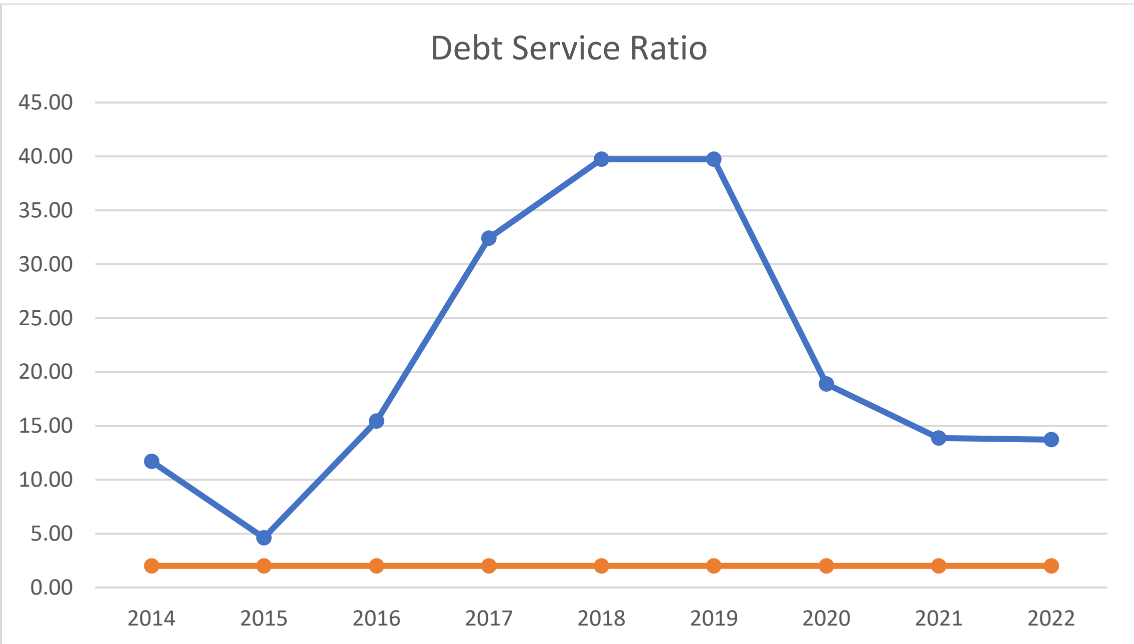
Figure 28. Unrestricted Current Ratio, 2014-2022



The Debt Service ratio is another poorly chosen metric employed in NSW. Other states mainly use the net liabilities ratio which better includes relevant data (see our calculation of this ratio in the next section). However, the best way to assess debt capacity is to conduct an econometric analysis which properly establishes the relationship between debt and the revenue flows that can ultimately be tapped to service the debt.

Because the debt service ratio does not capture all of the liabilities of a council, and also implicitly punishes councils for prudently managing their cash flows, it would be ill-advised to put much store in the results presented in Figure 29.

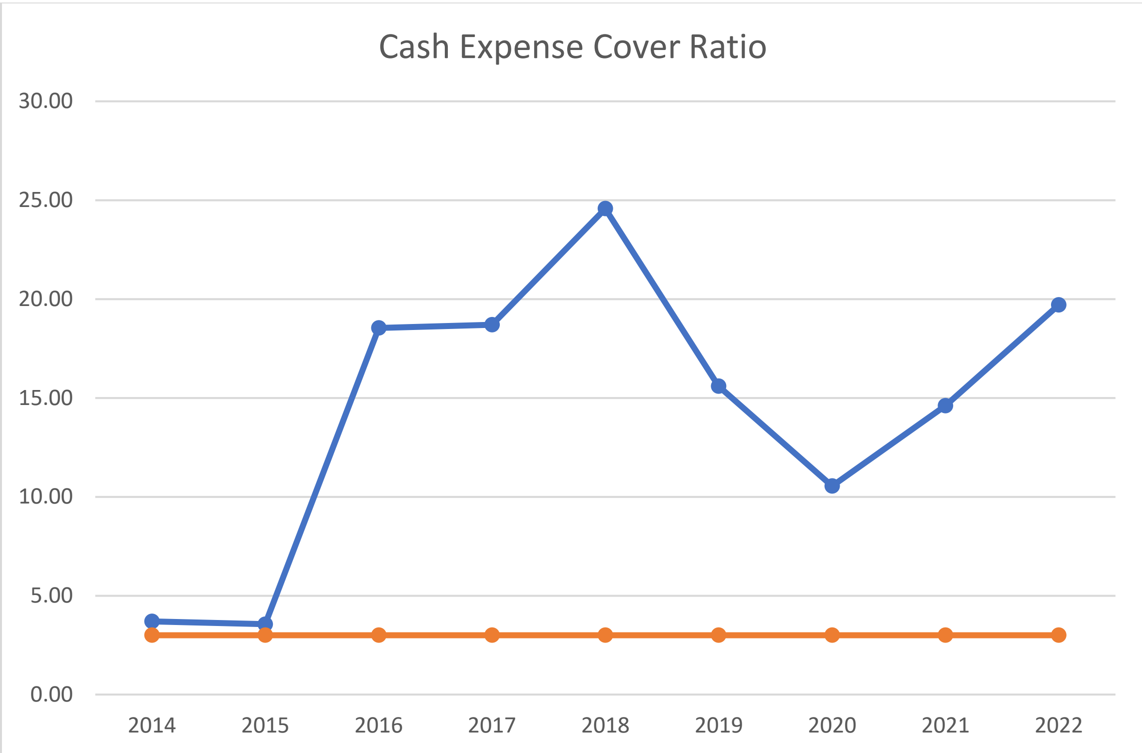
Figure 29. Debt Service ratio, 2014-2022



The cash expense cover ratio is another dangerously misleading metric. It divides all cash and cash equivalents by monthly payments from the cash flows of operating and financing activities. Clearly including external grants in the numerator of this metric is both illogical and ill-advised. Even the inclusion of internal reserves poses the risk of eliciting significant misapprehensions – especially given that this category contains important elements such as staff leave entitlements ($2.129 million in 2022) and prepaid FAGs ($5.890 million in 2022).

According to the ratio, as written, Federation Council was well above the benchmark for 2022 (19.70 months compared to the benchmark of 3.00 months). However, if we exclude externally restricted grants (as we must do if we are truly measuring liquidity) then the ratio is a far more modest 7.82 months. If we also exclude prepaid FAGs – as would seem prudent – then the ratio is just 5.37 months. Recalculating the ratio with just the unrestricted cash would result in an alarming 1.164 months. Readers will recall that cash holdings, in 2022, were boosted by unusual land sales and prepaid grants.

Figure 30. Cash Expense Cover ratio, 2014-2022



The three infrastructure ratios that we will describe forthwith have been the subject of much critique in recent years. All use data that is subjective and potentially open to interpretation (see Drew, 2017). The most debated of these ratios is the infrastructure backlog metric which takes an estimate of the cost to bring assets to a satisfactory standard and divides this by the carrying value of infrastructure assets.

A problem arises because the Office of Local Government has failed to carefully define what might be meant by the words 'satisfactory standard'. This term should be defined with reference to community standards and supported by clear definitions (and photographs) of what ought to be deemed satisfactory (or not).

As can be seen, there was a significant revision of the cost to bring assets to a satisfactory standard in 2022. Our inquiries thus far have not provided us with sufficient assurance that the current estimate is reliable. This is one of a few important reasons why we do not feel that Council is ready to have another attempt at a SRV this year. We therefore recommend that work be done to redress these gaps as soon as practical.

Figure 31. Infrastructure Backlog ratio, 2014-2022

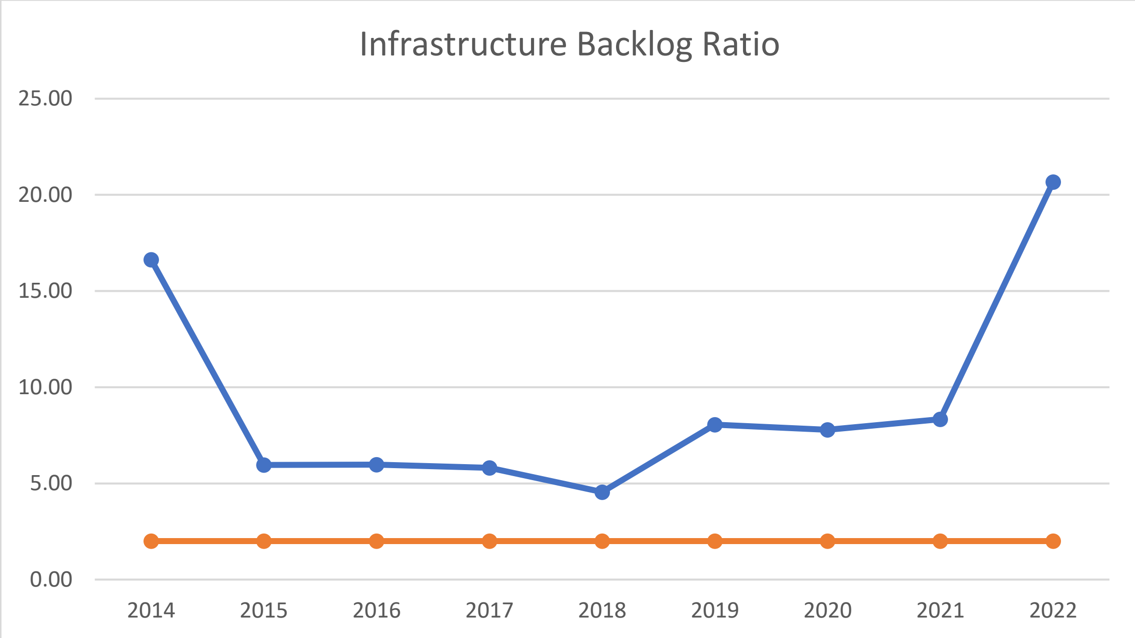
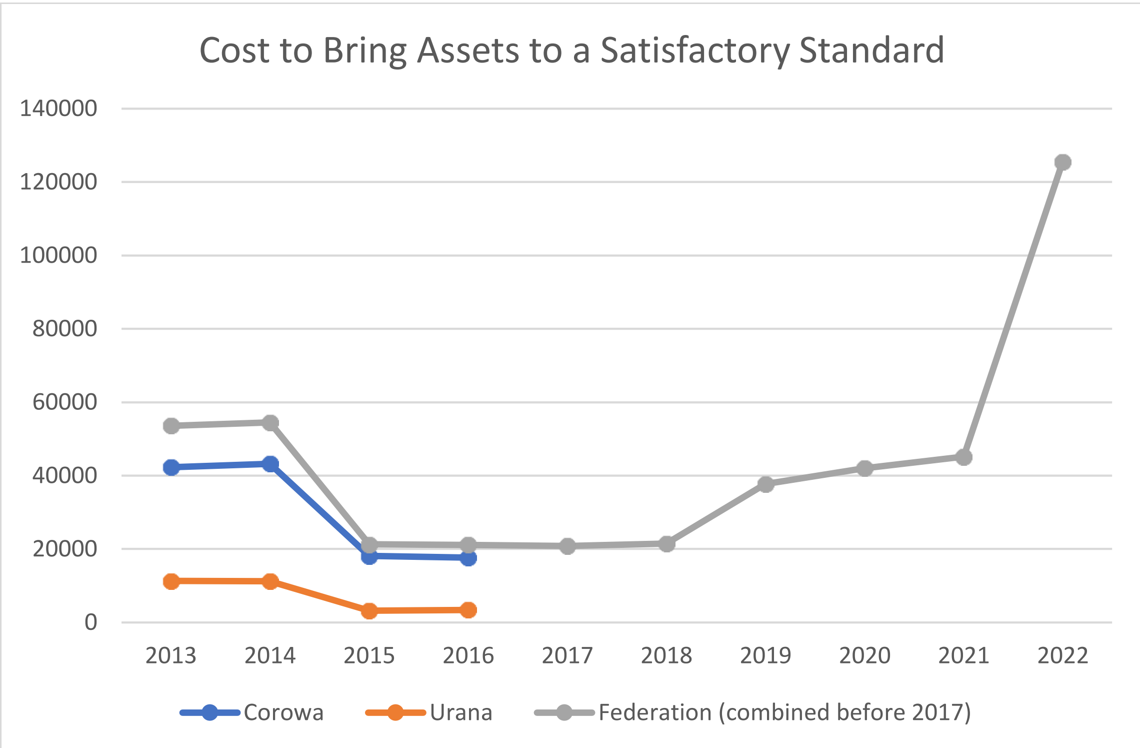
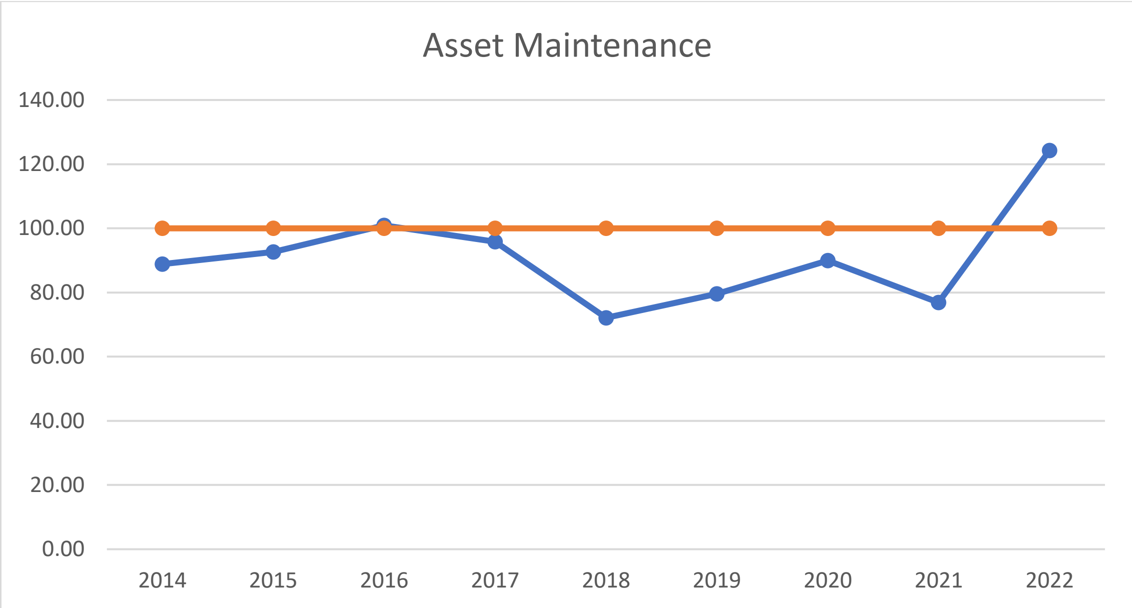


Figure 32. Cost to Bring Assets to a Satisfactory Standard, 2013-2022



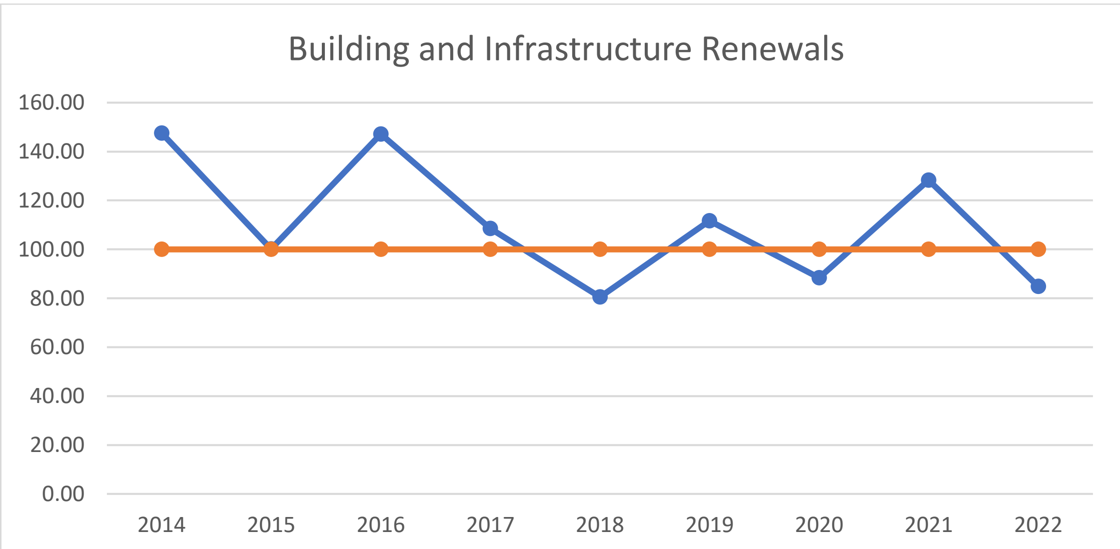
The asset maintenance ratio divides actual asset maintenance by the required asset maintenance. We are surprised by the indicator outcomes over recent years given the clear gap in some important maintenance work in the shire – especially in relation to the road network. Moreover, shortfalls in actual asset maintenance have not been imputed into the following years' required asset maintenance, and this breakdown of continuity is somewhat perplexing (for instance, there was a shortfall in maintenance of $1.218m in 2021, but the required maintenance figure only increased by $1.077m in 2022 despite a high inflationary environment). We thus urge Council to re-examine its evidence base for the estimate to ensure that it is indeed consistent with current asset states. It will also be necessary to catch-up on neglected maintenance and then start regularly meeting the target on an annual basis in the future.

Figure 33. Asset Maintenance ratio, 2014-2022



The buildings and infrastructure renewals ratio divided actual asset renewals by the value of asset depreciation and impairments. The ratio tends to be lumpy because asset planning and construction works with long time lags. Moreover, as the asset base grows, so does the depreciation expense, which tends to make the benchmark harder to achieve. Nevertheless, matters appear to have deteriorated since amalgamation.

Figure 34. Building and Infrastructure Renewals, 2014-2022



In summary, the regulatory ratios suggest that financial sustainability has reduced since amalgamation – especially if we are mindful of the particular context of financial data (as we have outlined). We would imagine TCorp would likely make a lower evaluation of council's financial sustainability were it to repeat the exercise in 2023 – not withstanding some improvements in the most recent year – and also affirm a negative outlook.

Our own evaluation of financial sustainability is based on all of the metrics that we have presented in addition to the comparative graphs that we produce in the following section. We are particularly concerned by the size of the future capital spending requirements, the growth of the IPPE, and apparent entrenched fiscal illusion. Thus, we consider matters to be very serious – significant changes will certainly be required as we shall outline further in this report and also in our appendices. Notably, we do not feel that the entire situation can be reasonably attributed to the amalgamation – there were certainly major challenges prior to 2016 – however, the structural inefficiencies imposed by the NSW state government clearly brought matters to a head and will present an obstacle to recuperation moving forward.

6 Financial Sustainability – Circumstances and Options for Improvement

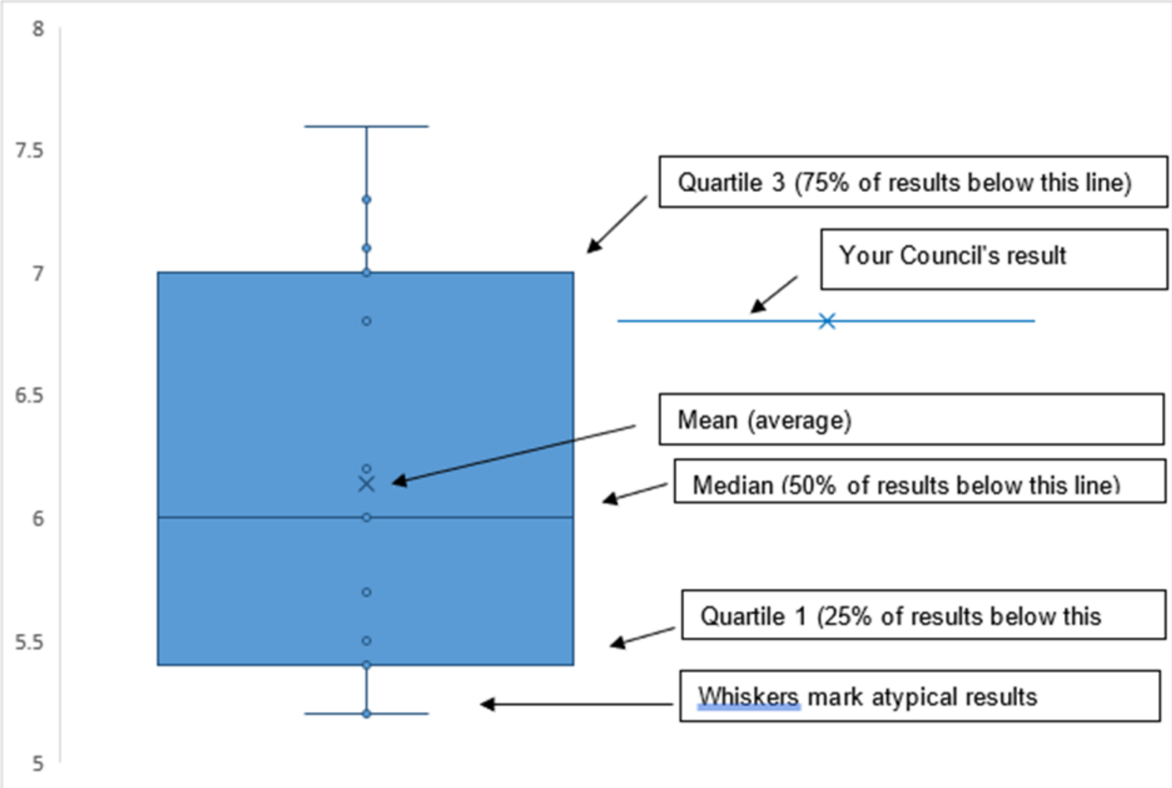
In this section of the report, we compare the outcomes achieved at Federation to those of a comparative cohort drawn from the same OLG classification group. Readers need to be aware that the cohort group used (see Table 9) is generally composed of quite distressed councils, including some amalgamated councils. Therefore, in the event that Federation is better than typical for the comparative cohort, it still may not be good cause for comfort. Nevertheless, comparisons are worthwhile because they give a sense of the relative progress that Federation has made. Moreover, it is likely that similar Councils have faced similar challenges – therefore comparisons can provide us with an opportunity to test the relative importance of reasons that might be given to explain various outcomes at Federation. We acknowledge that people may dispute some of the councils used for this comparison and that disagreements of this kind are inevitable unless we were to use all 128 NSW local governments. However, people who feel that a given comparator may be debatable should take comfort from the fact that our earlier DEA, FDH and difference-in-difference regression work actually made use of *all* rural local governments. The story that emerges from the more detailed and nuanced comparison that follows is consistent with the more inclusive and sophisticated analyses presented earlier.

Table 9. Councils Used for the Comparison Cohort

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

Now that we are making comparisons with multiple councils, it is necessary to use a different form of chart better suited to the purpose. In Figure 35 we provide a quick reckoner that illustrates how box and whisker plots should be interpreted.

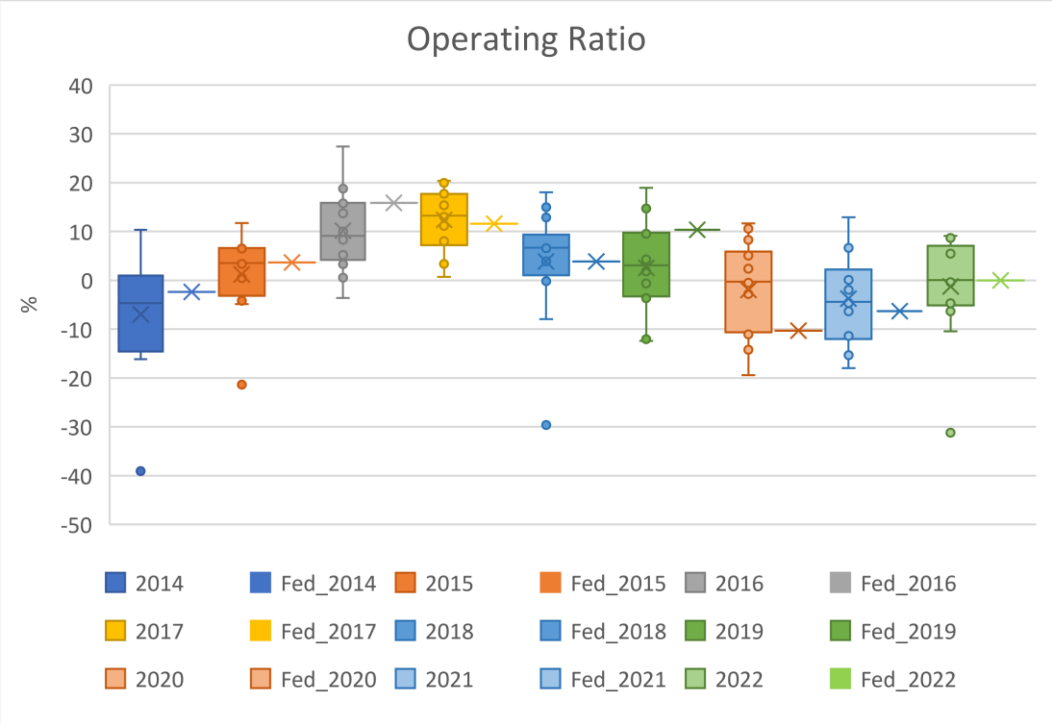
Figure 35. How to read a Box and Whisker Plot



All of these comparative graphs need to be interpreted in light of the comments that we made for each ratio in the earlier section. Here the main emphasis is to track how the ratio has moved in *relative* terms guided by data from similar councils.

