Presentation to the Public Inquiry into the
Proposed Merger of Shoalhaven City Council and Kiama Municipal Council

3 February 2016

INTRODUCTION:

I'm RUSS PIGG, GENERAL MANAGER, SHOALHAVEN CITY COUNCIL - I am presenting the views of Council. A council with a

- Population approaching 100,000 - largest outside Newcastle - Sydney - Wollongong strip
- 49 towns & villages
- 150kms coastline
- 14 estuary systems
- Over 1,700km roads
- 5th highest number of DAs in the State

Council is fit for the future – our community satisfaction runs at 85% - Council is already large, some say too large.

In short, Council is opposed to the merger proposal in its present form.

However I place on record that this Council has supported and continues to support the need, rationale and principles of the NSW State Local Government Reform. It recognises the need and importance of change.

Council has proven its positive and proactive support of the Reform process in a number of ways, including:

1. By addressing its Revenue limitations in its Fit For the Future Application.
2. By undertaking a two year restructure and Transformation Program that delivered annual savings of $6.5M.
3. By actively participating in the establishment of the Illawarra Pilot Joint Organisation.

We know the HISTORY of the Reform Process commenced in 2011

There have been many reports – most importantly the October 2013 Independent Local Government Review Panel FINAL REPORT to State Government which concluded that Shoalhaven would remain stand alone but become part of the Joint Organisation.

In respect to the three Illawarra councils it said: "*that closer collaboration through a Joint Organisation should enable a sufficient response to regional challenges for some time to come."*

In September 2014 the NSW Government released its response to that Report and at recommendation 33 the govt supported voluntary amalgamations and said:

"The Government expects all councils to become financially sustainable, efficient, effectively manage infrastructure and deliver services and have the scale, resources and 'strategic capacity' to govern effectively.

It called on all councils to submit a proposal by 30 June 2015, outlining how they will achieve this – and council subsequently did submit its application to IPART.

In October 2015 IPART concluded that Shoalhaven City Council was ***Fit for the Future –*** *it had sufficient scale and capacity and satisfies the financial criteria overall. IPART said: Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.*

But notwithstanding the views & recommendations of these Reports and bodies and the fact that both councils were against a merger, on December 18th 2015 the Premier and Minister announce the proposal to merge Shoalhaven & Kiama councils.

What had changed?

In response to that announcement our council resolved during January that it had *form**ed** the view that the Government's Merger Proposal, presented in its current form and on the evidence available contains several anomalies...and it is therefore unworkable and cannot be supported in its present format.*

However Council would continue to maintain an open and positive dialogue over the Reform Merger with the State government.

But Council would object to the proposed merger in its present form.

<u>About The Merger Proposal Document itself:</u>

It was released on the 6th January 2016.

There were errors and we had a number of concerns - a new version of the document was released on the 21st January 2016.

However we have continuing questions/concerns:

The merger document is completely silent on the issue of Shoalhaven water.

We don't know how they reach a break-even point after 4 years; and

We have concerns about the relevance of some figures.

The document sets out the Benefits of the Merger Proposal

In respect to **financial benefit** it says:

“total financial benefit of $53M over 20 years”

And *“Gross savings over 20 years of $46.26M”*

Then *“Net financial savings of $38M over 20 years”*

And *“on average around $3M in savings every year from 2020 onwards”*

It says:
Gross savings over 20 years are said to equate to:

Streamlined Senior Management - $6M - and we agree savings can be made

Redeployment of back office and Admin functions $32M

But “redeployment” doesn’t mean cash savings – so I think redeployment should actually read “create unemployment.”

Increased purchasing power effeciencies $8M

We do joint purchasing now but some further savings could be made

Reduced Councillors and related expenses $260K

That’s a pittance over the 20 years

So to be clear it means 82% of savings will come from staff reductions.

There is no argument that savings would be made.

The quantum of those savings are however queried.

The costs to implement a merger are another issue. Using the KPMG modelling assumption we calculate a cost of over $9M but the government is only providing funds of $5M.

The new merged council will also have two separate water authorities (i.e. Sydney Water and Shoalhaven Water) both having very different pricing structures and operations. Shoalhaven Water contributes over $7M to General Fund operations via an annual dividend and contribution to overheads. IF there is any adverse change to this situation the financial savings estimates would be seriously impacted.