Figure 36 presents comparative data for the operating ratio from 2014 to 2022 inclusive. As can be seen, the constituent councils (Corowa and Urana respectively) tended to operate at a higher level than the typical council in the comparative cohort prior to the amalgamation. However, matters have been far more volatile since 2017, and for the most part, lower. In all likelihood, the ill-conceived amalgamation – as well as the attendant structural inefficiency that it elicited – explains much of what we observe. It is notable that performance improved and reverted to the median in 2022.

Figure 36. Operating Ratio, Comparative, 2014-2022



As we have already explained, the own source ratio is an extremely dangerous metric, which for the most part, deserves to be ignored. However, amalgamation proponents were adamant that all of their financial sustainability metrics would improve because of the fantastic savings that they predicted, and it therefore warrants some examination in this particular light.

In Figure 37 we can see that there was a downward progression in this metric from 2018 to 2020, inclusive. Most of this was due to the extraordinary flow of capital grant monies (relative to most other councils in the cohort), that we have already identified as being generally deleterious in effect.

Moreover, it is evident that grant flows are now starting to return to a more normal pathway and may even reflect an austere environment in future years. As we noted earlier, this represents a risk to Council that some may have overlooked (because there will be relatively less opportunity to capitalise some staff expenditure in the future).

Figure 37. Own Source Ratio, Comparative, 2014-2022

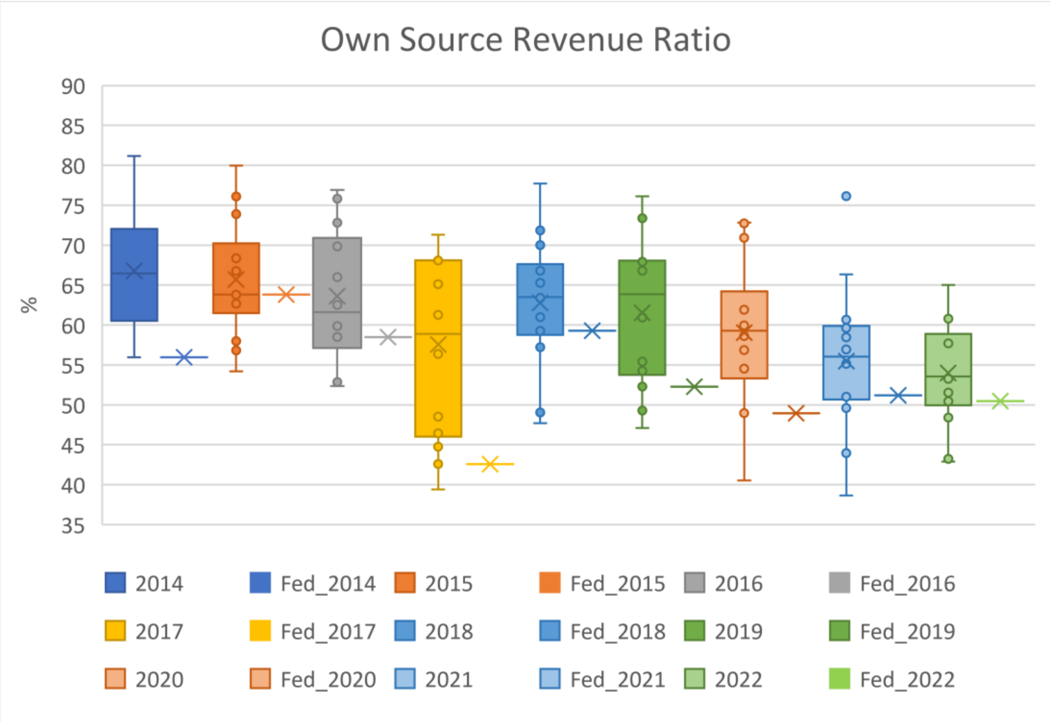
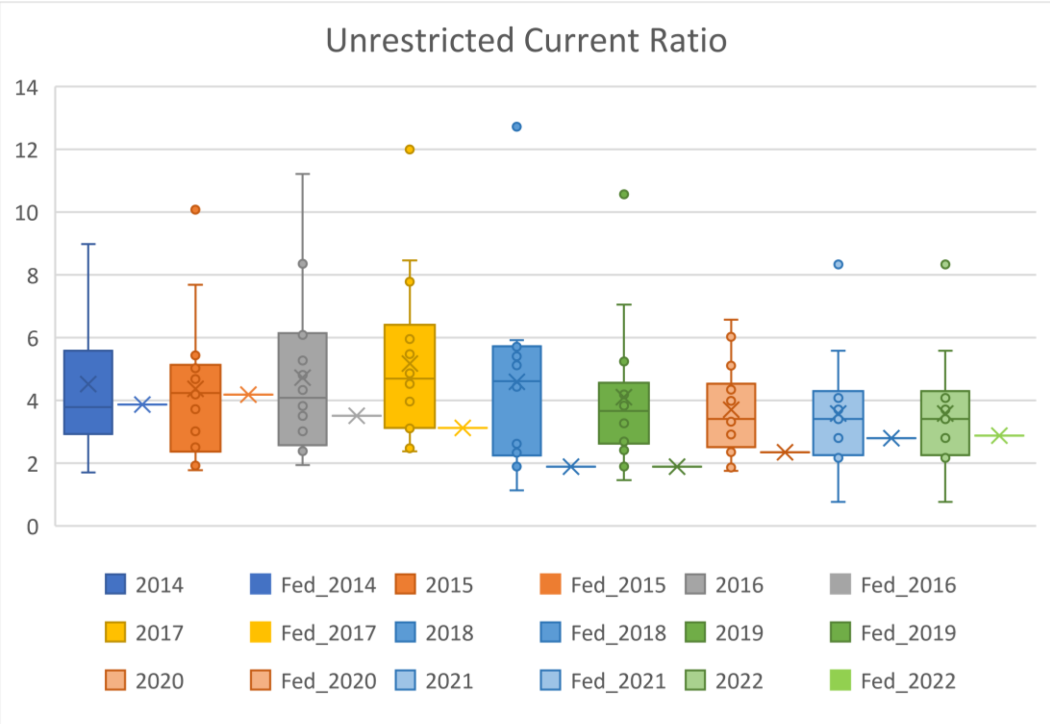


Figure 38 charts the relative trend in the unrestricted current ratio since 2014. Prior to amalgamation, the councils combined had a level of liquidity that was approximately typical for the cohort. After amalgamation, this deteriorated substantially and for a number of years was in the bottom quartile (lowest 25%) of the comparative cohort. Figure 38 suggests that things have improved in a comparative sense for the last two financial years, although we must be mindful of the effect of land sales, and the like, during this time.

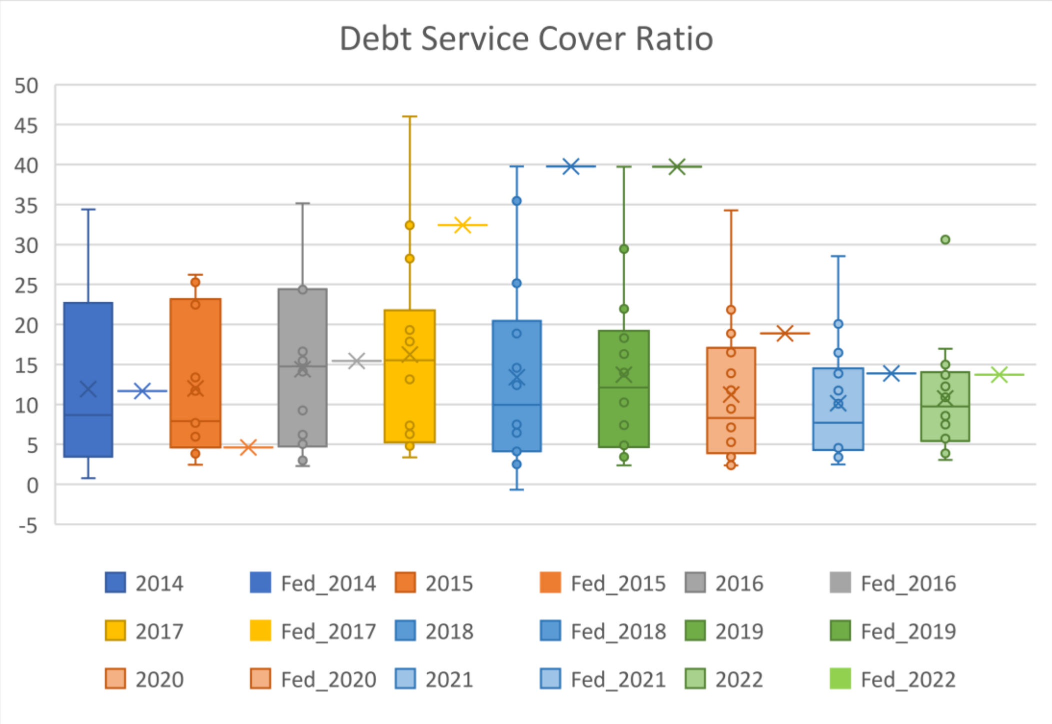
It should be noted that this ratio can be quite misleading because – contrary to its name – the metric does indeed include internally restricted cash (only external restrictions are excluded from the numerator).

Figure 38. Unrestricted Current Ratio, Comparative, 2014-2022



We have already shown that the debt service ratio is quite misleading and poorly conceived. In a comparative sense, things have improved since amalgamation, however, given the flaws in this metric, little meaning can be reasonably derived from the chart.

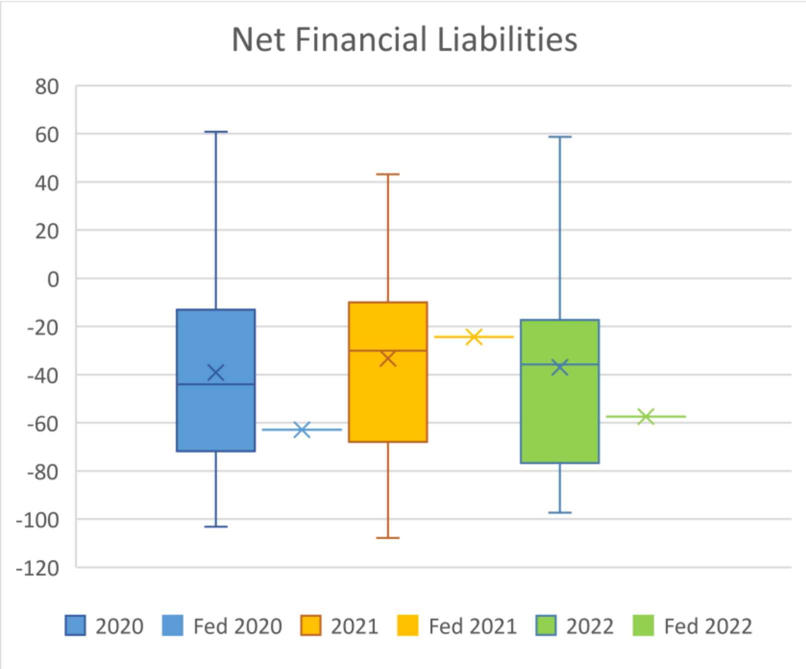
Figure 39. Debt Service Ratio, Comparative, 2014-2022



The best measure of debt capacity is to conduct an econometric exercise (beyond the remit of this report). The next best approach is to measure net financial liabilities. The specification for the net financial liabilities ratio is total liabilities less current assets, divided by total revenue less capital grants. Ideally, councils should have a negative result for this metric (that is, more current assets than total liabilities), and the more negative the result, the better.

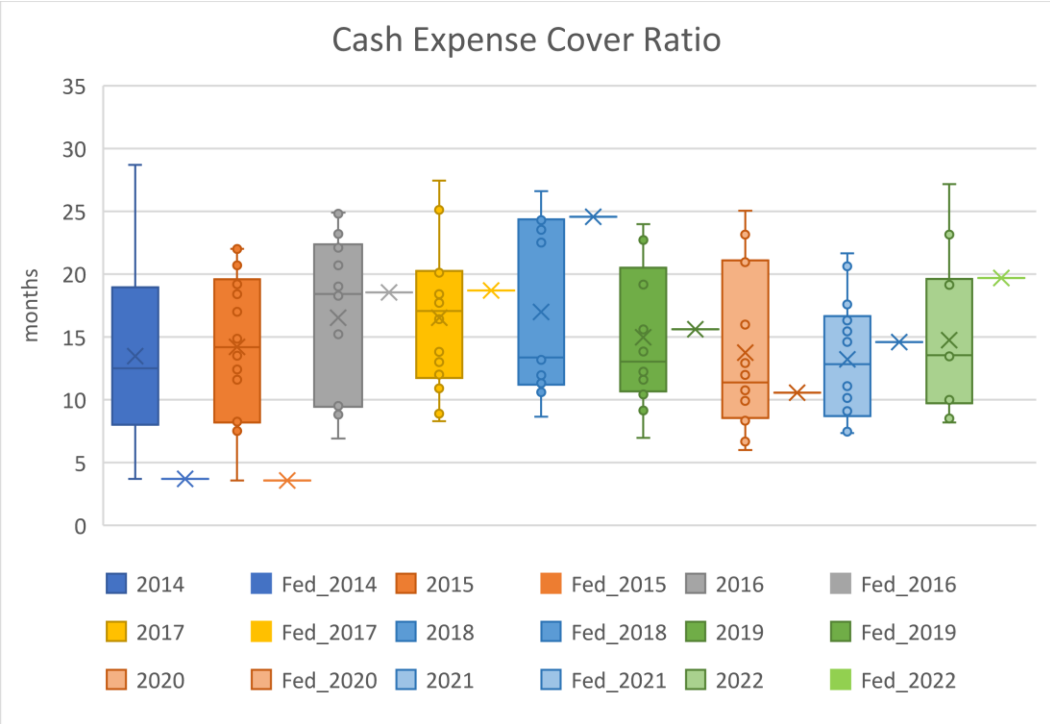
Unfortunately, construction of the metric (in a comparative sense) is a data intensive exercise, so we have only been able to illustrate matters for the last three years. As per Figure 40, Federation did better than typical (for the comparative cohort) in 2020 and 2022, but worse in 2021. Moreover, the overall result has deteriorated between 2020 and 2022. We note that this picture of the serviceability of liabilities stands in stark contrast to Figure 39, and thus underscores our earlier comments regarding the potential for the debt service ratio to mislead.

Figure 40. Net Financial Liabilities, Comparative, 2020-2022



As we have already demonstrated, the cash expense cover ratio is very misleading, and potentially dangerous (because it imputes all cash into the numerator, including externally restricted reserves which cannot usually be used to meet liquidity demands). In Figure 41 we chart the metric since 2014 and note that the *prima facie* improvement owes more to the extraordinarily high levels of capital grants than anything else. Readers should review our earlier comments regarding the grave situation for this metric if restricted cash and the like are removed from the calculation.

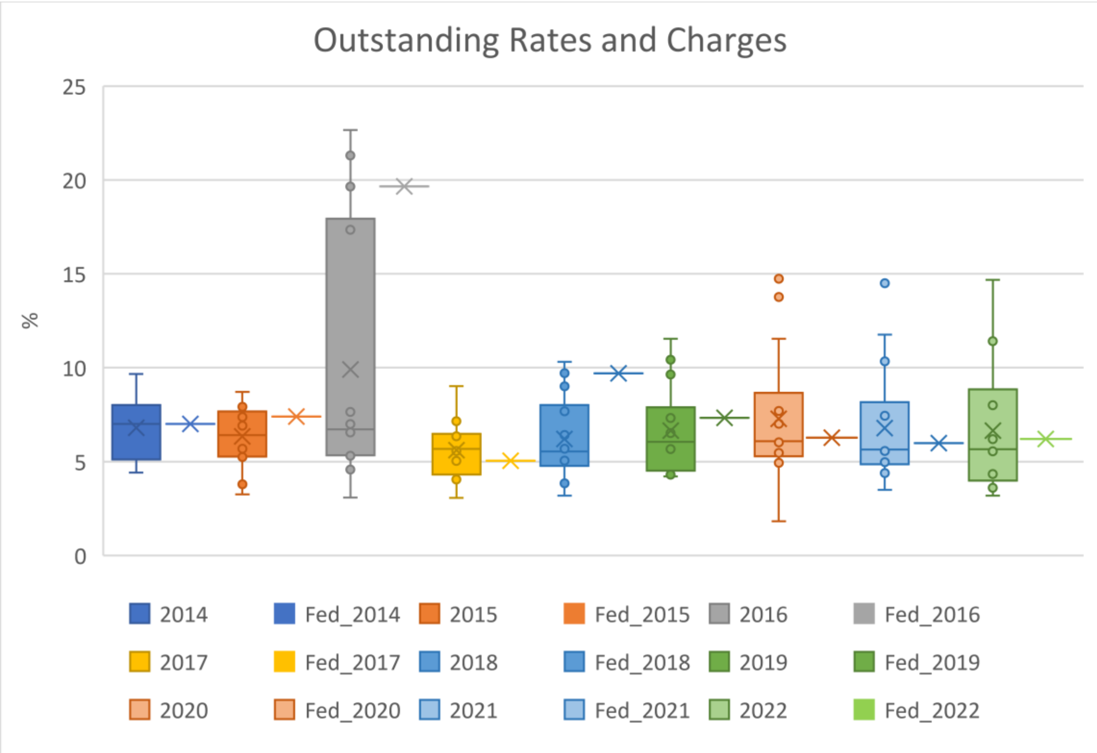
Figure 41. Cash Expense Cover Ratio, Comparative, 2014-2022.



We note that there has been much commentary in the local community regarding capacity to pay with respect to rates. Comparing average rate levels is *not* the way to ascertain what this capacity might be – indeed, it is likely to profoundly mislead because of skewed data typical of rural communities. The only robust way to understand capacity to pay is to conduct an econometric exercise that imputes all sources of community revenue and compares this to a long panel of comprehensive data for other rural councils in New South Wales (please view – 'Average Rate Comparisons Mislead on Average' at https://www.youtube.com/watch?v=4RPnjC8ilgo).

However, it can nevertheless be helpful to also understand trends in unpaid rates and charges. As will be seen from Figure 42, Federation Council has generally recorded outstanding payments from its residents which are typical of the cohort (when measured according to the median). This gives some reason to doubt the confident assertions of people who have looked at (distorted) average rate data and underlines the importance of conducting a competent robust empirical evaluation of capacity to pay *before* proceeding with an SRV.

Figure 42. Outstanding Rates and Charges, Comparative, 2014-2022



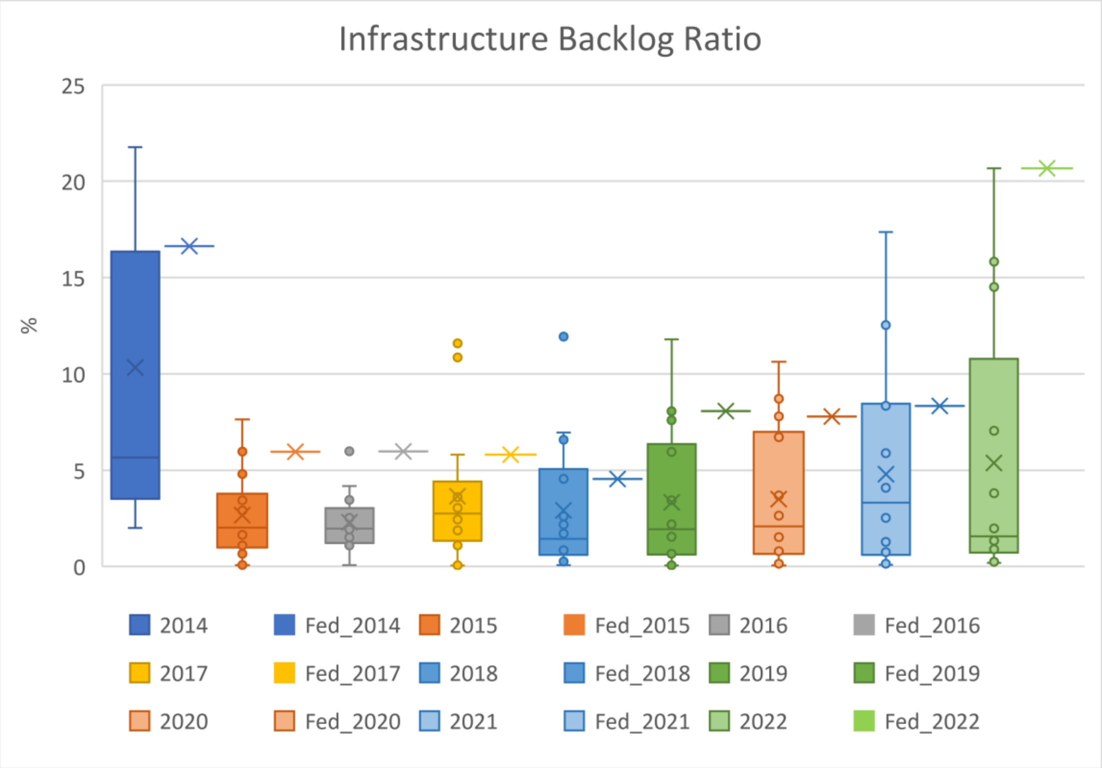
We detailed in the earlier section that there is much reason to doubt the veracity of all three asset maintenance metrics.

As will be noted from Figure 43, Councils tended to state high backlog ratios prior to 2015, presumably in the hope of using this information to advocate for capital grants. This approach seems to have radically changed in 2015 when it became clear that high backlogs were being used as an argument to support forced amalgamations: measures reduced substantially after this time.

In recent years, the spread of backlog ratio results amongst various councils is representative of the doubt that seems to have emerged about the best way to approach things.

Figure 43 should be read in conjunction with our comments made in the earlier section on this matter.

Figure 43. Infrastructure Backlog Ratio, Comparative, 2014-2022

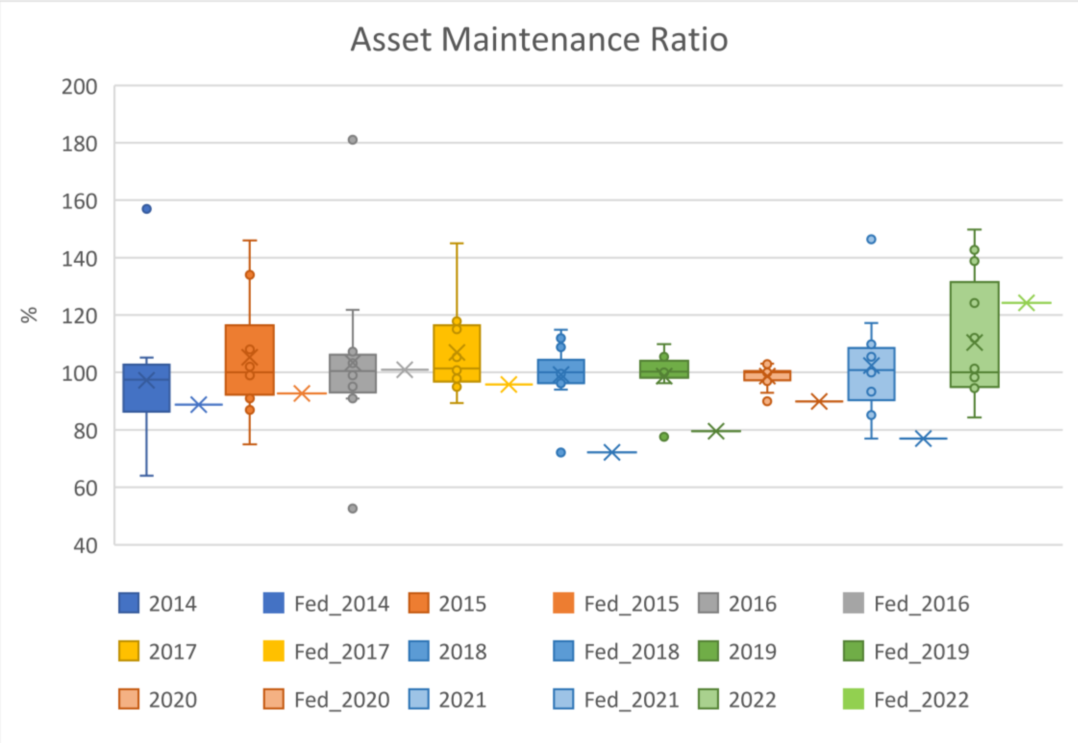


Similar doubt exists regarding the veracity of asset maintenance data. As can be seen from Figure 44, there has been a divergence of approaches in recent years which could be interpreted as casting some doubt on assessments of financial sustainability.

Nevertheless, in both a comparative and absolute sense, it seems fair to say that there has been a deterioration in this area of performance since amalgamation (excepting the most recent financial year which shows a heartening improvement). These multiple failures in the past to keep pace with maintenance needs are likely to have resulted in a large maintenance backlog which should be a matter for serious concern.

The financial sustainability risk of not maintaining assets – especially roads – is considerable and represents an important implicit liability[31] for future generations. We thus urge Federation – and all councils for that matter – to prioritise road maintenance (as well as the accurate reporting of this metric) for the future.

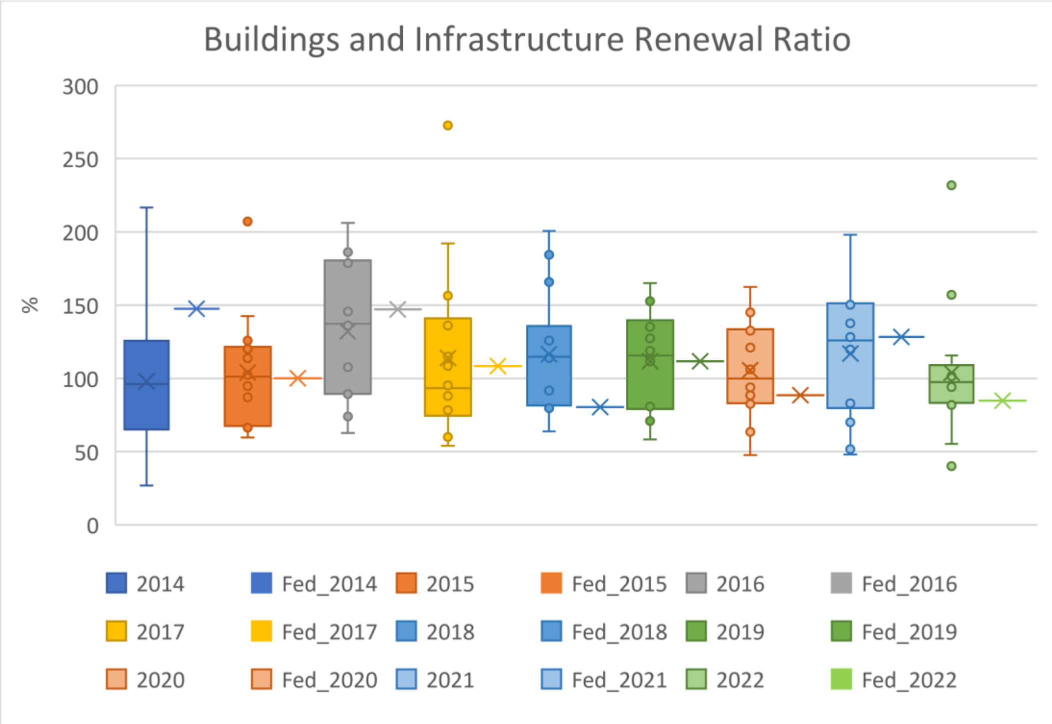
Figure 44. Asset Maintenance Ratio, Comparative, 2014-2022



[31] An implicit liability will need to ultimately be paid for by future generations and thus has the same economic effect as a debt at a financial institution.

Readers are referred to our earlier comments regarding the renewal ratio. Figure 45 bears out our assertions regarding the lumpy and volatile nature of this metric.

Figure 45. Buildings and Infrastructure Renewal Ratio, Comparative, 2014-2022



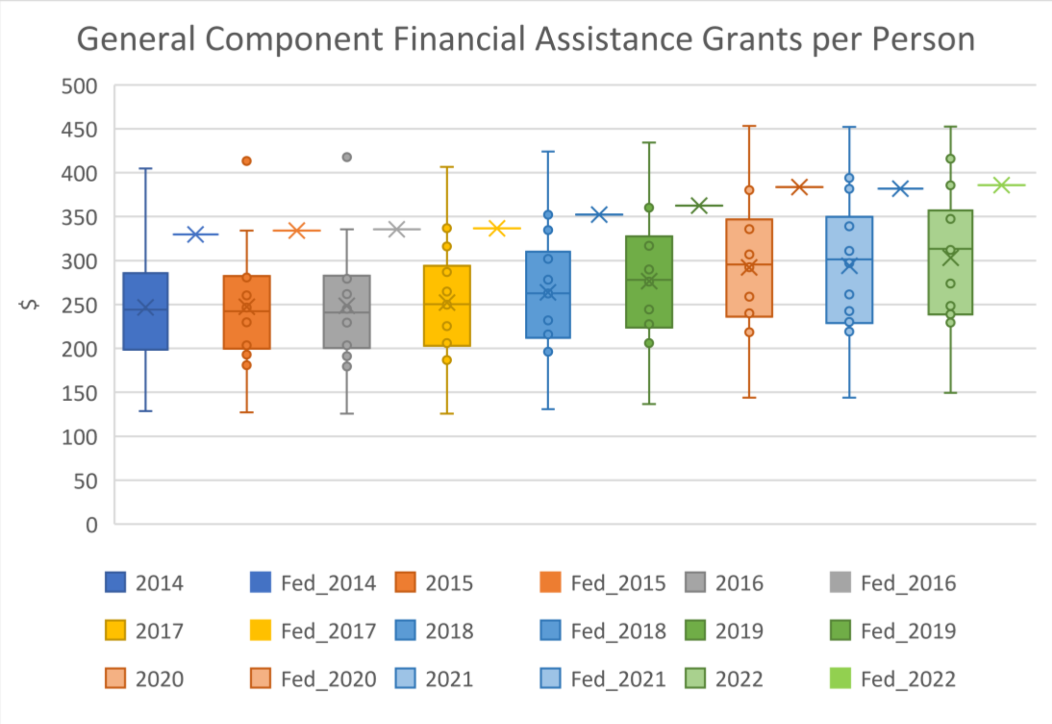
We encourage end-users of this report to review our earlier comments regarding the financial assistance grants (FAGs).

A review of Figure 46 shows that the general component FAG grant per person has indeed reduced in *relative* terms since amalgamation. This was always likely, given that low socio-demographic factors in the north would be diluted by significantly higher scores in the more populated south.

We reiterate our comments regarding the fact that there is good reason to doubt the robustness of allocations – especially when it seems that the NSW grants commission has recently amended their approach on the advice of commercial consultants without providing comprehensive details of the evidence and methodology (as seems to be required by the Act (1995, CTH)).

Indeed, one only has to drive around NSW to see that the intent of the Commonwealth government FAG legislation – horizontal fiscal equalisation (in simple terms the ability to provide basic services irrespective of the postcode) – has been thwarted to the detriment of people especially in rural areas.

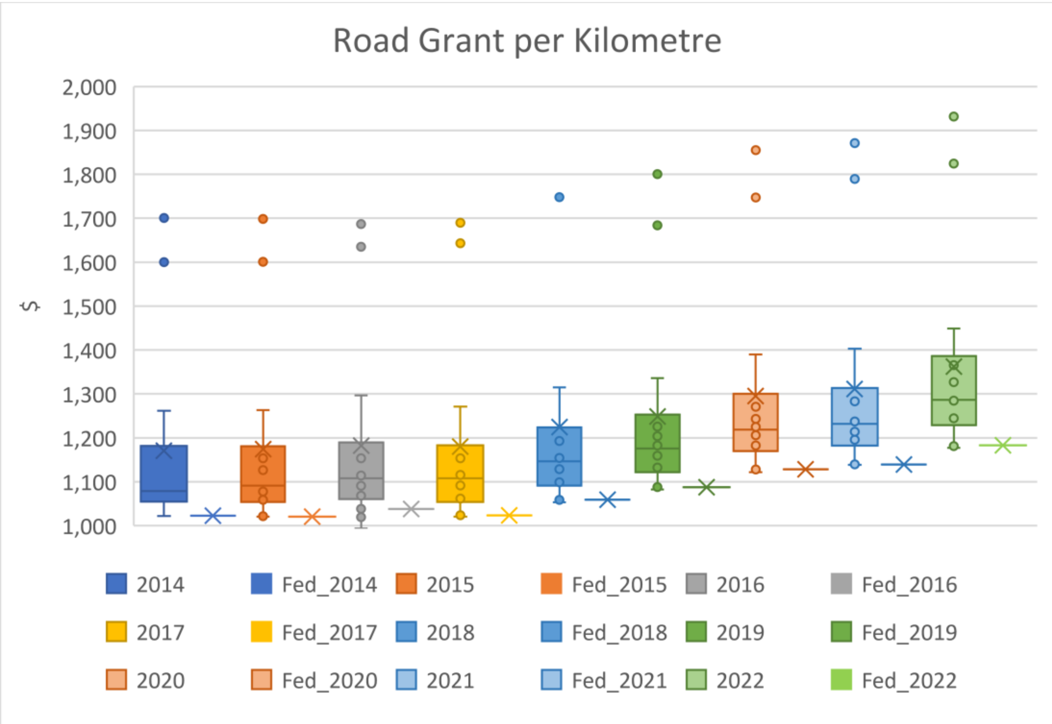
Figure 46. General Component Financial Assistance Grants Per Person, Comparative, 2014-2022



The chaotic approach of the NSW grant allocations is even easier to see if we examine the road grants on a per kilometre basis. It would be prudent to ask the NSW Local Government Grants Commission to justify in detail why Federation Council receives the lowest road grant allocation (on a per kilometre basis) even when compared to similar rural local governments. Indeed, Council might also care to ask why the City of Sydney receives $4,938/km; North Sydney $3,554/km, but Federation just $1,1181/km (there are many more examples of *prima facie* puzzling discrepancies). The Grants Commission may indeed be able to justify the vast disparity in allocations responsive to the HFE objective of the Act (1995, CTH), but they should certainly be asked to do so (in a plausible manner and with sufficient detail to allow for verification of formulas).

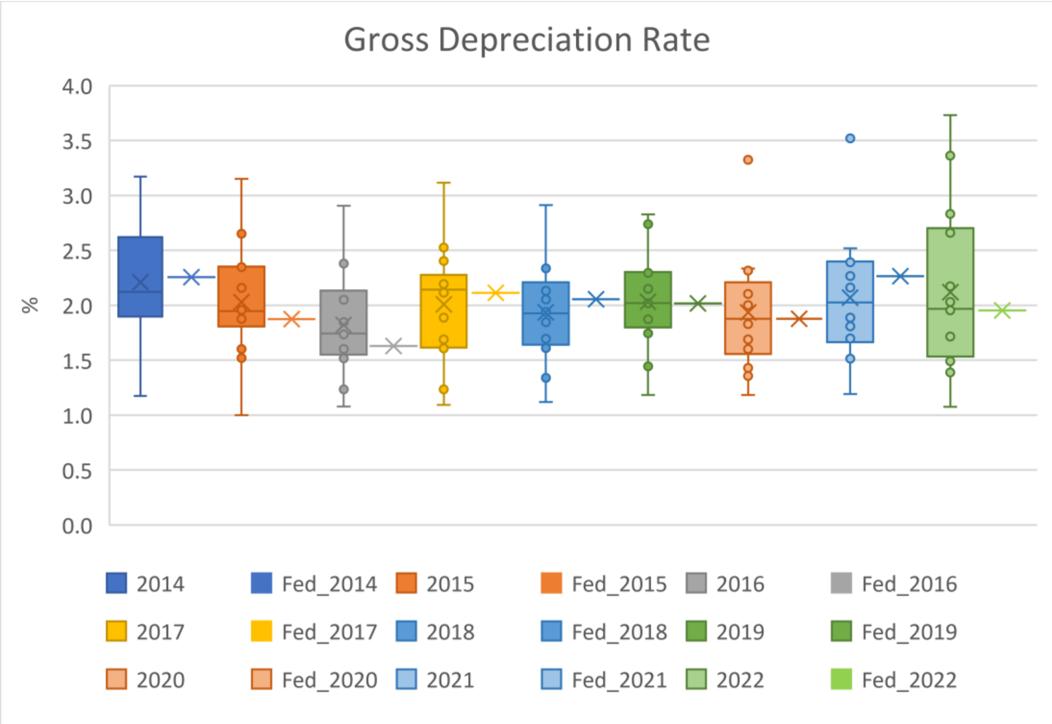
This example should underscore our earlier comment that there are many pieces of the sustainability puzzle that must be considered aside from merely special rate variations.

Figure 47. Road Grant per Kilometre, Comparative, 2014-2022



A further case in point is the need to accurately measure depreciation accruals. Readers are referred to our earlier comments regarding the importance of measuring the annual consumption of long-life assets carefully. Moreover, we do not wish to suggest that every council ought to depreciate at the same rate – because local conditions such as climate and usage patterns clearly are relevant – but certainly large differences warrant explanation. Indeed, the significant volatility in this measure also requires some explanation (especially in the pre-amalgamation period when some people might be inclined to believe that matters were being gamed).

Figure 48. Gross Depreciation Rate, Comparative, 2014-2022



To cast further light on matters, we also looked at depreciation rates on an asset class basis. We encourage Council to investigate where large discrepancies exist between Federation's rate of depreciation and the typical level for the cohort – there may be good reasons for discrepancies, and if this is indeed the case, then the reasons ought to be clearly articulated.

Figures 49 through to 56 inclusive illustrate the comparative state of affairs for the major asset classes.