The 2nd benefit says "***Potentially reducing the reliance on rate increases through special rate variation to fund local infrastructure***"

> However the four year rate freeze, which is part of this merger proposal, will seriously reduce the revenue proposed to be raised over that period by both Councils in their 'fit for the future' application.
>
> For Shoalhaven alone this equates to a loss of revenue of approx. $20M and for Kiama a little over $1M.
>
> With this Loss of Rate Revenue and additional cost for implementation, even allowing for the grant and some savings we will be more than $10M worse off compared to our fit for the future strategy.
> And then about $8M worse off each year thereafter.
>
> The government's forced rate freeze basically ensures the merged council is "Unfit for the Future".

The 3rd benefit says we will have "***Greater capacity to effectively manage and reduce the infrastructure backlog across the two councils***"

> But this is not a big issue. The 2014/15 financial statements show the infrastructure backlog as 2.58% for Shoalhaven and 2.44% for Kiama so both are close to the benchmark.
>
> The SRV was going to assist in achieving improvement which is not possible under the merger.

Council will cover other stated benefits in its written submission.

One comment about The KPMG Financial Modelling Assumptions -

Prof Brian Dollery on ABC Radio Thursday 28th January described them as and I quote

"methodologies washed with error"

and

"Assumptions are Nuts"

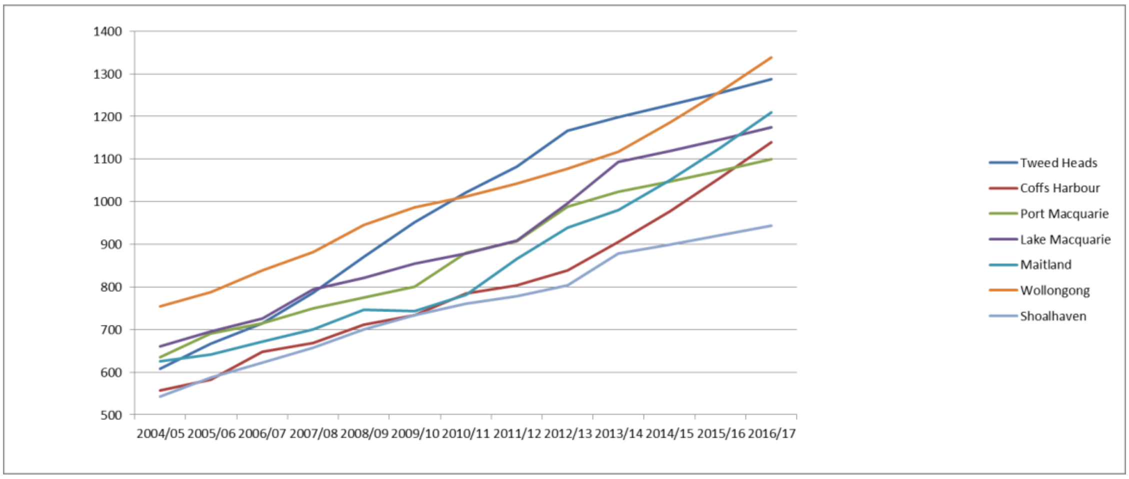
We agree.

I now turn to The Heads of Consideration (s263(3)):

Firstly the financial advantages or disadvantages … to the residents and ratepayers

I have already mentioned the impact of the 'rate freeze' policy. The merged council will NOT have the opportunity to meet the fit for the future benchmarks or improve its infrastructure renewals program.

It must be recognised that Shoalhaven's average residential rate is far less than other Group 5 councils. By 2016/17 Shoalhaven's average residential rate will be between 17% & 42% below other Group 5 councils. And significantly less than Kiama's.



The advantages to ratepayers is that their rates are guaranteed to be kept low for the next four years and will fall further behind comparable councils.

The disadvantages to ratepayers is that the merged council will not have the revenue to provide what the community want and need and sometime in the future a significant rate rise will be inevitable or services cut.