Figure 49. Depreciation Plant and Equipment, 2021-2022

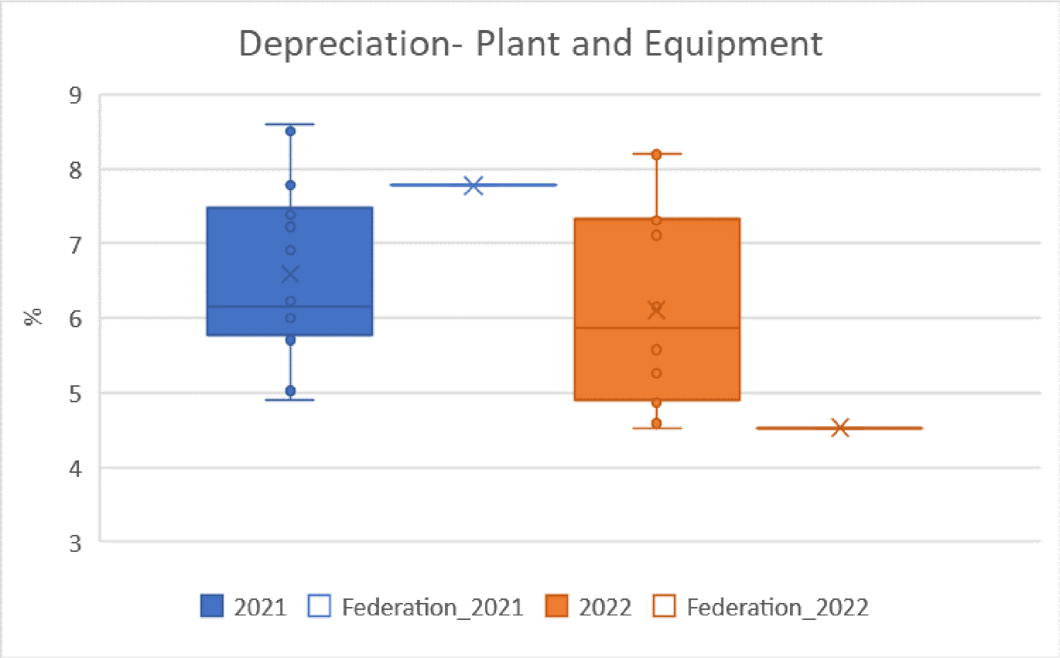


Figure 50. Depreciation – Office and Furniture, 2021-2022

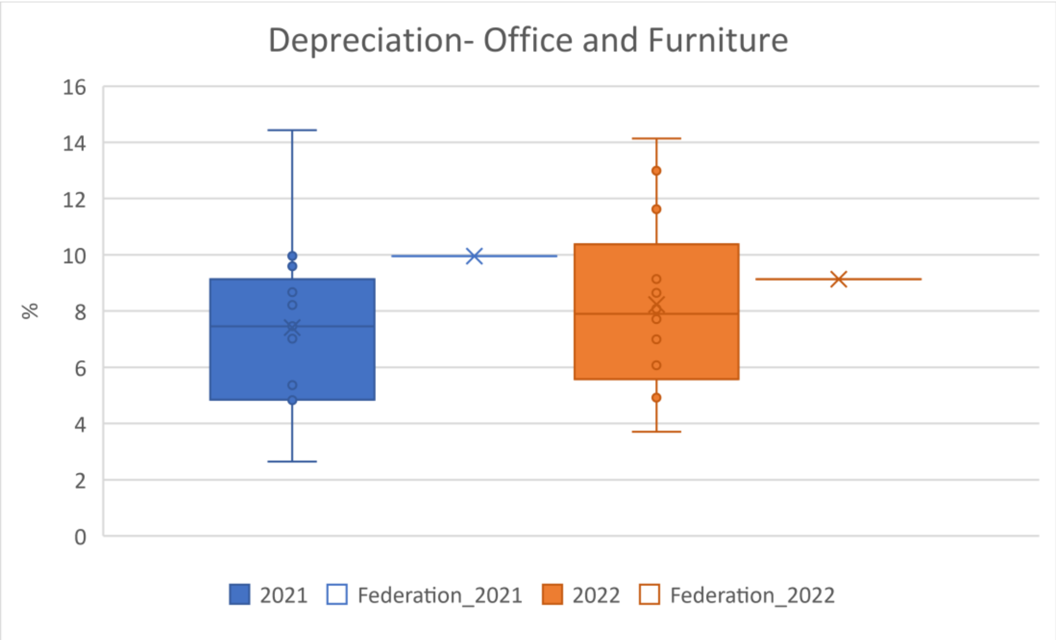


Figure 51. Depreciation – Buildings, 2021-2022

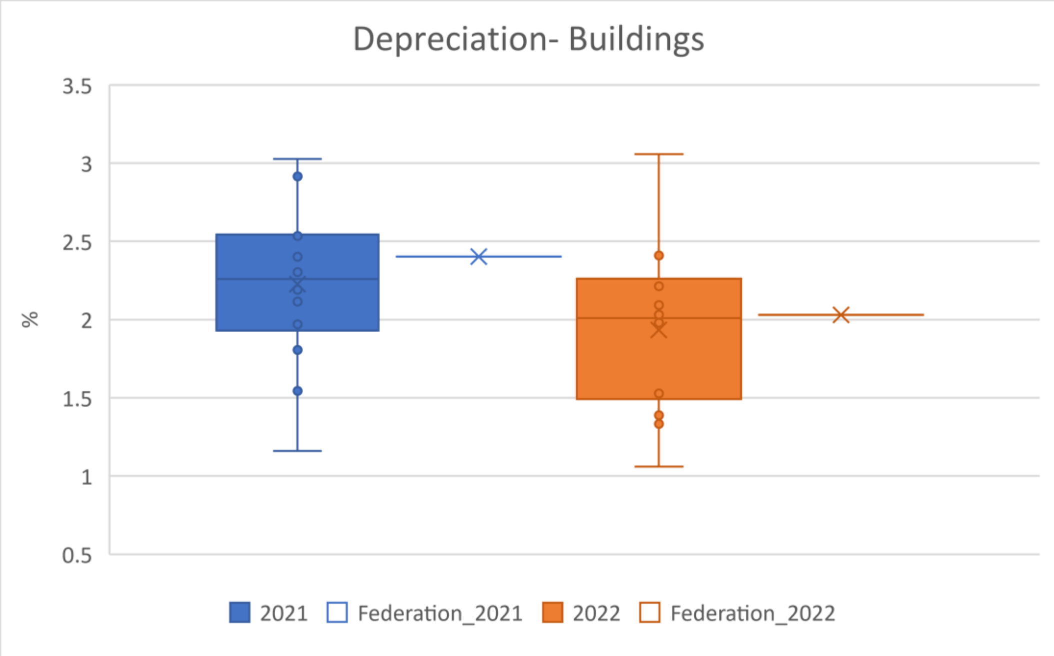


Figure 52. Depreciation – Roads, Bridges and Footpaths, 2021-2022

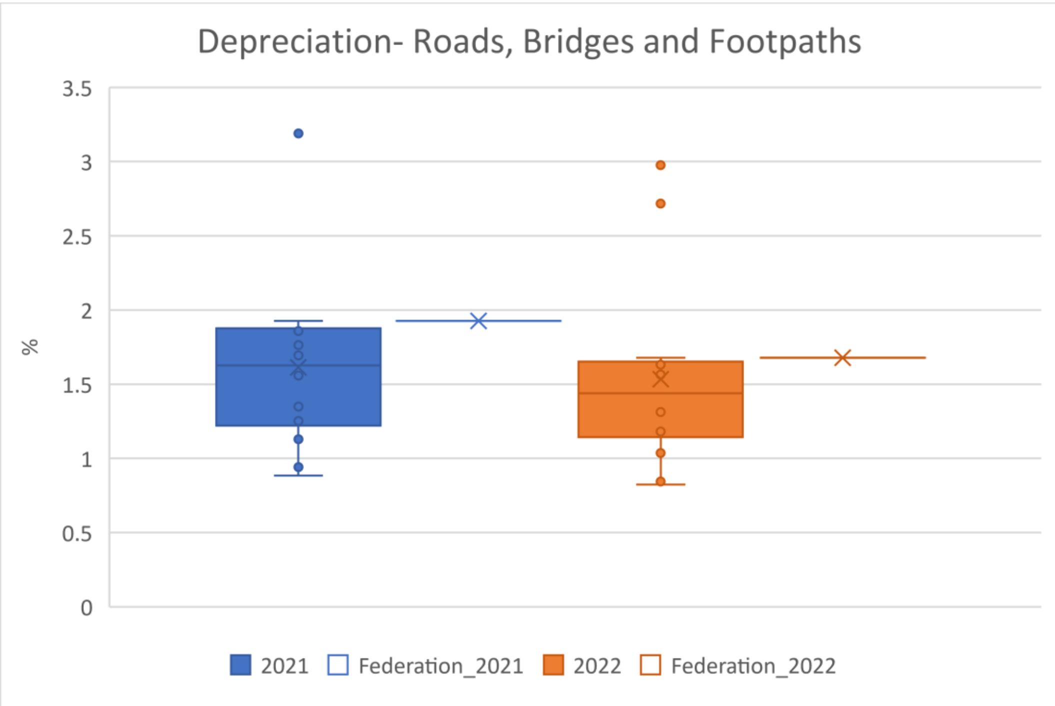


Figure 53. Depreciation- Roads, 2021-2022

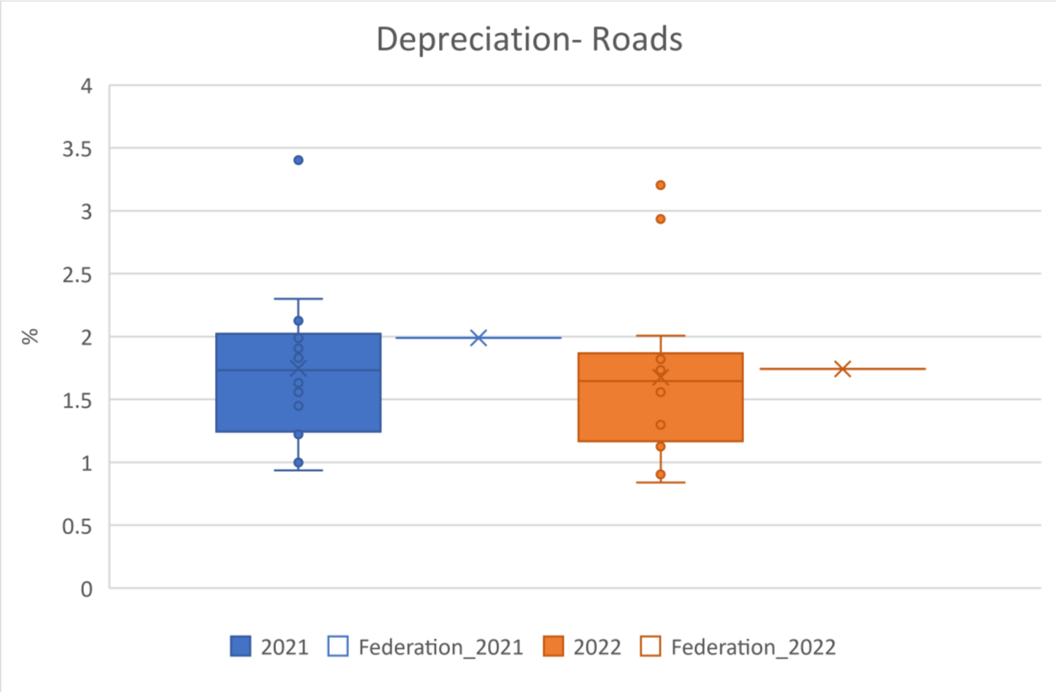


Figure 54. Depreciation – Storm and Drainage, 2021-2022

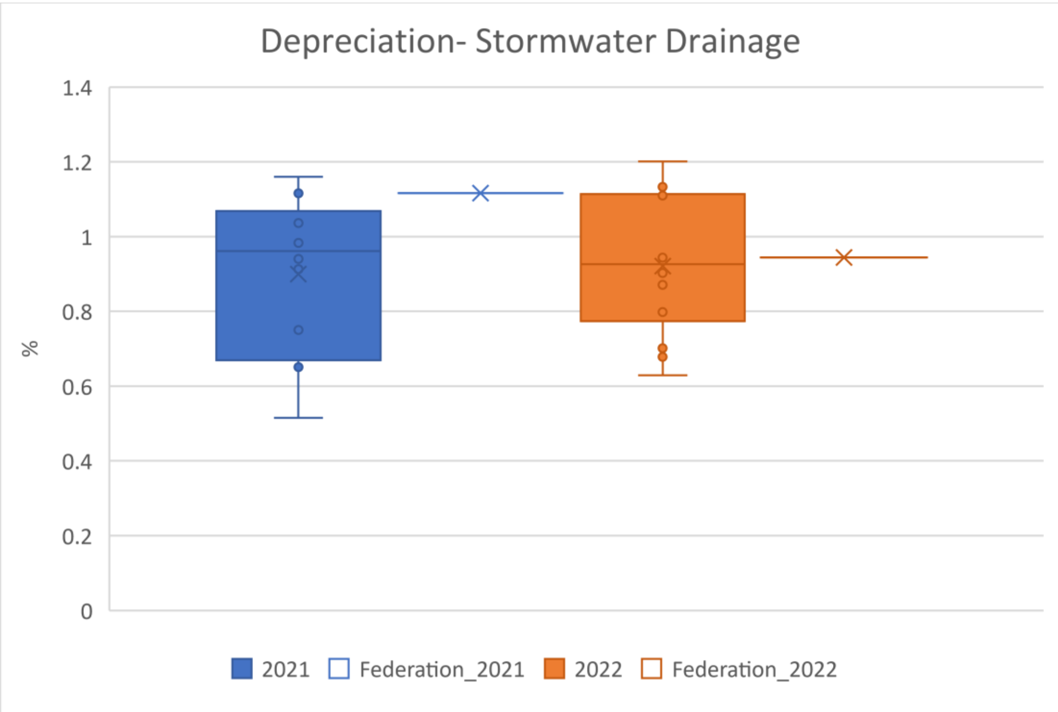


Figure 55. Depreciation – Water Infrastructure, 2021-2022

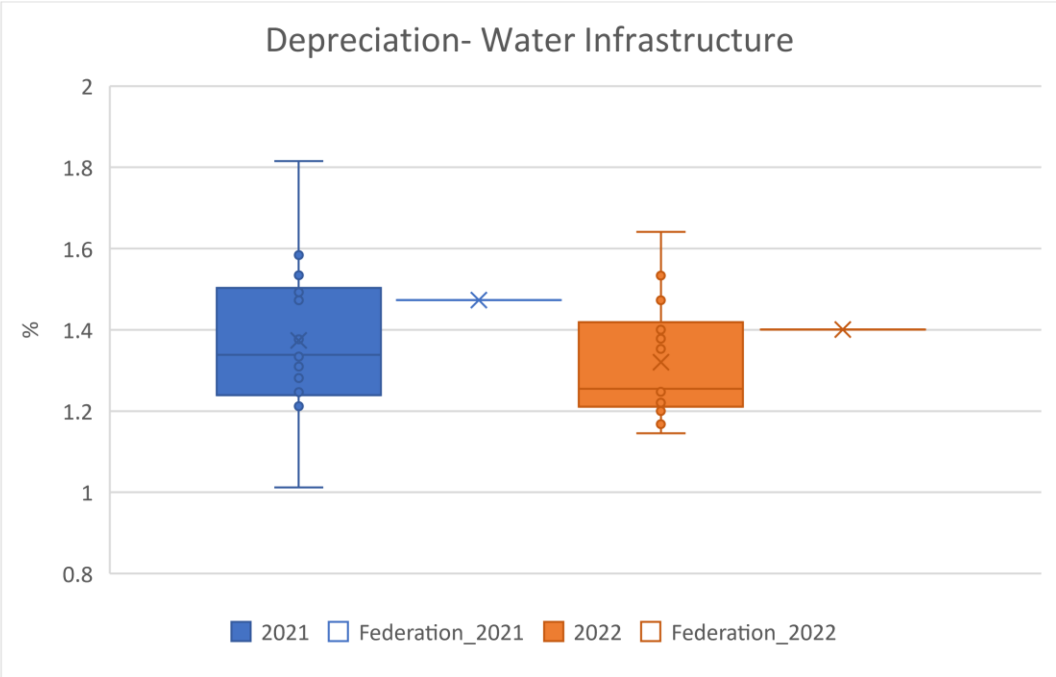
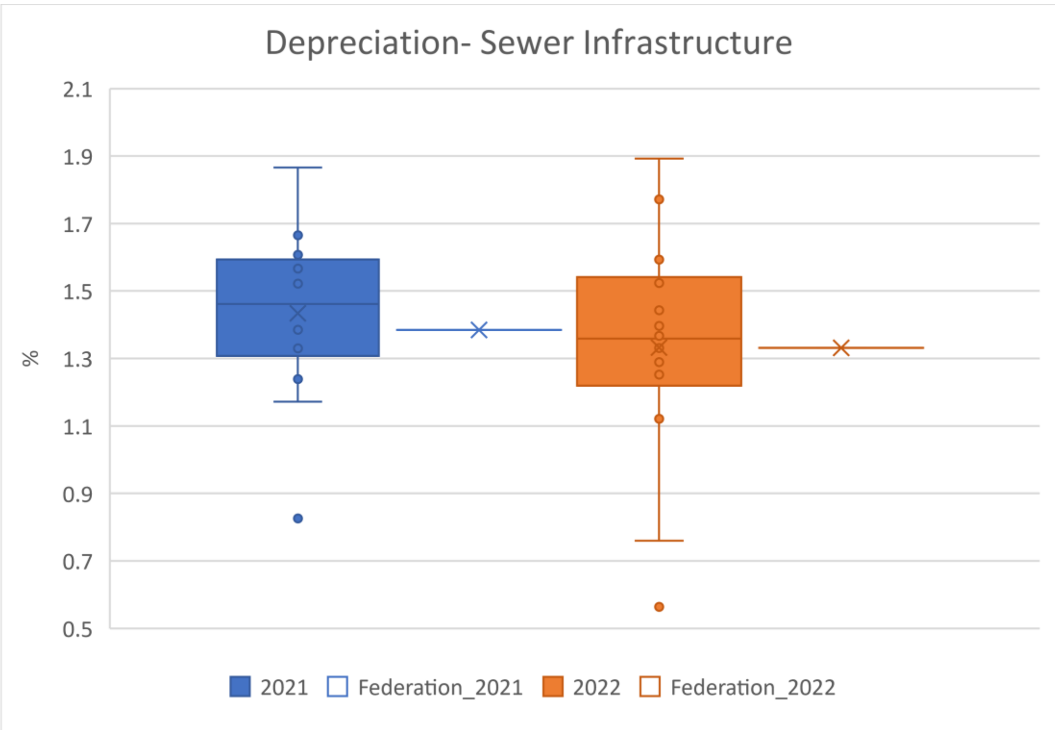


Figure 56. Depreciation – Sewer Infrastructure, 2021-2022



Scholarly evidence has demonstrated a close relationship between budget accuracy and efficiency (see, for instance, McQuestin et al., 2020). It has been empirically proven that higher budget accuracy is statistically associated with higher technical efficiency. It is thus important for decision-makers to reflect on the accuracy of their budgets – especially if preparing to request an SRV, which is typically conceived of in terms of a ten-year long term financial plan.

Federation Council had pretty typical revenue budget accuracy until recently, after which time income has been significantly under-estimated. Generally, inaccuracy greater than five percent should be rigorously investigated (notwithstanding the regulatory requirement for formal statements only when inaccuracy exceeds ten percent[32]). Inaccuracy greater than ten percent is not indicative of a Council that can rely on its future forecasts with respect to financial sustainability.

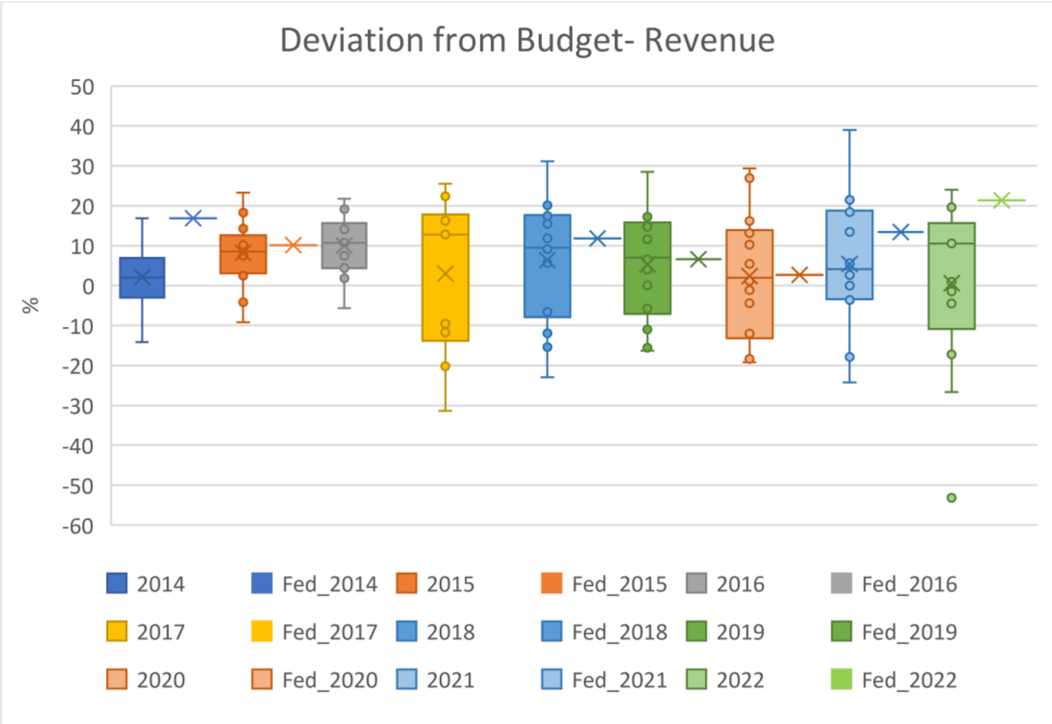
We acknowledge that unexpected grants may explain some of the observed deviations. Thus, for budget deviation metrics, comparative data is extremely valuable as it provides a sense of how other councils, putatively facing similar circumstance, fared.

Moreover, we have reason to believe that monthly budget reconciliations could be more robust[33]. In addition, there is clearly good reason to extend quarterly budget reconciliations to all four quarters (beyond regulatory requirements) until practice has been improved.

In general, when budgets have been exceeded, the responsible manager should be asked to explain in writing why this has occurred, the adjustments that they have made for future spending to mitigate the error, and what they will do to avoid a repeat in the future. A record should then be kept to inform future budget making. In addition, budget adherence should also be linked to key performance indicators for the relevant job descriptions.

[32] This apparently arbitrary benchmark is set far too low, given that many Councils only have a few weeks' worth of cash expenditure in unrestricted reserves.
[33] We acknowledge that new accounting guidelines – around the timing of grant recognition – will have an impact on the 'apparent' budget outcomes.

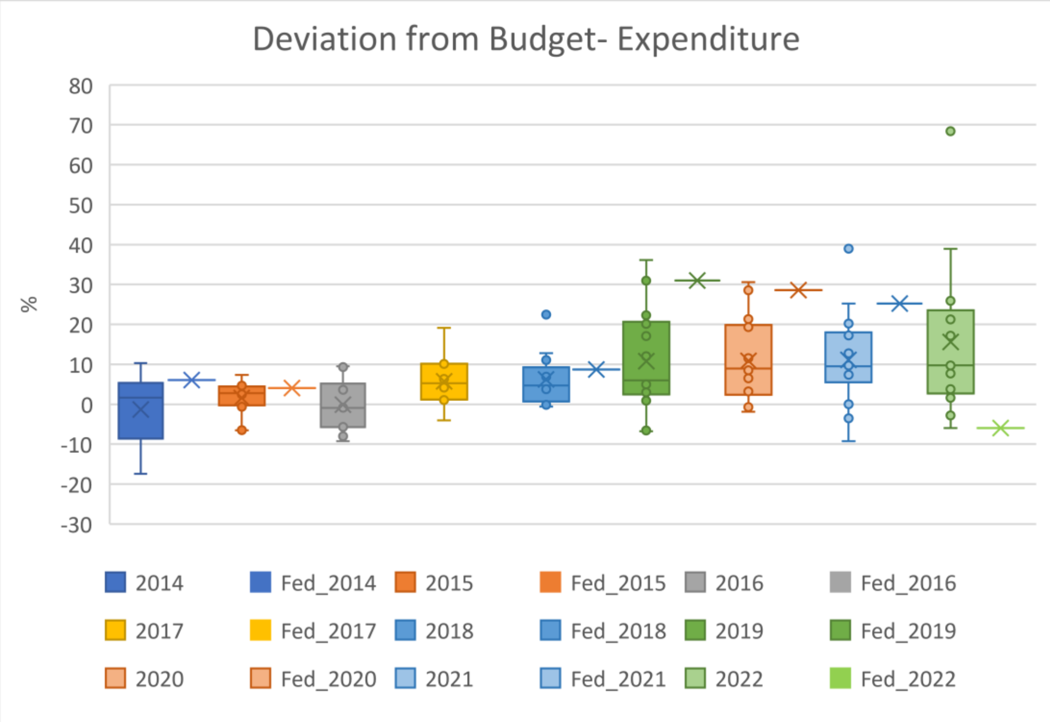
Figure 57. Deviation from Budget – Revenue, Comparative, 2014-2022



Even more concerning are the significant departures from budgeted expenditure – especially when more money has been spent than projected (see, for example, 2020 and 2021). These kinds of outcomes put future financial sustainability at risk and make it relatively more difficult for the IPART and community to have confidence in important forward projections such as the ten-year LTFP. Sometimes there are good reasons for budget over-runs, but these must be communicated clearly, and appropriate measures taken to mitigate them.

We reiterate that errors over ten percent are not sustainable practice and that rigorous investigations ought to take place for any deviation over five percent. We also remind readers of our comments regarding the need for robust budget reconciliations and strong accountability in this area.

Figure 58. Deviation from Budget – Expenditure, Comparative, 2014-2022

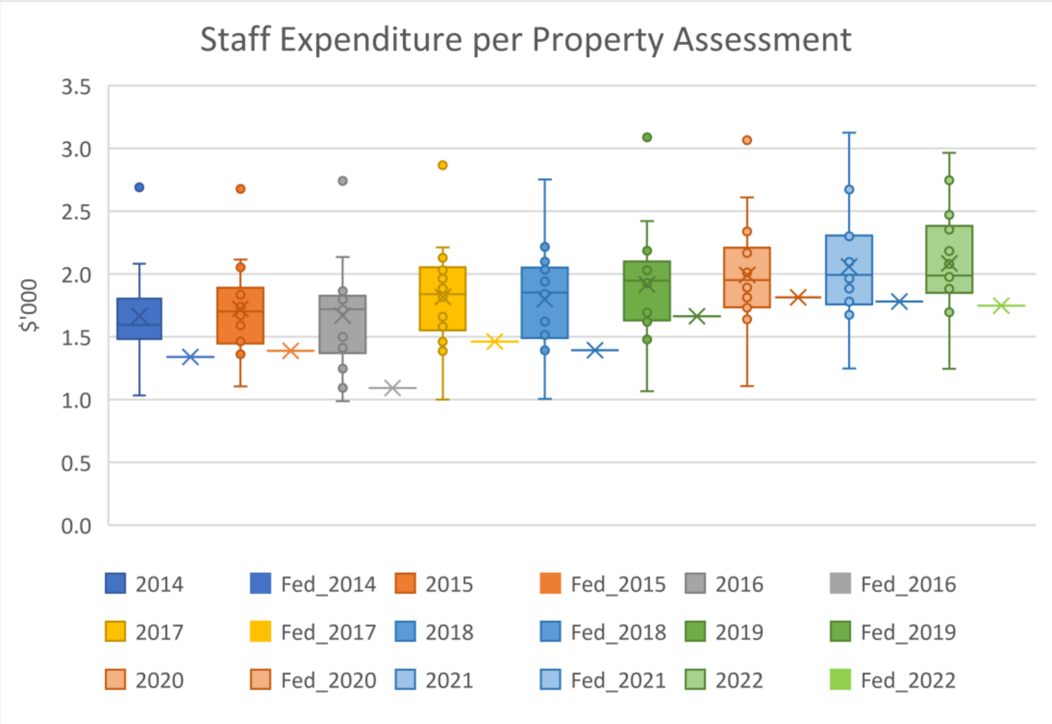


Some residents – and even a few staff – have expressed a concern that staffing numbers are too high at Federation. Our own impression is that there are some serious shortfalls arising from vacancies and unfunded positions at Federation that may ultimately risk financial sustainability. We are also concerned about a neglect for succession planning in key roles, and the apparent absence of a staff retention policy.

In Figure 59 we plot staff expenditure on a per assessment basis which is reasonable given the services-to-property outlook of Australian local government (Drew, 2021). It is clear that staff expenditure is consistently in the bottom quartile (lowest twenty-five percent) for the comparative cohort. This is also reflected in our earlier DEA and FDH analyses and is made more remarkable given the knowledge that rural councils tend to be staffed sparingly.

In our recommendations we make note of a few positions that urgently need to be funded, as well as some vacancies that cannot be left unchecked for much longer without seriously impinging on council's effectiveness.

Figure 59. Staff Expenditure Per Assessment, Comparative, 2014-2022



A key concern moving forward must be the levels of cash on hand. In Figures 60-64 inclusive, we plot the level of cash for various categories. We particularly draw reader's attention to the level of internally restricted and unrestricted cash which much be considered quite parlous and concerning (albeit with a welcomed improvement in 2022). Indeed, when these amounts are combined (Figure 64), we see that Federation has been below typical in five of the six years since amalgamation. When one recalls that the comparative cohort is widely acknowledged as being fiscally fragile, then the reason for our concern should become clear.

Figure 60. Externally Restricted Cash (deflated by revenue), Comparative, 2014-2022

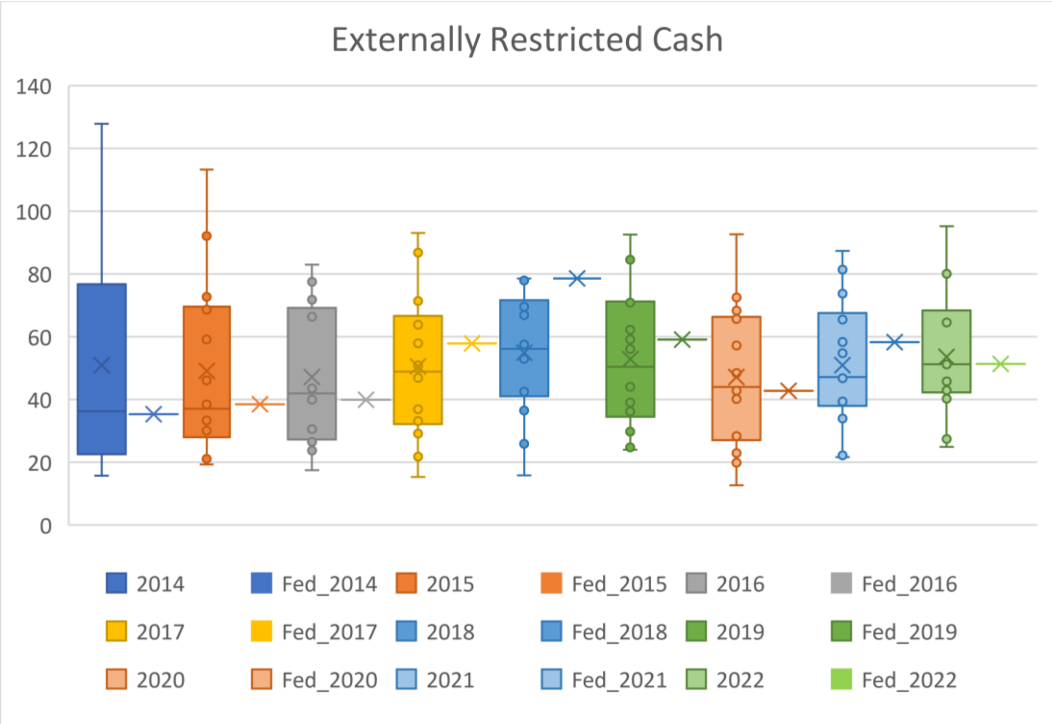


Figure 61. Internally Restricted Cash (deflated by revenue), Comparative, 2014-2022

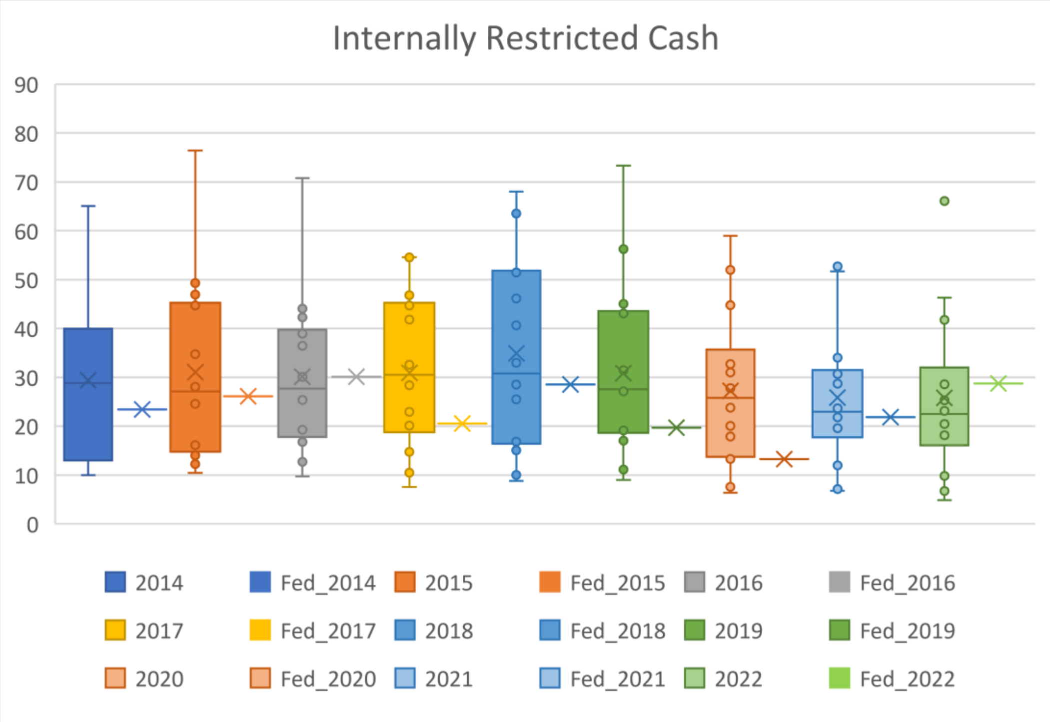


Figure 62. Unrestricted Cash (deflated by revenue), Comparative, 2014-2022

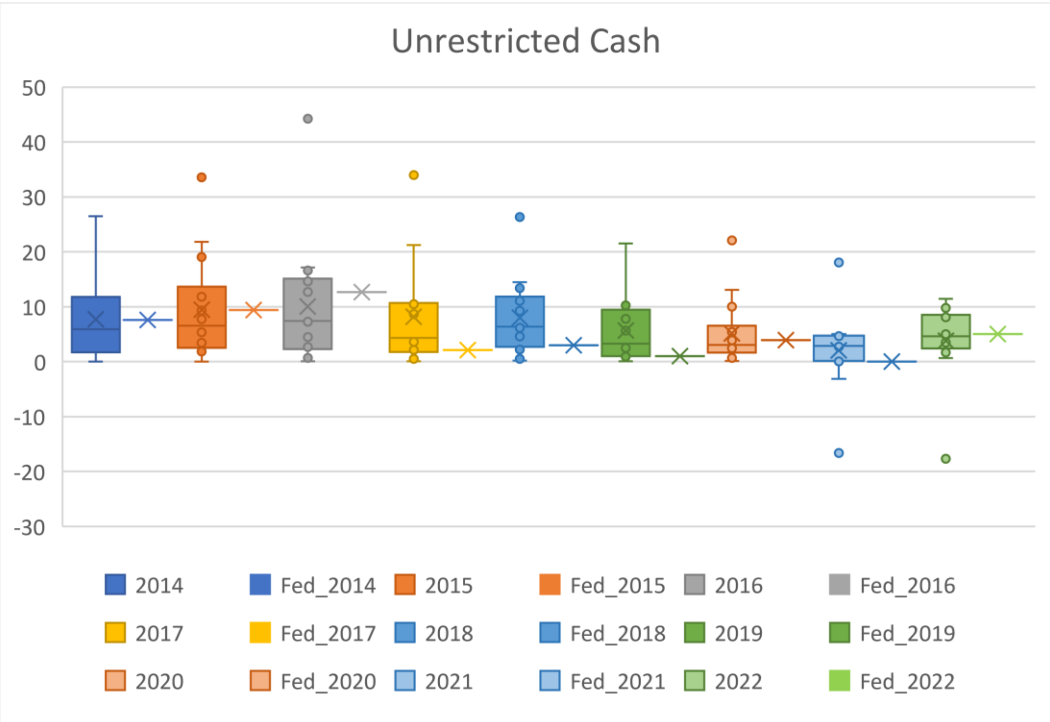
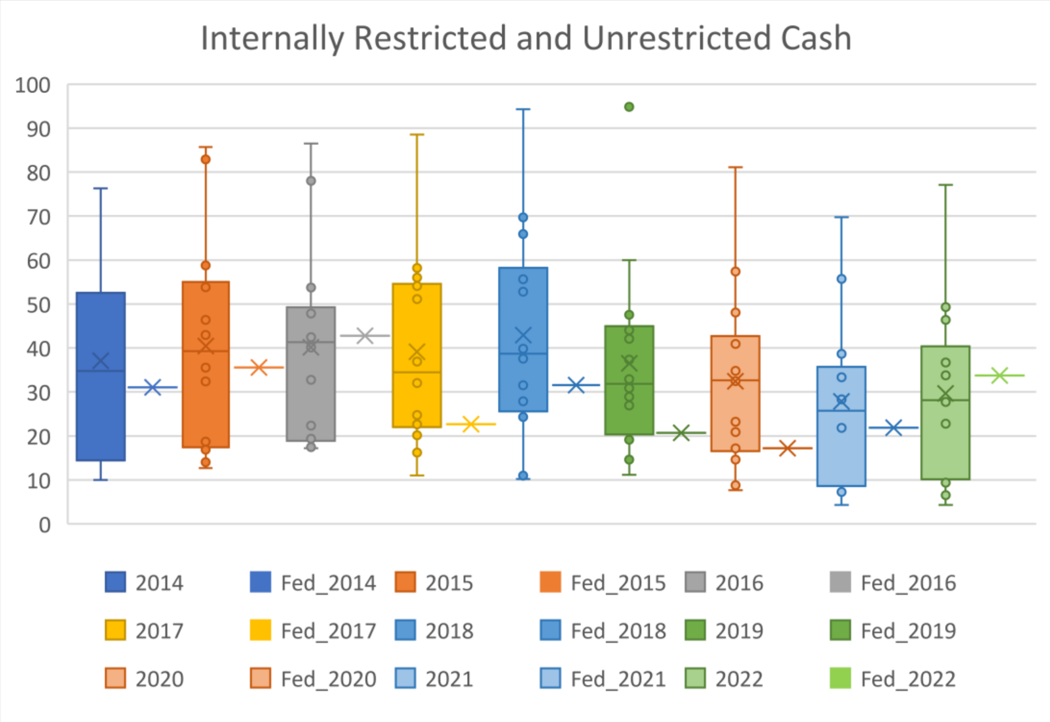


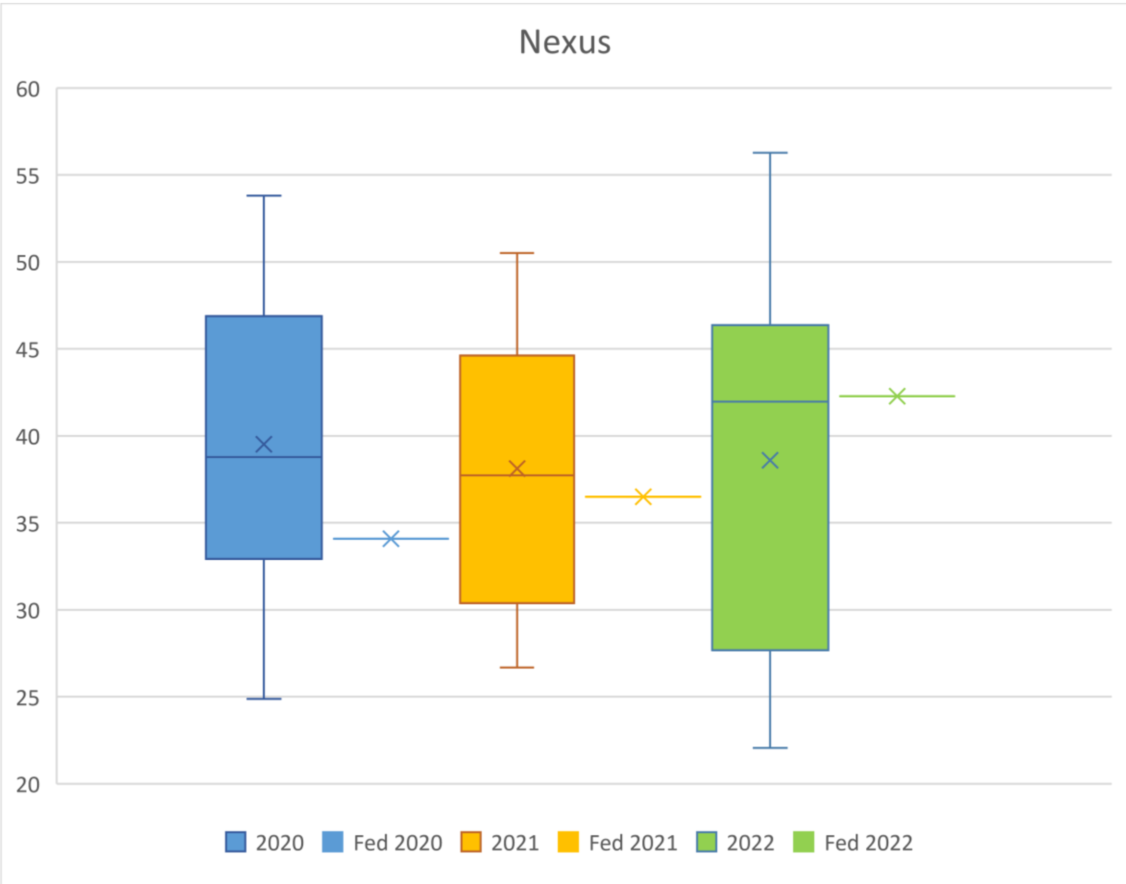
Figure 63. Internally Restricted and Unrestricted Cash (deflated by revenue), Comparative, 2014-2022



The final metric that we will examine in this section is the nexus ratio which expresses fees and charges as a proportion of operational expenditure. For non-public goods and services, the price or fee charged should fully recoup long-run marginal[34] costs unless there is a clearly articulated merit subsidy involved. A failure to price goods and services accurately results in a number of undesirable outcomes. First, failing to price goods and services correctly results in poor price signals which are known to affect both consumption as well as value judgements of resident consumers (Drew, 2021). Second, if we are not pricing goods and services correctly, then we are likely to be missing out on important revenue (recall that every piece of the financial sustainability puzzle is critical). Third, if we do not price goods and services correctly, then this inevitably results in an implied subsidy by the local government taxpayer. It is inequitable for the local government taxpayer to subsidise private goods and service consumption unless for the case of a *bona fide* subsidy (such as that due to the perceived merit of a good or service). Moreover, IPART are keen to ensure that taxes collected are indeed being used for the appropriate purpose.

We note a perception amongst some staff that the effort required to accurately price goods and services is not warranted given the likely sums of revenue involved. On a cost-benefit basis alone, this sentiment may indeed be true. However, this perception entirely ignores the crucial role of price signals in ensuring economically efficient operations, as well as the obligation to ensure that tax monies are spent in accordance with their intended purpose.

Figure 64. Nexus Ratio, 2020-2022



[34] This is the cost of producing one more unit of the good and services after taking into account the full overheads, required maintenance, and future capital needs.

In sum, the comparative data largely mirrors our earlier sophisticated empirical analyses as well as the data pertaining to just Federation Council over time. It confirms that the financial sustainability situation is quite serious, and that much work remains to be done.

A key element of Federation Council's recuperation will involve fundamental changes to how people perceive local government. First, it is necessary for Council, staff and residents to interrogate themselves regarding the purpose of local government – indeed any government. Government is not an ontological structure that was with us at creation (or if you prefer, evolution). We have government for a very simple reason: because people are not self-sufficient. We need the co-operation of others to flourish, and government provides for wider and more sustainable levels of co-operation than merely friends or market mechanisms respectively. This is the most enduring explanation for government and notably it harks back to at least the time of Aristotle's (2012 [4th century BCE]) *Politics*. If a government fails to function as a mechanism for non-filial and non-commercial co-operation, then it also fails to fulfil its purpose and becomes, in Aristotle's terms, 'defective'. Otherwise stated, it does not matter how efficient we become, how many discretionary assets we might build, whether we get a special rate variation (SRV) or not – if we fail to foster co-operation that allows people to flourish, then we will have still fundamentally failed as a local government.

The second necessary paradigm shift arises as a direct consequence of acknowledging the proper function of government – it is a recognition of the need to be a 'facilitator' government, rather than a 'provider' government. Many decades ago, the great natural law philosopher, Johannes Messner (1952), expressed great concern for a subtle shift in people's attitudes towards a paternal conception of government which he rightly foresaw would ultimately lead to financial unsustainability, dependency, and the erosion of human dignity. When citizens perceive that government is the ultimate guarantor of happiness, then the demands for spending will rise at the same time as the development of a pronounced reticence to tax. The result will be deficits, debt for the next generation of taxpayers, and eventually financial crisis. In addition, being a provider local government also deprives associations and their members of the opportunity to band together and strive for collaborative goods. With fewer opportunities to deliver for members, associations slowly wither, and community ceases to be built.

The third shift required of people and government is to acknowledge that 'needs' morally trump mere 'wants'. For far too many years, local governments across this state and nation – often at the behest of higher governments and the media – have been focused on delivering wants. The result has been diminished financial sustainability as well as significant deterioration of key infrastructure such as roads. It is inconceivable that anyone who showered their children with toys but failed to feed them would be considered a 'good' parent. Likewise, a local government that showers its community with discretionary services and neglects to maintain roads, drains and key infrastructure might be argued to have also failed in its moral duty.

To be sustainable and 'good', Federation Council needs to re-discover its proper purpose, become a 'facilitator' rather than a provider, and focus first on meeting 'needs'. All of the financial data and indicators that we have reviewed earlier are mere symptoms of a chronic condition shared by many governments in the western world – a failure to understand the proper purpose of government. In the appendix to this report, we make a number of strong recommendations aimed at re-asserting a healthy understanding of Federation's proper role and the importance of this to the flourishing of the people that live there. We hasten to add that the apparent extant confusion about the proper role for government has clearly developed over decades. In the section that follows, we seek to cast some further light on the symptoms of the malady prior to amalgamation – that is, the financial sustainability of Corowa and Urana Shires respectively.

7 Some Further Investigation of Matters Prior to Amalgamation

It is clear that some stakeholders would like us to make judgements regarding the financial affairs of each constituent council prior to amalgamation. Doing so is problematic because of the disparate nature of the relative entities – their scope of operations contrasted starkly as did the expectations of their communities. Moreover, we have serious concerns regarding the reliability of accounting data leading up to the amalgamations, borne out by the scholarly literature (see, for example, Drew and Grant, 2017; Drew, 2017). Indeed, the only way to be certain about the financial sustainability position of each constituent entity would be to go back in time and thoroughly inspect both the finances and asset conditions.

A second-best option is to use the financial statements compiled during the period when Federation Council was run by the Administrator. Readers may be aware that financial statements come with an attestation regarding their truth and accuracy, in addition to the audit process (which, contrary to many people's perception, only provides *reasonable* assurance) – see below. Moreover, the Administrator ought to have made thorough inquiries into financial sustainability early in his term and should also have been able to draw on deep knowledge gained in his role as the Boundaries Delegate. There is thus some reason to hope that data reported for the end of 2015 (reported in the audited financial statements dated 12 May 2016) might be more accurate than most (we have eschewed the 2016 data because it was not a full financial year and thus potentially misleading).

Figure 65. Attestation of Truth and Accuracy for the Financial Data that Follows

To the best of our knowledge and belief, these financial statements:

- present fairly the Council's operating result and financial position for the period, and
- accord with Council's accounting and other records.

We are not aware of any matter that would render these statements false or misleading in any way.

Signed in accordance with a resolution of Federation Council made on 15 November 2016.

Mike Eden
Administrator

In Table 10 we provide a summary of some of the key consolidated financial data for each of the constituent councils. Furthermore, we have also expressed the said data in terms deflated by revenue so that fairer comparisons might be made between these two very different scaled operations. We remind readers that operating results tend to be volatile because of the lumpy nature of asset construction and maintenance.

Leaving aside the single year operating results, Table 10 suggests little difference between the entities regarding key income statement and balance sheet items.

Table 10. Summary of Key Consolidated Data, 2015 ($'000) {data deflated by revenue in parentheses}

Council	Profit (Loss) Excluding Capital Grants	Current Liabilities	Current Assets
Corowa	$1,209 {3.99%}	$4,957 {16.37%}	$27,264 {90.04%}
Urana	$(469) {6.61%}	$975 {13.76%}	$6,488 {91.53%}

In Table 11 we detail the cost to bring assets to a satisfactory standard, despite the fact that we have good cause to doubt the veracity of the numbers (especially in light of current asset conditions). The former Corowa Shire seems to have had a materially greater implicit liability as represented by these figures (furthermore we think it likely to have been an understatement with respect to the water and sewer assets).

With respect to cash reserves, Urana also appears to have been in a relatively better position.

Table 11. Summary Of Asset Need and Reserves Data, 2015 ($'000) {data deflated by revenue in parentheses}

Council	Cost to Bring to Satisfactory Standard ($'000)	Reserves ($'000)
Corowa	$18,090 in 2015 $17,693 in 2016 {58.43%}	$5,886 internally restricted {19.44%} $2,672 unrestricted {8.82%}
Urana	$3,169 in 2015 $3,433 in 2016 {48.43%}	$3,863 internally restricted {54.50%} $853 unrestricted {12.03%}

In sum, this brief review of the data, as at 2016, only goes to confirm what we stated earlier based on our readings of the entire financial statements and in due consideration of both need and operating context at the time: Urana Shire was likely to have fared much better had it not been amalgamated, than would have Corowa Shire.

This conclusion is also consistent with the special rate variation evidence. As readers will be aware, the Independent Pricing and Regulatory Tribunal (IPART) has strict criteria for assessing applications to increase rates beyond the official cap – orientated around need, capacity to pay, efficiency, and communication.

Moreover, IPART (2013, p. 3) had already approved a 7% permanent increase to rates for Corowa Shire with respect to the 2013/14 financial year noting that 'the Council's application indicated that the special variation is part of a broader series of measures it intends to take to improve its financial sustainability'. It then approved a further four years of 7% increases for Corowa commencing in 2014-15 and ending in 2017-18. In this latter approval, IPART (2014, pp. 3-4) noted the following:

- 'Council intends to use the additional revenue above the rate peg to address its growing infrastructure backlog; [and]
- the Council will commit all the additional revenue generated on funding its operational deficits which are forecasted to be around $2.9m in 2014/15, maintain current service levels and reduce its growing infrastructure backlog which is currently $44m'.

It thus seems that both Corowa Shire and the IPART understood that the local government area was in a distressed financial state, just prior to amalgamation.

By way of contrast, Urana did not have a SRV at the time of the amalgamation, nor had it yet formally applied for one.

However, both former Councils seem to have been planning additional special rate variations just prior to May 2016. In Table 12 we summarise the plans that we found in Council documentation, and following this, in Figures 66 and 67 we provide screen shots of the cited documents for assurance purposes.

Table 12. Proposed Special Rate Variations Prior to Amalgamation

Council	Proposal	Cumulative Effect of Proposed SRV	Source Document
Corowa (Option 1)	7%, 11.5%, 11.5%, 7%, 7%	52.30%	'Corowa Shire Fit for the Future' presentation
Corowa (Option 2)	7%, 7%, 7%, 6%, 6%	37.65%	Ibid.
Urana	4 years of 10% rate increases (10%, 10%, 10%, 10%)	46.41%	Urana Shire Council submission to the Boundaries Delegate

Figure 66. Corowa Planned SRV

Proposed General Rate Increase

Corowa Shire
...the choice

Both options will require Council to make some difficult decisions around service level reviews and asset consolidation.

Snapshot	Option 1	Option 2
2015/16	7%	7%
2016/17	11.5%	7%
2017/18	11.5%	7%
2018/19	7%	6%
2019/20	7%	6%

Figure 67. Urana Planned SRV

Council and the Community were naturally disappointed to be deemed 'Unfit' on an unmeasurable and subjective factor of 'Scale and Capacity'. This was after passing all of the stringent financial criteria, in an honest and realistic fashion, with a Community backed, achievable action improvement plan, including 4 years of 10% rate increases, to ensure Council reflected the wishes of our Community – that is that Council in its current form, are best placed to continue to provide for its Community into the future, as it has done for 110 years.

Thus, the Federation Council community were looking at additional SRVs in the order of at least 37.65 percent, as at 2016. Unfortunately, the then state government adopted a policy of a four-year rate path freeze which made it impossible for the Administration and subsequent Council to pursue the much-needed rate increases. This clearly had a deleterious impact on financial sustainability, as did the large discretionary spending program (conducted at the behest of the (then) state government), and the significant increase to unit costs attendant upon the poorly conceived amalgamation. The combined (compounding) effect of these factors was a proposal for a permanent SRV increase of 74.59% over four years. As many will know, this proposal was rejected by IPART (2023), and a temporary two-year increase approved in its stead.

The community should be left in no doubt that a substantial permanent SRV will ultimately be required. Moreover, local government tax increases are just one part of the solution to a very imposing financial sustainability challenge. It will also be necessary to adjust fees so that they fully recover costs (except for the case of* bona fide *subsidies), advocate for a fairer distribution of FAG grants consistent with the intent of the Act (1995, CTH), change the business structure at Federation, improve efficiency (including more proactive maintenance), alter community perceptions of local government from a 'provider entity' to instead a 'facilitator entity', make some tough choices regarding asset preservation and service levels, and refocus on core responsibilities. There simply is no silver bullet or painless solution to the substantial challenges that face us.

8 Staff Survey Results

A survey was conducted in mid-August 2023 to which 92 staff responded. We note that this was some sixteen more responses than received as part of the 'Voice project' staff survey conducted in October 2022, but nevertheless a little disappointing. Moreover, this was a self-selected survey and hence it is not entirely appropriate to speak of sampling error. We also followed up around a third of the surveys with phone calls, both to clarify matters raised by staff, and also further explore issues identified in our earlier investigations.

We were extremely heartened by the thought that staff had obviously invested into the survey (see the appendix for an example of the survey). Moreover, it was clear that most staff understand the scale of the fiscal challenges that we are faced with, in addition to the range of remedies that will be required.

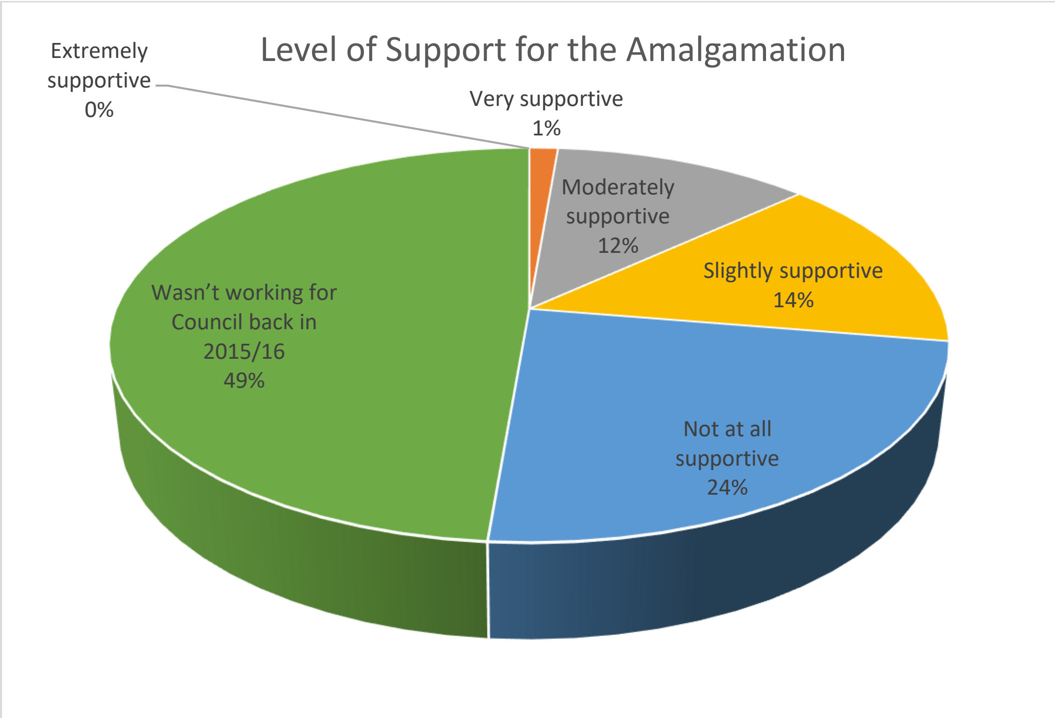
Following Deming (see Drew, 2022), it makes sense to survey the people who do the work day-in-day-out if we want to know how to improve the council. Telephone conversations identified a number of key themes that were also raised in the free-form portion of the survey responses:

1. The importance of returning to core local government activities and off-loading commercial enterprises where possible (even if they are putatively profitable).
2. The need to urgently redress maintenance shortfalls and thus avoid considerable expenditure in the future.
3. The importance of focusing on the basics – staffing, core functions, budget accountability, communication, and staff management.
4. Concerns around severe staff shortfalls in certain areas.
5. A perception of a poorly managed amalgamation process that failed to identify and build on best practice from *both* constituent entities.
6. A need to halt or pause discretionary projects which divert staff attention away from significant maintenance backlogs.
7. Concerns regarding a *perception* that the Management Executive Team (MANEX) is sometimes slow to make decisions, and frequently fails to communicate said decisions effectively (we do, however, note that within forty-eight hours of MANEX meetings, minutes are sent to all managers and become available on the staff intranet).
8. A mostly positive and happy workplace orientated to serving the Federation community.
9. A gap exists between the *perceptions* of most management members and the majority of staff on a range of matters salient to financial sustainability. For this reason, it is important that all staff be encouraged to watch the videos and read the full report.

In the charts that follow we summarise the responses to various questions raised by the survey.