The government has introduced a restrictive rates freeze policy yet doesn't apply the same restraint to themselves. Late last year we were advised our contribution to the RFS had increased significantly:

Our contribution for Rural Fire Services has increased 75% in the past three years.

Our contribution to Fire & Rescue NSW increased 80.5% in just one year from 2014/15 to 2015/16.

And our contribution to SES increased 17.4% in the same year

We were not expecting those increases from the State Govt.

That's almost $700,000 in total <u>over</u> and above what we have in our adopted budget for 2015/16.

I have mentioned the impact if anything adverse is decided in respect to Shoalhaven Water operations. Ratepayers may be better off under Sydney Water pricing on the one hand – But that creates another $7M funding hole for the merged council.

Council will be in a detrimental financial state as a result of the merger proposal and that will impact on ratepayers.

About *“community of interest”*

There is no evidence of a strong ‘community of interest’ between Kiama and Shoalhaven.

There are many issues around the socio-economic differences

Further comment and evidence will be provided in our submission.

About the *attitude of the residents and ratepayers*

Of submissions received by Council to date the ratio is 10 to 1 i.e. 10 do not support the merger proposal to one that does.

Council has engaged IRIS to undertake a community survey shortly and the results will be included in Council’s written submission.

Elected representation

The change in representation whilst very dramatic for Kiama residents is less significant for Shoalhaven residents.

However, travel distances and time lost and inefficiencies are significant for councillors, staff and community in a larger geographic area.

The impact to provide adequate, equitable and appropriate services and facilities

It is clear more funds are required to achieve adequate services in respect to infrastructure, particularly renewal, maintenance and backlog. The proposed four year rate freeze for a merged council will make it even more difficult to provide adequate services.

There are significant differences in service levels and services in the councils.

Having different levels of service in different parts of a merged area could be problematic and create an ‘us’ and ‘them’ situation which may lead to political and community tensions and unrest. It also causes confusion for residents, ratepayers, developers and staff.

A merged Council will result in many inequities & differences across its numerous communities.

It will take many years to harmonise these differences and there is no predicting how a new merged council may do this.

The impact on staff

Staff are generally resilient and able to cope with change. Our staff have already been through significant change.

Nevertheless 82% of the predicted savings arise from staff changes.

There is an immediate impact on senior staff.

After the three year protection period it is highly likely that there will be significant job losses for other staff.

This is a strategy to create unemployment in an area that already has a much higher unemployment rate than the State or National average.

The impact on rural communities

If the new merged Council is financially worse off than this is likely to impact on the ability to maintain and renew vital road infrastructure servicing rural areas.

How do we ensure that the opinions of each of the diverse communities of the resulting area or areas are effectively represented?

Community engagement will be made much more difficult, with such a large number of distinct and unique communities over such a significant geographic scale.

Additional resources will be needed to meet these needs.

Reduced elected representation will increase workloads for councillors.

This merger process itself has effectively created division, unrest, and mistrust which will need to be addressed.

Other factors:

<u>Mergers do not fix financial challenges</u>

There are numerous reports, studies and evidence on this subject but I will provide one example:

In 2004 Clarence Valley Council was formed through the amalgamation of four general purpose councils and two county councils.

That's six General Managers into one, four to six sets of senior staff into one.

However in 2015 the IPART's final report on the assessment of councils Fit for the Future applications, in respect to Clarence Valley said:

"We find Clarence Valley Council NOT fit for the future. It meets the scale and capacity criterion, however, they do not meet the financial criteria overall.

Even though

The council's improvement proposal relies on the successful application for and adoption of a special variation from 2016-17 of 47% cumulative over 5 years (34% above the rate peg).

So after 11 to 12 years as a much larger amalgamated council with all these supposed savings AND a 47% rates increase it is still not fit for the future.

I rest my case.

Local Government NSW has continually chanted "Fix the Funding First"

I will conclude

The evidence simply does NOT support the proposed merger in its present form.

I will leave you with a quote from Edward Cornish, founder of the World Future Society
He said:

"We can do nothing to change the past, but we have enormous power to shape the future. Once we grasp that essential insight, we recognize our responsibility and capability for building our dreams of tomorrow and avoiding our nightmares".

Don't continue with this nightmare.

END