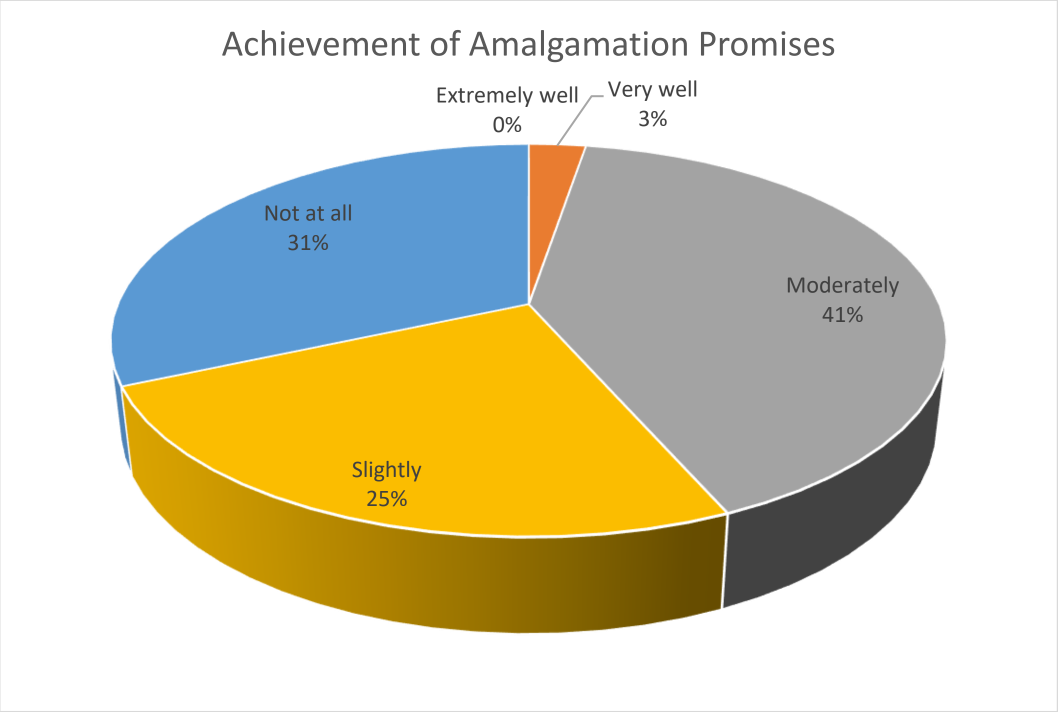
Figure 68 illustrates the level of staff support for the 2016 amalgamation. Notably, almost half of the respondents were not at Council prior to the amalgamation – and this provides further support for our comments regarding the need to carefully manage succession and staff retention. Amongst the staff that did respond, around half thought it a bad idea, and a further third or so were only slightly supportive. Given what ultimately transpired, these responses confirm our (and Deming's: see Drew, 2022) belief in the value of conferring with people inside the organisation.

Figure 68. Level of Support for the 2016 Amalgamation Among Staff



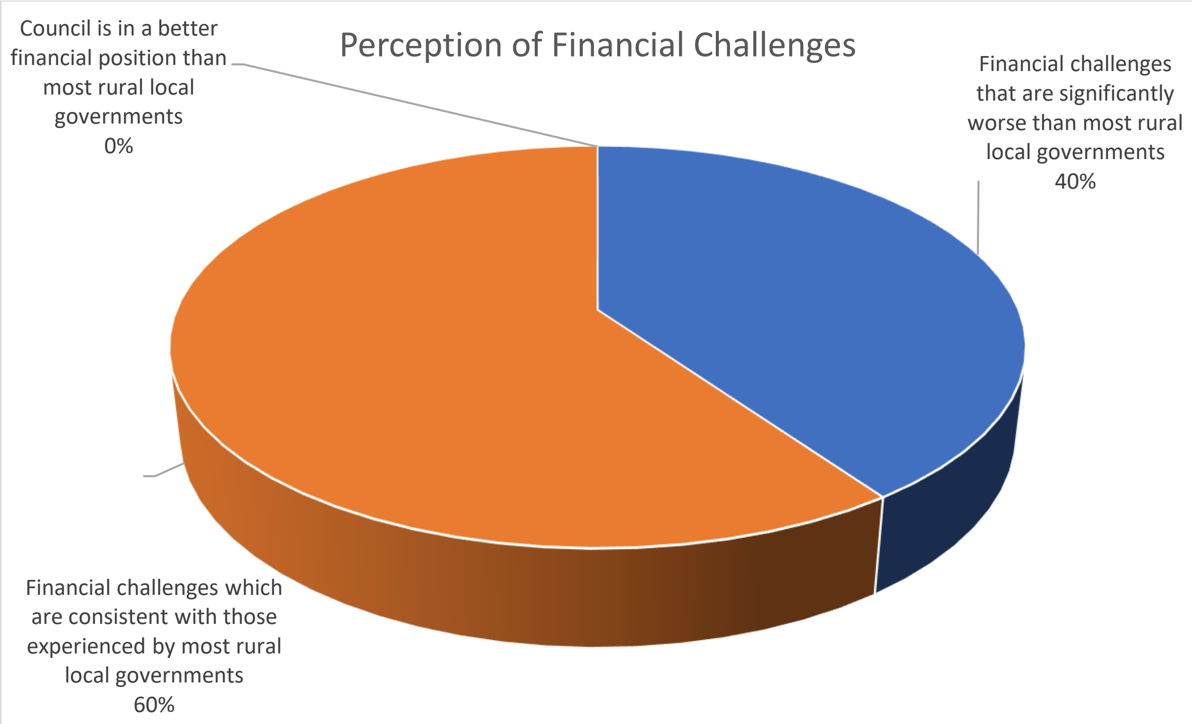
In Figure 69 we illustrate the range of responses received regarding the achievement of amalgamation promises. As we have already shown, most of the promises of the amalgamation architects and Boundaries Delegate were never achievable. It is therefore not surprising that well over half of the staff feel that they were not achieved, or only slightly achieved. Failure to be able to deliver on the promises of others can be a source of stress for staff which may have contributed in part to the results from the perceived stress scale (see later).

Figure 69. Staff Perceptions of Achievement of Amalgamation Promises



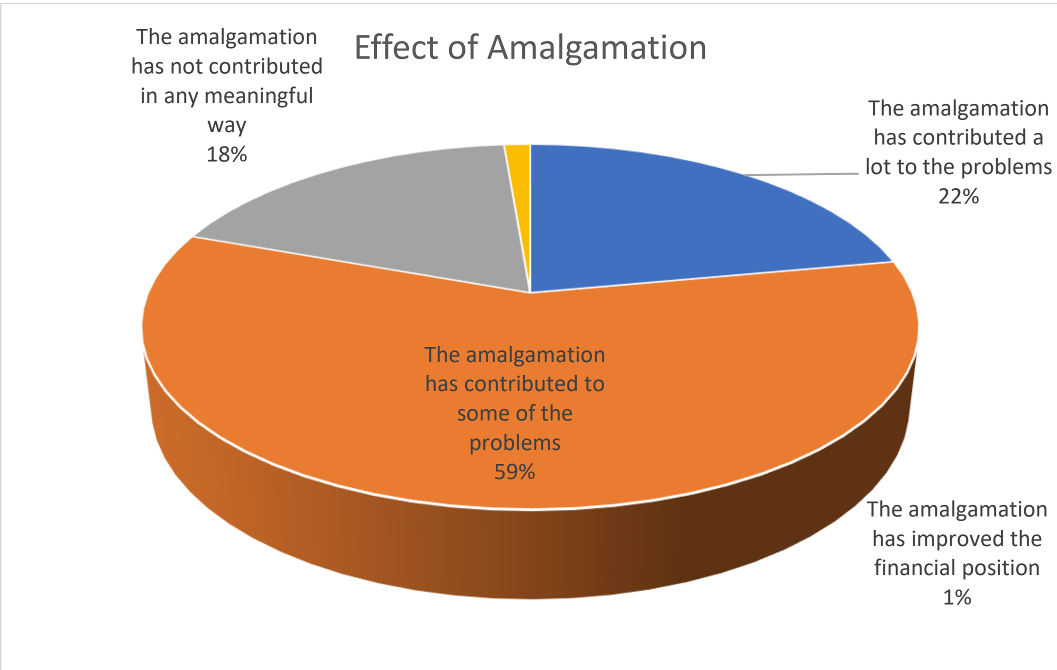
We were very heartened that all staff recognised that Federation Council does indeed have significant financial sustainability challenges ahead of it. Acknowledging the problems is a foundational step to resolving them. We were, however, somewhat surprised that the majority of staff thought that the problems were consistent with those experienced by other rural councils.

Figure 70. Staff Perceptions of Financial Challenges



It is notable that eighteen percent of staff felt that the amalgamation did not contribute to the financial challenges in any meaningful way. Most staff acknowledged that the amalgamation exacerbated extant issues.

Figure 71. Staff Perceptions of Effect of Amalgamation on Finances



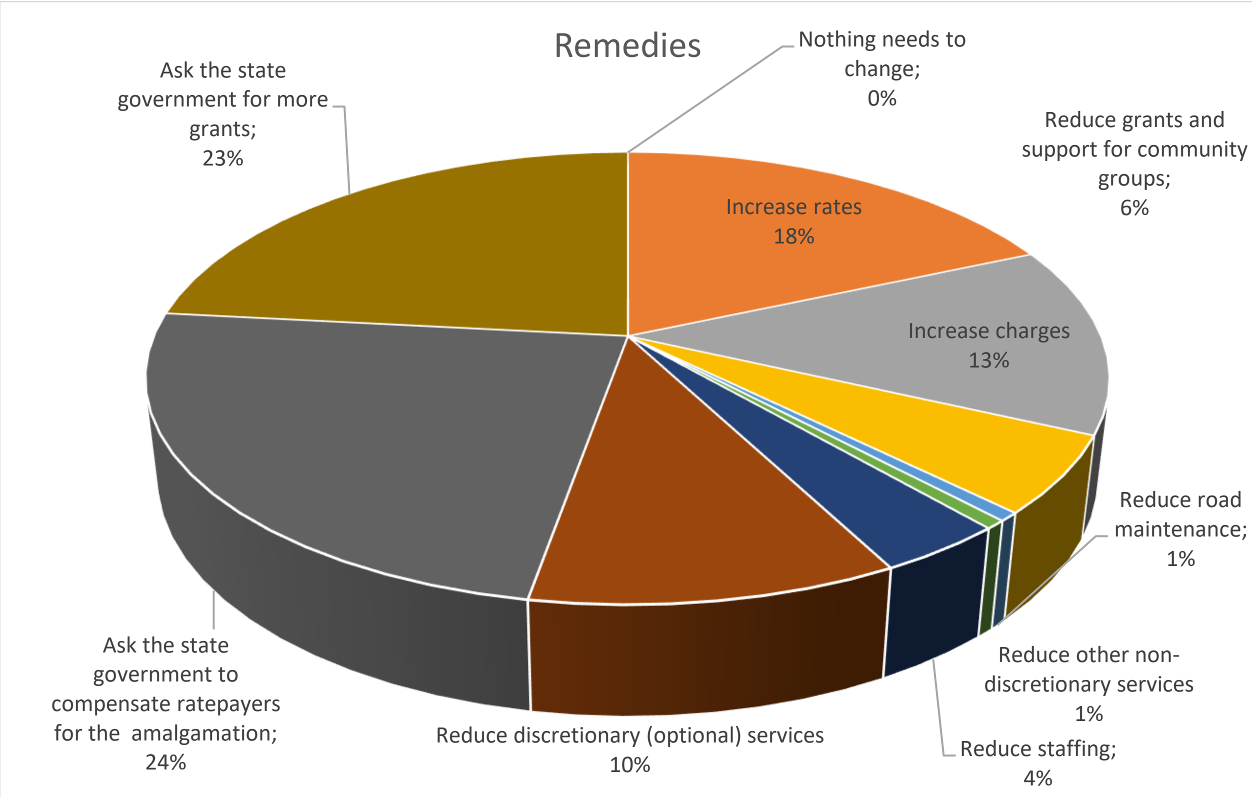
Staff were asked for their recommendations for remedies to the fiscal challenges. Respondents were able to select multiple remedies and were also able to suggest up to two remedies not already listed.

The five most prominent remedies were: (i) ask state government for compensation for the amalgamations (24%); (ii) ask the state government for more grants (23%), (iii) increase rates (18%), (iv) increase fees and charges (13%), and (v) reduce discretionary (optional) services (10%). The most frequent non-listed remedies were (i) to sell commercial operations or outsource them, and (ii) to improve the accountability and communication of senior decision-makers.

Notably, the results suggest that the staff intuitively understand that there is no one silver bullet solution, which is also our firm position. It is also apparent that even in the absence of the evidence that we presented earlier, staff see the desirability of avoiding having the victims of the amalgamation pay the entire costs to mitigate ill-effects, as well as the importance of a fairer more defensible grant allocation.

The lengthy list of recommendations that we set forth in the appendix address the issues raised by staff.

Figure 72. Staff Perceptions of Fiscal Remedies



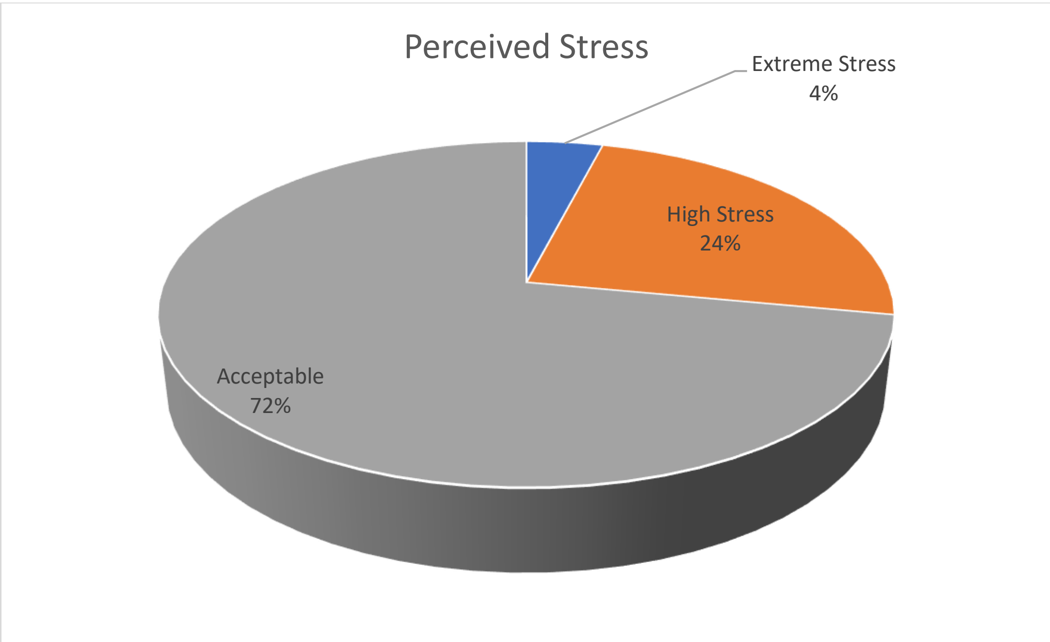
As we have already stated, staff are a council's most valuable asset. However, they were sadly neglected in the boundaries deliberations. Moreover, it is not at all clear to us that there are suitable plans in place for succession, development and retention of staff. Indeed, we see these lack of formal staff plans as a significant risk for Federation Council and request that Council and ARIC take action to mitigate matters.

In many amalgamated councils, significant health and welfare risks have emerged in the wake of the amalgamations. It was thus important for us to assess the level of stress amongst the employees of Federation Council.

To do so, we used the abridged version of the well-regarded perceived stress scale. As detailed in Figure 73, the results were on-the-whole acceptable – indeed, we have had far worse results at other councils where we conducted the same test. Our inquiries have suggested that this result is due in significant part to the positive working environment created by the current General Manager and Directors.

However, there are pockets of extreme stress, caused mainly by work backlogs and unfilled vacancies, that do concern us. In the appendix to this report, we recommend that swift action be taken to find fixed-term employees to fix some of these more problematic gaps and also potentially fund some new trainee positions.

Figure 73. Staff Perceived Stress Scale Results



Our telephone conversations also identified problems regarding (i) a strongly perceived lack of accountability around budgets, (ii) significant doubts around asset values and required spending, and (iii) concerns around a drop-off in volunteerism (at the community level). In the appendix to this report, we put forward recommendations to redress all of these matters.

9 Community Surveys

In this section we briefly report on the stakeholder engagement sessions before looking at the results from the community surveys conducted at the conclusion of the public meetings.

Professor Drew had a number of lengthy meetings with various stakeholder groups from across the local government area. Notably, the conversations were held according to Chatham House rules which prevents full disclosures of which parties expressed particular concerns. The major themes raised in these meetings included *inter alia*:

1. An acknowledgement of the need for a special rate variation. However, multiple participants expressed concerns around the exact size of the need, process, efficiency, and capacity to pay.
2. Grave concerns were expressed about communication from Council – especially with respect to responsiveness, clarity, transparency, and accountability.
3. Concerns were raised about the capacity of senior decision-makers, accountability and also perceived conflicts of interest. It is notable that the authors have not been presented with any compelling evidence to substantiate claims made around material conflicts of interest which are contrary to regulations. Indeed, our investigations have provided no good reason to believe that senior decision-makers have ever acted other than with the best of intent towards the community.
4. Concerns were put forward around a perceived inability to deliver according to budget for projects.
5. Questions were raised about the appropriateness of discretionary infrastructure projects and the effect that these projects have in relation to on-going costs and expenses.
6. Concerns were raised regarding the perceived risk associated with commercial ventures as well as the appropriateness of Council being involved in ventures of a commercial nature.
7. Frustrations were expressed at the delays in planning as well as concerns regarding the failure of core infrastructure to keep up with community development needs.
8. Concerns were raised that previous consultant reports had not been adequately engaged with by decision-makers (and that clear reasoning had not been articulated in the cases where recommendations were not adopted).
9. Several expressions were made regarding the perceived lack of support for community groups trying to navigate Council bureaucracy.
10. A number of queries were raised about the appropriateness of the extant boundaries – especially for villages caught between several local government areas.
11. Concerns were expressed that some past community engagement has not been genuine in effect.
12. A concern was raised that Federation Council has changed from a ‘facilitator’ local government to a ‘provider’ one.
13. Valid concerns were strongly expressed around political disenfranchisement in the north.
14. Some recognition was made that the former administration period was undesirable and something best avoided in the future.

Most of these matters have already been touched on in the foregoing material. In addition, we have set out a number of recommendations to mitigate perceived shortcomings that we have been able to verify (these can be found in the appendix to this report).

There were also some misconceptions evident from the aforementioned meetings:

1. Confusion about the precise cause of the present fiscal challenges.
2. Misconceptions about the rigor of the Boundaries Commission inquiries.
3. Confusion around the identity of the Boundaries Delegate and amalgamation Administrator.
4. Misapprehensions regarding the relative contribution of rates to Federation revenue.
5. Potentially erroneous conceptions were put forward by some regarding capacity to pay.
6. Fundamental misconceptions about the purpose and effect of an unimproved land tax.
7. Some community members seemed to have a limited understanding of the dictates of distributive equity.
8. Significant misconceptions were held around the relative financial sustainability situation of the constituent councils.
9. Many citizens understandably struggled to accurately identify which parties were responsible for various discretionary projects, the funding for same, and the pressure placed on various actors to push through projects by the former state government.

In addition to these meetings, Professor Drew also travelled the length and breadth of the vast local government area and had as many interactions with shop-owners and residents as practical.

On Monday 16th October, Professor Drew conducted a public forum at Corowa, attended by 230 residents. The next night, Professor Drew conducted the same forum at Urana, attended by 120 residents. In view of the vast disparity in population size between the two former local government areas, it is noted that there was a considerably higher level of engagement in the north (on a relative basis).

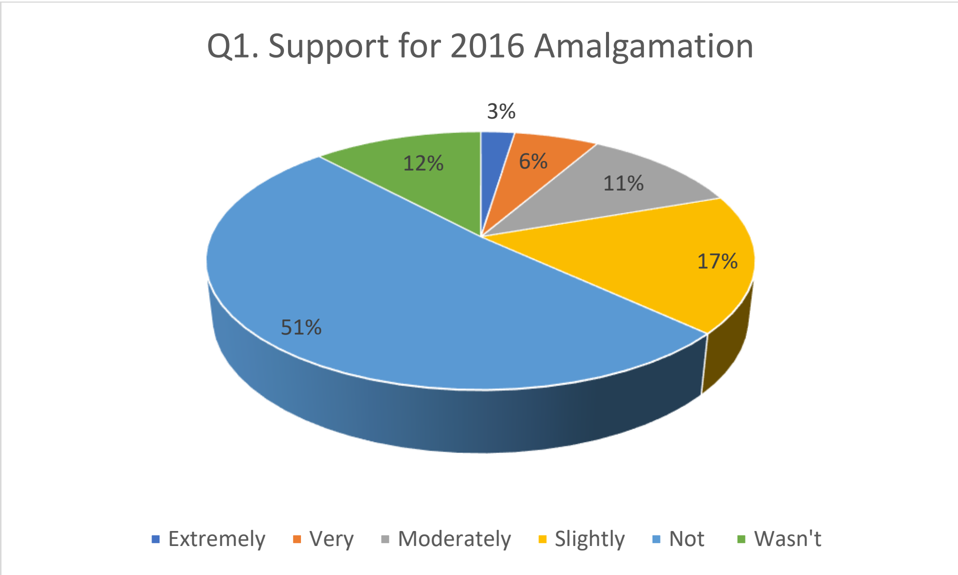
People were also able to watch a video of the presentation online. We note the disappointment of the Mulwala community, in particular, that we could not present in person at their town. Unfortunately, it was logistically impossible on this occasion[35], and we hope that people in the town were able to make the half hour trip or alternatively watch the online presentation.

All people who attended the presentations, or watched the online video, were provided with the opportunity to fill in a citizen survey. There were nine questions in total, including two opportunities to provide free-flow comments. We first summarise the data for the seven prescribed questions, before discussing common themes in the unscripted response section.

[35] Professor Drew has had some serious health concerns of late and only had a short window between important medical treatments to attend in person. Unfortunately, given poor connecting flights from Tamworth, it takes the better part of a day each way to travel down to Federation Council.

In Figure 74 we summarise the community support for the 2016 amalgamation. We are conscious that our sample is self-selected, and that the attendees were provided with considerable information (as per our intent). Just over 51% of respondents said that they were entirely unsupportive of the amalgamation, and 17% stated that they were slightly supportive. We note that IPART documentation (detailed earlier in this report) suggested that 70% of Corowa residents supported a stand-alone application and that 88% of Urana residents had done the same during the *Fit for the Future* process. It therefore seems that our sample might have been a little biased towards people who were initially better disposed to the idea of amalgamation.

Figure 74. Community Support in 2016 for the Amalgamation

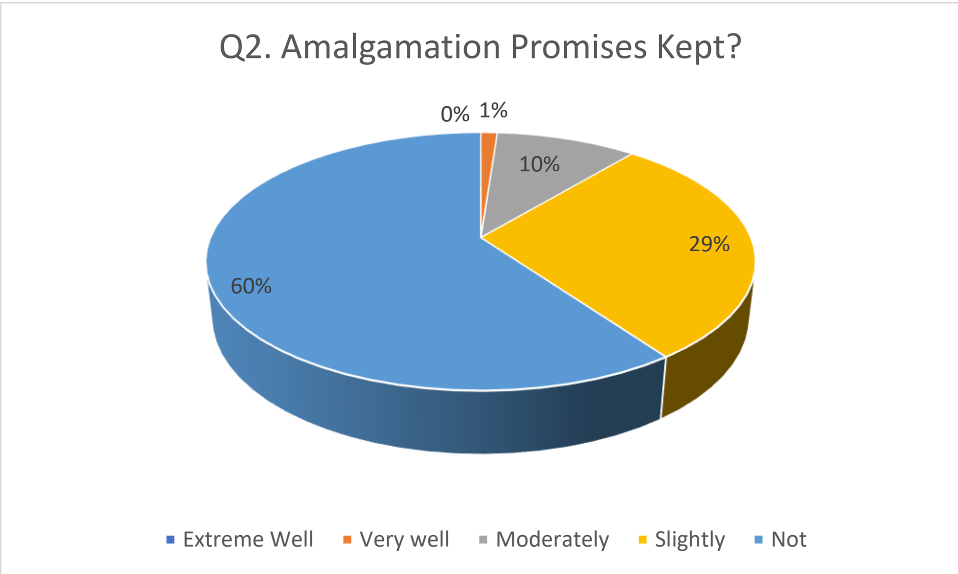


Potential bias aside, it is clear that the far majority of citizens believe that the amalgamation has completely failed to deliver on promises made by its architects. Just shy of 60% of people state that the promises were completely undelivered, and a further 29% state that they were only slightly delivered.

As we have detailed earlier in the report, the promises made were somewhat reckless and, alarmingly, free of robust evidence. The problem with making undeliverable promises is that people are inclined to believe them, and they subsequently tend to be critical of management and Councillors if the promises are not indeed delivered. Sadly, this has resulted in quite vitriolic personal attacks on the current staff and Councillors from a small minority in the community. Our evidence demonstrates that much of this criticism is unwarranted. Moreover, expressing anger at people who are doing their best – despite also being profoundly misled by earlier 'experts' who might have reasonably been expected to have done better – is probably not entirely constructive or just.

As we have shown in this report, communities across the state were misled prior to the amalgamation. Scholars (including the report authors) have shown empirically that this was the likely outcome of poor advice, neglect to gather robust evidence, and disdain for the scholarly literature. We therefore completely understand the frustration of the community. However, we feel that this frustration is largely being expressed to the wrong people – it is the amalgamation architects and bevy of commercial consultants who produced the work at issue, and it would seem to us more reasonable to direct criticism accordingly.

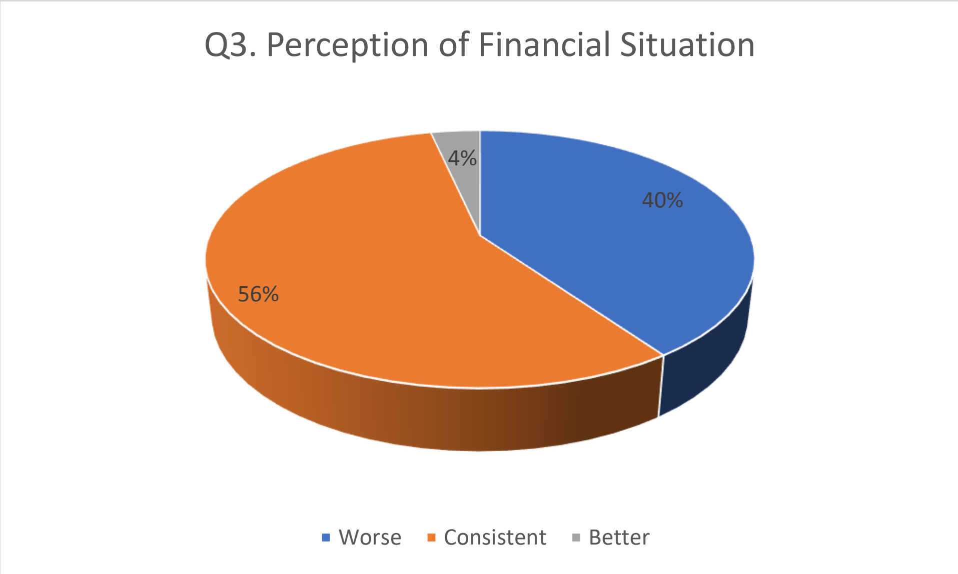
Figure 75. Community Perceptions Regarding the Delivery of Pre-Amalgamation Promises



Community perceptions of the financial situation facing Federation Council were startling similar to those of the staff. This is a very pleasing outcome because it tells us that the community is coming to similar judgements to people who arguably have more information about the day-to-day operations of council.

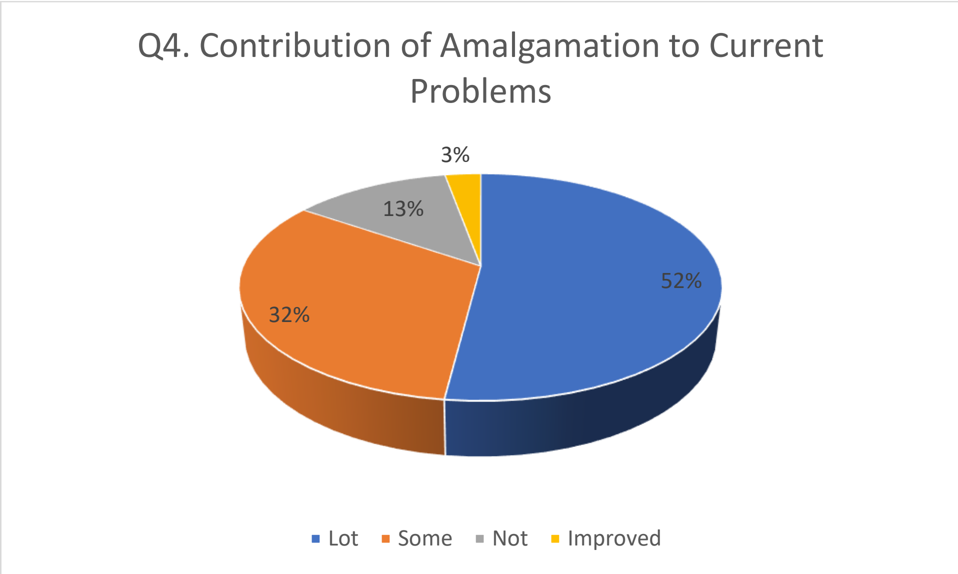
Most people seem to accept that rural councils are struggling in the face of huge infrastructure burdens and the generally chaotic and insufficient grant allocations. It seems that some people perceive that things are worse at Federation than other rural local governments and this is likely a reflection of understandings around the effect of poorly-designed amalgamations.

Figure 76. Community Perception of Financial Situation



Over half of survey respondents believe that amalgamation contributed a lot to the problems facing Federation, and a little over 32% suggest that it had some effect. It seems that most people are prepared to accept our robust difference-in-difference regression modelling showing expected increases to unit costs in the order of 22%, the sophisticated DEA and FDH analyses of scale effects, as well as the decisive evidence of other amalgamated councils that have had large special rate variations approved. The combined evidence is compelling and points to the fact that amalgamation clearly made matters worse, contrary to the rosy and unsubstantiated promises of the proponents back in 2016.

Figure 77. Contribution of Amalgamation to Current Financial Challenges



Nevertheless, staff, councillors and the community must make the best of a bad hand and chart a course towards a more sustainable future. In Question 5 we asked community for their suggestions moving forward. People were able to select from a prepared list, and also add other unscripted options. In Figure 78 we report on the options list only, as the other suggestions had low frequencies and have already been incorporated into our recommendations (notably an additional fifteen recommendations were added in response to community and staff feedback as well as observations made during the October site visits).

Far and away, the most popular option was to seek compensation from the government for the poorly planned and executed amalgamation. In response to this feedback, we have now recommended to Council that they write to the Minister of Local Government accordingly. However, we feel obliged to note that sadly there is a poor record of state governments willingly compensating communities for the costs that they have incurred as a result of state government decision-making.

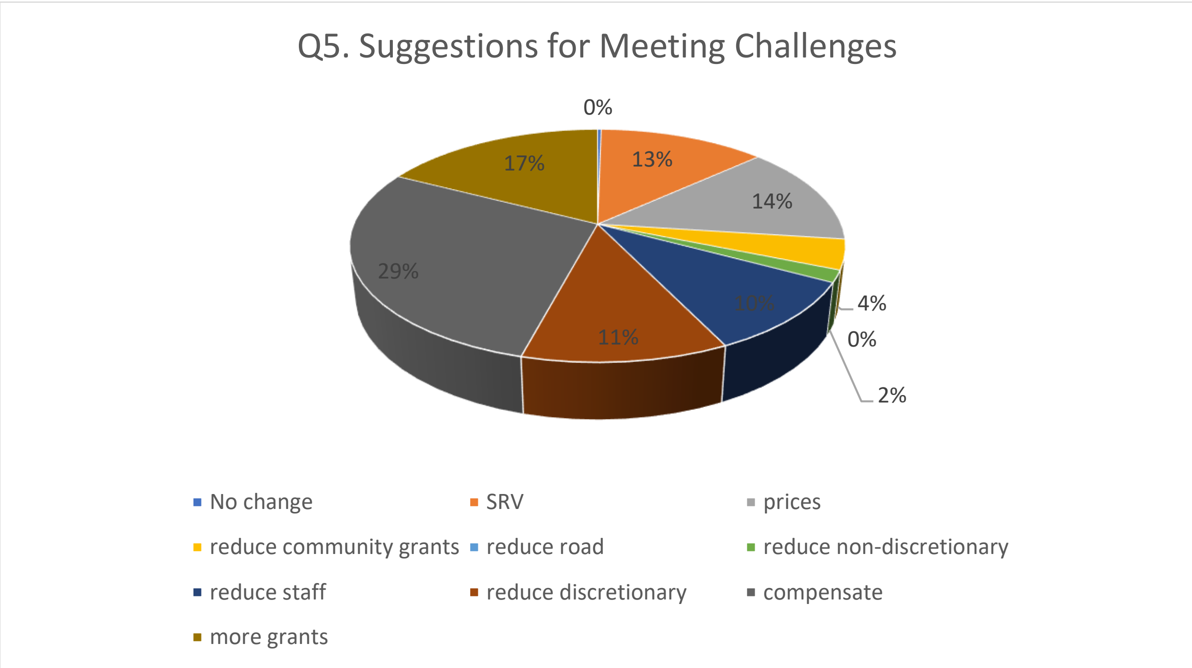
The next most popular option was to pursue more grants, and in light of our presentation, we believe that the community is referring specifically to financial assistance grants for roads. We already had a recommendation to this effect drafted prior to the forums, although we have drawn attention to the importance of the Grants Commission having a methodology that properly acknowledges the significant damage caused by heavy vehicles and farm machinery.

The next two most popular options were a proposed SRV and the increase of fees according to full cost recovery principles. We agree that both of these matters are important pieces of meeting the sustainability challenge and strongly urge council to proceed with the recommendations that we had already drafted on these matters. We also encourage the residents of Federation to prepare for, and accept, the significant increases to unregulated fees and charges that will likely appear in the next Operational Plan. Higher fees and charges encourage more economically efficient levels of consumption, better internalisation of the costs of consumption, represent a fairer distribution of burdens, and exert (marginally) less pressure for rate increases.

There was also strong support for reducing discretionary services. There were already a number of specific recommendations around this idea in our report. However, in view of feedback from residents, we have provided significantly more detail on how precisely Councillors need to go about the task of categorising services as core or discretionary – no easy matter and one that must ultimately be the subject of reasoned political debate.

The other options all garnered significantly less support (lower than ten percent). We were heartened to see that reducing staff was not in the top five options. This was somewhat surprising as it tends to be the 'go-to' option for ratepayers who will always (and understandably) be biased towards solutions that minimise personal costs. As we demonstrated in this report, staff costs are not excessive like some have sought to assert (see below). Indeed, many comments acknowledge staff shortages in certain areas and the importance of redressing same. Changes and improvements can always be made, and certainly should be made. However, on the whole, the community seems to agree that changes to staffing are in no way a 'magic' solution to a very complex problem.

Figure 78. Community Suggestions for Meeting Financial Challenges

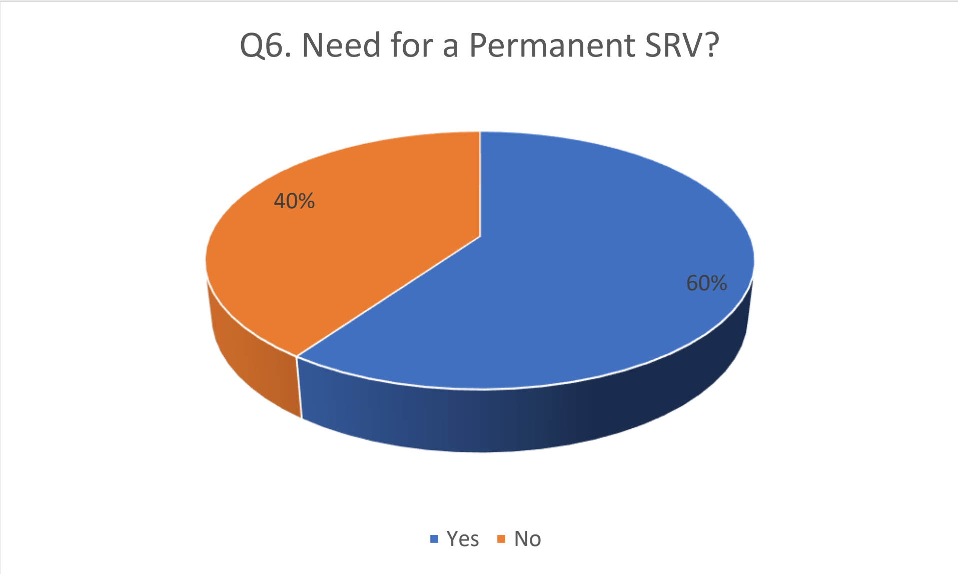


It is fair to say that most people who accept the financial situation, and the likely need for a rate increase, probably would not have attended the public forums. Moreover, groups previously opposed to earlier SRV attempts attended, and heavily encouraged others to attend (which was helpful as we wanted as many as possible to hear the evidence). Furthermore, it is a truism that people are generally disinclined to embrace the prospect of higher taxation. It therefore came as a surprise that almost sixty percent of attendees agreed that a permanent SRV would be required.

Should a SRV be pursued by Council next year, public engagement will be much more targeted and focused around explicitly justifying the need for the proposed rate increase. The people engaged to do the work will have the time and opportunity to work line-by-line with staff on budget projections and robustly assess capacity to pay (as well as proposing mechanisms to partially mitigate same). It is therefore likely that with new information community, willingness to pay will improve further.

We thus feel that the result illustrated in Figure 79 – being far stronger than expected at this stage of the conversation – represents a positive basis for moving forward.

Figure 79. Acceptance of Need for A Permanent SRV



The community was asked to rank their priorities in the event of a potential SRV. Potential priorities were taken from IPART documentation. In Table 13 we provide a summary of the overall priorities. In aggregate, the top five priorities of the community with respect to a SRV are: (i) a focus on core infrastructure, (ii) funds being used to progress a path to financial sustainability, (iii) improved accountability incorporating measurable and verifiable goals, (iv) clear and responsive communication, and (v) more accurate assessment of capacity to pay. It is notable that communication – often cited as a reason for the failure of the previous SRV attempt – is not the top priority. Nevertheless, it is clear that people want communication to respond to the concerns raised by the community and it should be noted that this idea also featured prominently in the unscripted comments (later in the survey).

Our extant recommendations already provided redress for the five highest priorities as per Table 13. Indeed, much of our report is dedicated to returning a focus on core services and infrastructure, as well as better understanding the problem before us. Furthermore, we agree that the funds from a SRV need to be used to improve financial sustainability and that this ought to be communicated in terms of measurable and verifiable goals. In this regard, we already had recommendations around constructing a dashboard of metrics that would allow the community to better understand our progress towards this shared goal. In addition, we had extant recommendations regarding the importance of trying to better respond to problems raised by the community as well as the need to better measure capacity to pay. We draw readers attention to the fact that all of this feedback is highlighted again in the recommendations specifically pertaining to the potential SRV.

Table 13. Community Priorities in a Potential SRV

Q7 Priorities in a Potential SRV.	Rank
Accurate assessment of capacity to pay (CTP).	5
Measures taken to improve CTP.	10
Potential efficiencies detailed in full.	7
Articulation of a clear hardship policy with secure safety net.	11
Achievement of a viable path to financial sustainability.	2
Communication – clear and responsive.	4
Alternatives put forward to reduce the size of the SRV.	8
Improve accountability – measurable and verifiable goals.	3
Accurate exhibition of integrated planning and reporting (IP&R).	9
Compliance with the terms of the previous SRV.	12
Focus directed to maintaining core infrastructure.	1
Divestment of discretionary activities and businesses.	6

A number of constructive suggestions were made in the unscripted portions of the survey, and these have been addressed with new recommendations where supported by evidence and theory. In particular, there are new recommendations responding to calls for: (i) reducing the tourism budget, (ii) contracting out maintenance and construction where appropriate, (iii) greater debate in open meetings subject to constraints, as well as (iv) pursuing opportunities in renewables.

A number of other suggestions had already been addressed in the draft report: (i) better budget control, (ii) improved support for volunteers, (iii) the addition of trackers for vehicles (to improve workplace health and safety), (iv) a focus on basics, maintenance and core services, (v) rationalisation of surplus plant and equipment, (vi) greater transparency, (vii) more specific key performance indicators, (viii) divestment of various assets, (ix) the need to focus debate on issues and cease personal attacks, (x) improved efficiency (various recommendations made despite the constraints of the Act (1993, NSW) and inefficient scale), (xi) greater attention to drainage and maintenance, as well as (xii) more avenues for imputing local knowledge into decision making

Some suggestions could not be acted upon for the reasons briefly detailed in Table 14:

Table 14. Suggestions Not Pursued

Suggestion	Number of Times Raised	Reason for Not Pursuing
Reduce pool charges.	3	As we explained, full cost recovery needs to be pursued wherever possible. Pool users already receive a weighty subsidy that may warrant review.
Audit	1	Council financial data is already audited by the NSW Auditor General as per the requirements in the Act (1993, NSW).
Collect unpaid rates	1	This is already done subject to the constraints of the Act (1993, NSW).
Close Urana office	2	This would be contrary to the intent of s263(3) and s218CA of the Act (1993, NSW)
De-amalgamate	22	As we note in this report, this is an option, but one clearly outside of the terms of reference.
Attract more people, business, tourists.	5	Research conclusively demonstrates that growth, in fact, reduces financial sustainability (see Drew et al., 2023). Indeed, the total tax take is capped by IPART and most fees are more closely associated with access than volumes. For these reasons additional revenue will not keep apace with the additional expenditure elicited by growth.
Invest in innovation hubs.	1	Council does not have the money. Economic development is not a core function of local government. New

		businesses in the area would place greater stress on local government finances.
Increase the cents in the dollar rate paid by farmers to the same level as other ratepayers.	3	This is a matter that should be investigated thoroughly in the SRV process.
Council should engage in more money-making businesses.	1	As we outlined in the forum, this exposes residents to risk, distracts staff from core activities, and distorts the local economy.
Dismiss the management.	1	There are laws pertaining to this, and extremely large financial costs involved in doing so (both redundancy costs and also the additional remuneration that would need to be offered to successors). In addition, it is extremely unlikely that Federation would be able to secure management of the same calibre were the existing people dismissed (one only has to look at other amalgamated rural councils to see that this is true).
Employ an efficiency manager.	1	This report has already set out a blueprint for improving efficiency and sustainability. Current management will be made responsible for executing the recommendations accepted by Council. We have full confidence in the ability of council and senior staff to do so as well as being assured that they are motivated to transform Council. This suggestion, if adopted, would result in additional costs, that we believe would not be recouped through additional efficiencies beyond those already likely to be delivered.
Corporate sponsorship	1	We doubt that there is a sufficient market to warrant the expense and risk of pursuing this.
Council staff should live in the area	1	We cannot legally mandate this, and recent recruitment attempts make it clear that the local government area does not have capacity to fill every role from within its extant population.
More money should be spent in Mulwala because they pay more rates.	1	Tax is *not* a fee for service. If we were to extend the idea proposed here to state and federal government, there would be

		negligible spending in Federation because most of the tax receipts for higher tier governments come from the capital cities. It is a general rule of philosophy that conclusions ought to be capable of universalism[36].
More money should be spent in Oaklands, Urana, Corowa, Howlong, the small villages, and Mulwala.	6	We are not in a position to spend more money anywhere (purely on the basis of location). What is required is to spend money on needs, wherever they might be. Spending on wants, needs to cease (wherever it might be).

There were also a number of suggestions and comments that do not seem to require a response (number of people making the remark indicated in parentheses):

- No EVs (1)
- Council doing well given the circumstances (3)
- Stop personal attacks (4)

In addition, the remuneration of staff, generally, was raised. We understand that from the outside it may appear that wages for local government staff are high. However, the reality of the situation is that wages in local government have lagged private industry and other tiers of government for some time. This is one big reason why several staff positions have continued to remain vacant despite significant efforts to recruit. There is a market rate for local government wages and Enterprise Bargaining Agreements/State Awards are in place that must be observed. It is simply not feasible to reduce wages and expect to still have staff. We remind residents that staff are the single most important asset of a local government and that it is therefore prudent to invest in these assets.

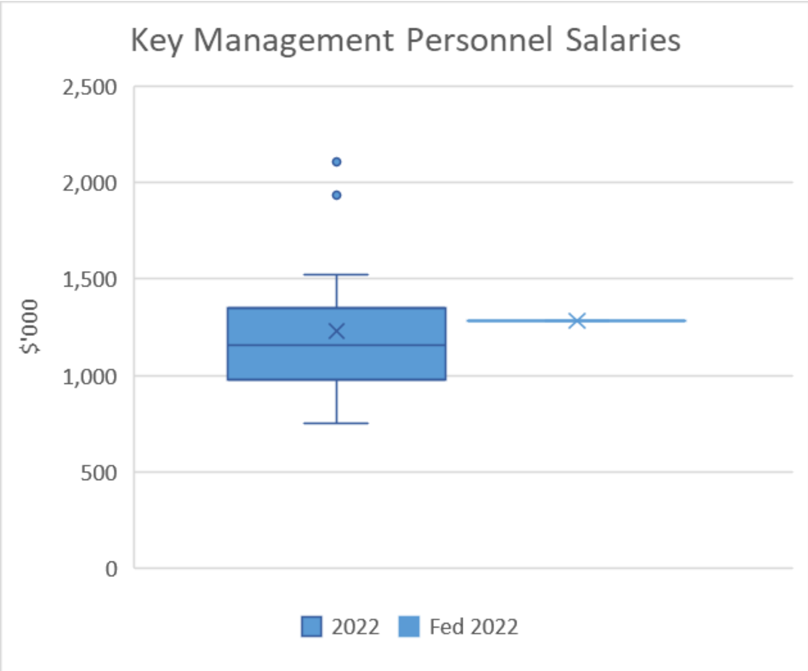
The salaries of executive staff were also raised by five people, as well as during a very extensive question from a member of the audience. Executive salaries are a product of at least three factors: (i) the salary paid to predecessors, (ii) the desirability of the position (influenced by the location, whether the council is amalgamated, any problems such as financial sustainability challenges, division in the community, and the make-up of the Council), (iii) and the risk premium (especially large if a predecessor was made redundant). These matters are always negotiated, and Councils often get advice from consulting firms such as LGNSW Executive Recruitment or Blackadder and Associates. It is our understanding that Federation Council received advice from LGNSW. Moreover, people should be mindful that the previous GM had been made

[36] A premise is a statement that can be shown to be true or false. In public reasoning premises should be ordered in such a way that conclusions can be drawn. For a conclusion to be valid it must be also be applicable to other people and times – unless they differ in a meaningful way. This idea is called 'universalism' and is a feature of ethical paradigms such as natural law philosophy and ethical formalism (also sometimes referred to as Kantism). When constructing a syllogism – premises that lead to a conclusion – it is important to be mindful of the principle of non-contradiction (that is, a matter cannot both be true and untrue). It is also necessary to provide good reasons for acting (the practical syllogism – See, Drew, 2022), as well as being mindful of Maimonide's Razor (also erroneously referred to as Occam's Razor – the idea being that the simplest explanation of causality is usually the best (economist employ a similar concept called the principle of parsimony)). We agree with survey respondents that emotive appeals and personal attacks are not a feature of good public deliberation (Drew, 2021).

redundant and that even a cursory review of the financial statements would indicate significant challenges ahead for applicants.

The fairest way to compare key management personnel salaries would be with reference to note F1-1 of the audited financial statements. In Figure 80 we illustrate the FY2022 audited data for the comparative cohort, but we emphasise that simplistic comparisons have significant potential to mislead because of the importance of desirability and risk, in particular (and also vacancies such as those at Cootamundra-Gundagai during the reference period):

Figure 80. Key Management Personnel Salaries



Readers will note that Federation Council's key management salaries are almost spot on the average for the comparative cohort (to be precise $400 more than the average).

We think that this comparative data makes it clear that the executive salaries at Federation are not extraordinarily high as is sometimes claimed. Moreover, we emphasise again that the conditions at Federation were not conducive to negotiating low remuneration – predecessors had been made redundant, there were significant financial challenges, it was an amalgamated council, and there is clearly some division in the community.

Indeed, our conversations with professionals in this field (outside of council) leave us in no doubt that were any executive made redundant, then Council would find it *extremely* difficult to recruit a replacement of the same calibre and would also be obliged to pay an *additional* risk premium. Moreover, stability in the decision-making team is absolutely essential for getting the recommendations in this report executed in a cohesive and helpful fashion. Thus, the suggestion of a small minority (it seems) to purge management would not be in the best interest of the community and would also likely result in considerable additional expense that Federation simply is not in a position to absorb.

10 Options for Engaging with the NSW State Government

There is an important role that the current NSW State Government might play in redressing some of the serious consequences suffered by citizens of Federation Council as a result of poor decision-making by the former state government. These matters relate both to decisions made prior to amalgamation and also afterwards.

As we have shown, the boundaries inquiry in 2016 failed to properly satisfy the dictates of the Act (1993, NSW). The result has been a profound disenfranchisement in the north – especially for the outlying villages. This is a matter of grave concern in a healthy democracy.

Disenfranchisement could be mitigated in part through either increasing the number of Councillors, or implementing a tiered system of local government whereby the former local government areas might have some limited powers returned to them. With respect to Councillor numbers, it would be helpful if the Minister might consider introducing legislation to streamline the process for amending same in the case of disenfranchised amalgamated local government areas. With respect to a potential two-tiered system, we would be happy to assist the Minister should he wish to investigate matters further.

Recommendation: Council should consider writing to the Minister to ask him to investigate options for mitigating the profound disenfranchisement visited on the citizens in the north of the local government area.

As we have already outlined, it seems that the Boundaries Delegate failed to give due attention to the appropriateness of the boundary lines given in the (then) Minister's proposal. This has resulted in some areas (like Rand) being split between multiple local government areas. In addition, it is clear that significant economic spillovers currently exist and also that the scale of Federation is structurally inefficient.

Recommendation: Council should consider writing to the Minister to ask him to establish a minor *boundary review with a view to eliminating inefficiencies such as economic spillovers.*

It seems likely that the protections afforded under the national principles associated with the Local Government (Financial Assistance) Act (1995, CTH) may not have been properly observed. Unfortunately, the NSW Local Government Grants Commission is not fully transparent in its allocation processes and formulas.

Recommendation: Council should consider writing to the Minister to ask him to investigate whether the general component of the FAG payments were indeed no less than what would have been allocated had the entities remained separate for the first four years following amalgamation. Specifically, it would be useful to have the NSW LGGC lay out the formulae used in full, show the calculations for the two constituent councils, and also reconcile this to the actual payments made. It may also be an option to write directly to the Federal Treasurer as per the Act (1995, CTH).

Indeed, given that the former State Government failed to take note of the obvious disadvantage posed by the amalgamation with respect to the general component of FAGs, it may be just to investigate whether the four-year protection under the Act (1995, CTH) might be extended in perpetuity. Essentially, the relative reduction to the general component grant appears to have occurred because of imprecise measures of central tendency – the average socio-demographic variables have changed owing to significant skewing, but the actual situation of people living in the local government area has not altered appreciably. Therefore, it might be argued that reductions based on the artefact of known skewed measures of central tendency should not be allowed to impact the amount of grants received by the citizens of Federation Council into the future.

Recommendation: Council should consider writing to the Minister to request a remedy be implemented to arrest the decline in general component FAGs attributable to the use of imprecise measures of central tendency in a local government area that is notable for its large variation to the mean. A potential remedy is to extend the four-year protection afforded under the Act (1995, CTH) into perpetuity.

In the normal course of events, if it can be shown that a party failed to act with reasonable care expected of an agent purporting to have certain skills and capacity, then a legal remedy may be in order. It is possible that commercial consultants and other parties advising the (then) Minister for Local Government did not exhibit the care that they might reasonably have been expected to display. Accordingly, there may be an argument for the community to be compensated for some of the costs that can be directly attributed to a lack of care with respect to amalgamation outcomes.

Recommendation: Council should consider obtaining legal advice with a view to writing to the Minister asking him to explore the potential for a remedy to be sought from any actors who did not show the level of care expected of commercial parties purporting to have the requisite skills and knowledge to advise the then Minister on the advantages and disadvantages associated with the amalgamation. We note that this remedy – whilst being in complete concordance with colloquial interpretations of natural justice – may not meet with a ready reception from the Minister due to concerns around its potential to establish problematic precedent.

Comparative data suggests that the citizens of Federation Council are receiving a much lower allocation for the road component of the FAG grant than might be expected. Unfortunately, the NSW Grants Commission has failed to be as transparent and accountable in this matter as might be deemed appropriate with respect to s3(4)(a) of the Act (1995, CTH). Moreover, current allocations also seem to be at odds with the horizontal fiscal equalisation objective of s6(2)(a) of the said Act (1995, CTH).

Recommendation: Council might consider writing to the Minister to ask him to explore better disclosure of the rationale for the road grants and perhaps even a review of current allocations with respect to the achievement of full horizontal equalisation.

11 Need, Timing and Conduct of a Special Rate Variation

In general, we think that not everyone has grasped the full implications of the IPART decision dated 30 June 2023.

Having a SRV rejected (in part or full) is a serious matter – especially when the decision report lists a number of 'shortcomings' (IPART, 2023, p. 1). It is certainly true that only one of the five OLG criteria was failed (communication), but clearly the IPART (2023) had strong reservations on a broad range of issues.

Even in the Executive Summary it quickly becomes clear that Federation was not rejected merely because it failed to communicate cumulative percentage increases or baseline scenarios. Had this been the case, then IPART would not have written 'key shortcomings…such as'. The two cited shortcomings are merely given by way as exemplar, not as an exhaustive list (which quickly becomes evident when one reads the remainder of the report carefully).

Furthermore, IPART (2023, p. 1) declares that 'it is apparent that without additional funds, this would impact council's ability to renew infrastructure and deliver services to the community'. However, IPART (2023) then goes on to only approve 39.2% of the requested 74.59%. It is thus far from clear that Federation was successful in convincing IPART (2023) regarding the scale of the need.

In addition, IPART (2023, p. 1) pointedly remarks that '39.2% are generally reasonable' but stops short of saying that 74.59 % would also be reasonable. We are not sure that all decision-makers fully grasp that the SRV application under reference was a rather large outlier (thus implicitly requiring stronger justification and attracting concomitant greater scrutiny).

Several paragraphs follow which cast further light on IPART's (2023) thinking. For instance, the next paragraph in the Executive Summary talks about the existence of a hardship policy but urges 'more effective communica[tion] [regarding] how its hardship policy would be applied to ratepayers'. The penultimate paragraph exhorts Council to 'continue to pursue productivity improvements to minimise costs to ratepayers and ensure financial sustainability over the long term'. Indeed, the Executive Summary ends with a plea for Council to 'balance its financial sustainability with the impacts on ratepayers and decide on what is in the best interest of the community' (IPART, 2023, p. 2).

It certainly seems to us that IPART (2023) shares our concern regarding a potential perception by some that a SRV is a silver bullet. It seems to us that IPART (2023) is indicating that it might be prudent for Council to fundamentally review the financial sustainability of its current structure and take a much broader view of potential remedies.

We are concerned that *some* people *may* believe that obtaining a permanent SRV is simply a matter of fixing a few quibbles regarding communication but otherwise submitting a very similar proposal to the IPART. This reading of what is required is not consistent with the tone or detail of IPART's decision letter.

In addition to the matters already raised, IPART (2023) asks that Council:

1. 'report its actual performance against the projected revenue and expenses and operating balance as set out in its LTFP' with respect to the earlier 8% Corowa Aquatic Centre SRV (IPART, 2023, p. 33). What is being stated here is that Council needs to properly acquit itself with respect to the conditions imposed as part of the last SRV.
2. 'Council report in its annual report for each year from 2023-24 and 2024-25': (i) what the temporary SRV funded, (ii) budgeted against actuals, (iii) outcomes achieved from additional

income, (iv) productivity improvements, and (v) report on promised productivity improvements (IPART, 2023, p.34). This detailed list is basically asking Council to demonstrate that the temporary SRV granted has been well spent and that the commitments made in its recent application have been honoured.
3. 'Council should continue taking measures …proportionate to the size of the council…and regularly communicate its efficiency strategies to the community' (IPART, 2023, p. 30). Clearly, IPART is looking for both a broader set of remedies to the financial sustainability challenges (than merely the SRV) and also greater accountability to the community on the matter.

It worries us that not everyone might fully appreciate both the breadth of IPART's (2023) reservations, and also the higher standards communicated to Council through the decision letter. In sum, we believe that it will be far more difficult to be successful in a future SRV than what was required back in 2023.

Furthermore, there are a number of outstanding matters (identified earlier in this report) that will need to be resolved prior to conducting a successful SRV:

1. We do not consider that there is sufficient assurance in the cost to bring assets to a satisfactory standard or required maintenance cost estimates.
2. We still have not received detailed information on staff vacancies and the value of these vacancies. Furthermore, this report identifies new positions that warrant consideration, and these will exert a commensurate impact on the LTFP.
3. We have reservations regarding the accuracy of pricing on a range of non-public goods and services.
4. Council will need to receive clarity on grant allocations moving forward in order to construct a reliable LTFP.
5. Budget inaccuracy needs to be mitigated, or thoroughly explained, in order to strengthen faith in the projections of the LTFP.
6. We have a long list of queries regarding the LTFP that need to be worked through (this is typically the case for most Councils that we have worked with in the past). It is an important step in all SRVs that we have undertaken in the past for us to go through the LTFP assumptions line by line and request changes where we feel that they are warranted. This has not yet been done, both because of the broad remit responsive to the terms of reference and the fact that we were not explicitly engaged to assist with an SRV. Moreover, we are unaware of any other providers who conduct this level of interrogation – although we believe that it provides very valuable assurance for the community and IPART alike.
7. Decisions need to be made regarding the recommendations arising from this report (including advice on discretionary services and businesses), because said decisions may exert significant impact on the LTFP.

Accurately determining capacity to pay and having a plausible LTFP are some of the foundations of a successful SRV[37]. However, our engagement with staff and Councillors casts doubt on the capacity of the organisation to conduct this substantial exercise in 2023. An SRV is an exhaustive process. Ordinarily we advise Councils to commence work in July of the calendar year prior to the SRV Application. However, in view of how much needs to be done at Federation, we would suggest that work would need to start much earlier, in say, February. For all these reasons, it seems best if Council were to delay its application until the 2025 calendar year (for the 2025/26 financial year).

[37] The other essential ingredient is open and transparent communication that demonstrates responsiveness to citizen concerns.

Readers of this report might note that we have some experience in the area of SRVs, having previously successfully submitted three applications that were approved in full, and deemed fully demonstrated. This experience leads us to make a number of other suggestions regarding a future SRV campaign:

(i) Council would be well advised to not attempt a SRV without securing significant support from *bona fide* independent experts in this field.
(ii) Council needs to better examine the strategy of an SRV with particular emphasis on the size and duration of the request.
(iii) Council needs to seriously consider self-imposing some conditions for the term of a SRV – especially around whole-of-life costing and rigorously establishing willingness to pay for new discretionary infrastructure or services.
(iv) Council should focus on demonstrating a commitment to financial sustainability that goes beyond mere reliance on an SRV.
(v) With reference to the aforementioned matters, Council should establish a dashboard of metrics that it can include in regular communications to citizens, such as on the rates notices.
(vi) Council should give serious consideration to the long list of recommendations appended to this report and communicate to citizens the reasons for why it decides to adopt, or not adopt, each suggested measure.

12 Conclusion

Federation Council is faced with significant financial sustainability challenges. The problems go back decades and were further exacerbated by the ill-conceived amalgamation. Moreover, the issues are complex – they include a structurally inefficient scale, high levels of heterogeneity, economic spillovers, deeply embedded fiscal illusion, as well as grant allocations that fail to concord with the horizontal fiscal equalisation (HFE) objectives of the Act (1995, CTH).

It should therefore be unsurprising to learn that there is no one simple solution to the problems that confront us. Throughout the report we have listed a number of matters that require urgent attention, including *inter alia* scaling back of discretionary operations, a focus on maintenance, more assurance around asset needs, more accurate budgeting, more accurate price signalling, better attention to staffing matters, greater accountability (through measurable and verifiable targets), and redress of grant insufficiency. A special rate variation (SRV) will also be part of the solution – although we worry that some may see this as the whole of the solution rather than a mere piece of the puzzle. Moreover, it is clear that much needs to be done if Federation is to be successful in a future SRV bid – especially in the areas of demonstrating capacity to pay, providing stronger evidence around need, better compliance with guidelines and previous instruments, greater responsiveness to community feedback, as well as considerably more strategic thinking on the matter.

We reiterate the importance of reading this whole report. We stand ready to assist the community on their long journey to financial sustainability.

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Appendix 1: Terms of Reference

1. A review and provide commentary of the validity of the former Corowa Shire Council's merger proposal submitted to the NSW State Government including all potential efficiencies and savings outlined in that report i.e., $41M over 20 years.
2. Review NSW Minister's proposal (the KPMG report) on the Corowa and Urana merger proposal including (but not limited to) a review and commentary on whether the efficiencies and savings outlined in that study were achieved, and if not why not.
3. Whether, in accordance with section 263 (3) (e5) of the NSW Local Government Act , 1993 (the Act) there is a need (or desirability) to divide the Council area into Wards to ensure effective representation.
4. Any other matters of section 263(3) of the Act considered relevant.
5. A comparison of Council's financial performance since merger as opposed to the combined financial performance of the Corowa and Urana Councils prior to merger.
6. Analysis and provide commentary on the projected financial sustainability of the Federation Council from 2023 onwards including (but not limited to):
   a) The circumstances leading to the current financial position of Council and
   b) An investigation of various options for improving the situations – these options will include additional sources of revenue and changes to expenditure profiles.
7. Investigate options for engaging with NSW State Government to try to mitigate any issues identified.
8. After completing TOR 1 to 7 investigate the need, timing and conduct of a potential special rate variation application.

Appendix 2: Staff Survey

The University of Newcastle's Institute for Regional Futures (The Institute) is conducting this survey on behalf of Federation Council.

The purpose of this survey is to:

1. Understand the impact of the 2016 amalgamation of the former Corowa and Urana councils.
2. Evaluate perceptions regarding the success of the amalgamation and the financial sustainability challenges facing Council.
3. Gain information to support recommendations for a path forward that will assist Council in its financial sustainability journey, and consequently, the community to thrive.

Anyone who works for Federation Council is invited to participate. Staff have our personal assurance that their feedback will remain anonymous and will only be reported in aggregate (without identifying particular staff or sub-groups of staff).

This survey should take about 5 minutes to complete.

Staff are a council's most important asset – it is you who form the foundation of everything that Federation is *now and everything it* can be*. We are therefore extremely grateful for your feedback.*
- Professor Joseph Drew and Professor Masato Miyazaki.

If you have any questions or wish to withdraw from the survey, please contact:

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About the Institute for Regional Futures

This survey has been developed by a team of researchers at the University of Newcastle's Institute for Regional Futures. We partner with government, industry, and the community to drive positive change by providing the evidence-base needed to make informed decisions.

Find out more about us here: https://www.newcastle.edu.au/research/centre/regional-futures

1. **What was your level of support for the original proposal to amalgamate Corowa and Urana in 2016?**

   Pick one:

   ☐ Extremely supportive

   ☐ Very supportive

   ☐ Moderately supportive

   ☐ Slightly supportive

   ☐ Not at all supportive

   ☐ Wasn't working for Council back in 2015/16

2. **The following are the promises made in official *Fit For the Future* documents that led to/supported the amalgamation of Corowa and Urana councils:**

   Amalgamating Corowa and Urana will result in:

   - More than a $41 million reduction in operational spending over 20 years (other documents claimed $2.6 million in savings over 20 years)
   - An annual reduction in operational spending over 20 years
   - Reduced long term pressure on rate increases (in particular for Urana Shire residents)
   - A strong focus and greater ability to reduce more than a $50 million infrastructure backlog
   - Greater level of capacity to implement key communities (sic) priorities in the longer term
   - Improved service levels and innovation through an ability to access highly skilled staff

   In your opinion, how well has the amalgamation delivered on the six promises listed above?

   Pick one:

   ☐ Extremely well

   ☐ Very well

   ☐ Moderately

   ☐ Slightly

   ☐ Not at all

Continued on next page –

3. What is your perception of the financial sustainability challenges facing council?

Pick one:

☐ Council faces financial challenges that are significantly worse than most rural local governments

☐ Council faces financial challenges which are consistent with those experienced by most rural local governments

☐ Council is in a better financial position than most rural local governments

4. How much do you believe the amalgamation contributed to these challenges:

Pick one:

☐ The amalgamation has contributed a lot to the problems faced by Council

☐ The amalgamation has contributed to some of the problems faced by Council

☐ The amalgamation has not contributed in any meaningful way to Federation's financial challenges

☐ The amalgamation has improved the financial position of Council

Continued on next page -

5. **How do you feel Council should meet these challenges?**

Pick one or more options:

- ☐ Nothing needs to change;
- ☐ Increase rates (an SRV – special rate variation);
- ☐ Increase price and charges so that they fully recover costs;
- ☐ Reduce grants and support for community groups;
- ☐ Reduce road maintenance;
- ☐ Reduce other non-discretionary or mandatory services (such as rubbish collection);
- ☐ Reduce staffing;
- ☐ Reduce discretionary (optional) services (such as sports and recreation facility maintenance), ;
- ☐ Ask the state government to compensate ratepayers for the additional ongoing costs associated with the forced amalgamation;
- ☐ Ask the state government for more grants;
- ☐ Other 1 ……………………….;
- ☐ Other 2 ……………………….;

6. **Are there any ways that you as a staff member believe that Council could save significant sums of money (please be brief)?**

Continued on next page -

It is important for us to assess the stress experienced by Council staff. A highly regarded and established way to do this is the perceived stress scale. Please answer the following questions, as best you can, even if you don't see their direct relevance:

7. **Since the amalgamation (or since you started at Federation if you came later than May 2016), how often have you felt that you were unable to control the important things in your life?**

Pick one:

☐	☐	☐	☐	☐
Never	Almost never	Sometimes	Fairly often	Very often

8. **Since the amalgamation (or since you started at Federation if you came later than May 2016) how often have you felt confident about your ability to handle your personal problems?**

Pick one:

☐	☐	☐	☐	☐
Never	Almost never	Sometimes	Fairly often	Very often

9. **Since the amalgamation (or since you started at Federation if you came later than May 2016) how often have you felt that things were going your way?**

Pick one:

☐	☐	☐	☐	☐
Never	Almost never	Sometimes	Fairly often	Very often

10. **Since the amalgamation (or since you started at Federation if you came later than May 2016), how often have you felt difficulties were piling up so high that you could not overcome them?**

Pick one:

☐	☐	☐	☐	☐
Never	Almost never	Sometimes	Fairly often	Very often

Continued on next page -

11. Are there any other (brief) comments you would like to make:

If you would be open to Professor Drew telephoning you about any of these matters, please write down a mobile phone number and a preferred time. Sadly, Professor Drew is unable to contact each staff member, but he will telephone as many as possible to clarify any unusual comments or suggestions made in this survey. Professor Drew will keep your conversation strictly confidential.

Name: ……………………….

Mobile number: ……………………..

Preferred time: …………………………………

End of Survey

Thank you for completing the survey!

Appendix 3: Community Survey

The University of Newcastle's Institute for Regional Futures (The Institute) is conducting this survey on behalf of Federation Council.

The purpose of this survey is to:

4. Understand the impact of the 2016 amalgamation of the former Corowa and Urana councils.
5. Evaluate perceptions regarding the success of the amalgamation and the financial sustainability challenges facing Council.
6. Gain information to support recommendations for a path forward that will assist Council in its financial sustainability journey, and consequently, the community to thrive.

Anyone who lives or works in Federation Council is invited to participate. The community have our personal assurance that their feedback will remain anonymous and will only be reported in aggregate.

This survey should take about 5 minutes to complete.

We are extremely grateful for your feedback.

Professor Joseph Drew and Professor Masato Miyazaki.

If you have any questions or wish to withdraw from the survey, please contact:

Professor Joseph Drew
University of Newcastle
PO Box 250
Moonbi NSW 2353
(E): Joseph.Drew@newcastle.edu.au

About the Institute for Regional Futures

This survey has been developed by a team of researchers at the University of Newcastle's Institute for Regional Futures. We partner with government, industry, and the community to drive positive change by providing the evidence-base needed to make informed decisions.

Find out more about us here: https://www.newcastle.edu.au/research/centre/regional-futures

1. What was your level of support for the original proposal to amalgamate Corowa and Urana in 2016?

Pick one:

☐ Extremely supportive

☐ Very supportive

☐ Moderately supportive

☐ Slightly supportive

☐ Not at all supportive

☐ Wasn't living in the local government area in 2016

2. The following are the promises made in official *Fit For the Future* documents that led to/supported the amalgamation of Corowa and Urana councils:

Amalgamating Corowa and Urana will result in:

- More than a $41 million reduction in operational spending over 20 years (other documents claimed $2.6 million in savings over 20 years)
- An annual reduction in operational spending over 20 years
- Reduced long term pressure on rate increases (in particular for Urana Shire residents)
- A strong focus and greater ability to reduce more than a $50 million infrastructure backlog
- Greater level of capacity to implement key communities (sic) priorities in the longer term
- Improved service levels and innovation through an ability to access highly skilled staff

In your opinion, how well has the amalgamation delivered on the six promises listed above?

Pick one:

☐ Extremely well

☐ Very well

☐ Moderately

☐ Slightly

☐ Not at all

Continued on next page -

3. **What is your perception of the financial sustainability challenges facing council?**

   Pick one:

   - ☐ Council faces financial challenges that are significantly worse than most rural local governments
   - ☐ Council faces financial challenges which are consistent with those experienced by most rural local governments
   - ☐ Council is in a better financial position than most rural local governments

4. **How much do you believe the amalgamation contributed to these challenges:**

   Pick one:

   - ☐ The amalgamation has contributed a lot to the problems faced by Council
   - ☐ The amalgamation has contributed to some of the problems faced by Council
   - ☐ The amalgamation has not contributed in any meaningful way to Federation's financial challenges
   - ☐ The amalgamation has improved the financial position of Council

Continued on next page -

5. **How do you feel Council should meet these challenges:**

   Pick one or more options:

   - ☐ Nothing needs to change;
   - ☐ Increase rates (an SRV – special rate variation);
   - ☐ Increase price and charges so that they fully recover costs;
   - ☐ Reduce grants and support for community groups;
   - ☐ Reduce road maintenance;
   - ☐ Reduce other non-discretionary or mandatory services (such as rubbish collection);
   - ☐ Reduce staffing;
   - ☐ Reduce discretionary (optional) services (such as sports and recreation facility maintenance), ;
   - ☐ Ask the state government to compensate ratepayers for the additional ongoing costs associated with the forced amalgamation;
   - ☐ Ask the state government for more grants;
   - ☐ Other 1 ……………………….;
   - ☐ Other 2 ……………………….;

6. **As you know, Council has a temporary two-year SRV. Do you believe that a permanent special rate variation will be necessary for the 2025/26 financial year?**

   Pick one:

   - ☐ **Yes**, I do think a permanent special rate variation will be required
   - ☐ **No**, I don't think a permanent special rate variation will be required

Continued on next page -

7. Please rank your top 5 priorities regarding a potential future SRV in order (1 being the thing you are most concerned about):

Please RANK your response by writing 1, 2, 3, 4, or 5, where 1 represents the most serious concern.

	RANKING *Pick one for each column:*				
	1	2	3	4	5
A. Accurate assessment of ratepayer capacity to pay	☐	☐	☐	☐	☐
B. Measures taken to improve ratepayer capacity to pay	☐	☐	☐	☐	☐
C. Potential efficiencies detailed in full	☐	☐	☐	☐	☐
D. Articulation of a clear hardship policy with secure safety net	☐	☐	☐	☐	☐
E. The achievement of a viable path to financial sustainability	☐	☐	☐	☐	☐
F. Communication – both clear and responsive	☐	☐	☐	☐	☐
G. Alternatives put forward to reduce the size of the SRV	☐	☐	☐	☐	☐
H. Improved accountability – measurable and verifiable goal setting	☐	☐	☐	☐	☐
I. Accurate exhibition of Integrated Planning & Reporting documents	☐	☐	☐	☐	☐
J. Compliance with the terms of previous SRV instruments	☐	☐	☐	☐	☐
K. Focus is directed towards maintaining core infrastructure such as roads	☐	☐	☐	☐	☐
L. Divestment of discretionary activities and businesses (such as caravan parks and the like)	☐	☐	☐	☐	☐

Continued on next page -

8. **Are there any ways that you believe that Council could save significant sums of money (please be brief)?**

9. **Are there any other (brief) comments you would like to make:**

End of Survey

Thank you for completing the survey!

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