FIT FOR THE FUTURE BUSINESS CASE
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Executive Summary

The University of Technology Sydney Centre for Local Government (UTS:CLG) was commissioned to undertake an independent critique of the IPART assessments based on a desk-top analysis of IPART reports, audited financial statements, and Fit For the Future proposals. No ‘brief’ was provided by Oberon Council in terms of directing an ‘outcome’.

Oberon Council is pleased to provide our formal response to the NSW Government regarding the recent assessment by the Independent Pricing and Regulatory Tribunal (IPART) in relation to our Council Improvement Process (CIP), provided as part of the NSW Government’s “Fit for the Future” (FFTF) processes.

We welcome IPART’s assessment of Oberon Council as being financially sustainable under the three identified criteria: Sustainability; Infrastructure and service management; and Efficiency.

We also note that our water and sewerage services are consistent with NSW best practice management.

We reject IPART’s assessment of Oberon Council as being ‘unfit’ on the basis of ‘scale and capacity’. Council considers there are significant methodological flaws in the approach taken by both the Independent Local Government Review Panel (ILGRP) and IPART in using projected population figures to ascertain Oberon’s ‘scale’.

Council’s comprehensive CIP demonstrates not only our fiscal sustainability but our long-term strategic capacity in our ability to respond effectively to the needs of our local community.

We maintain that the optimal structure for Oberon is to remain as a stand-alone council and become part of a Central West Joint Organisation. This position is entirely consistent with the recommendations from both the Independent Local Government Review Panel (ILGRP) and IPART.

In good faith and in acknowledgment of the NSW Government’s directive to consider potential structural reform options Council commissioned an independent and highly credible assessment of potential merger opportunities with Bathurst (and other surrounding LGA’s). This work was undertaken by the UTS:CLG using a sophisticated Data Envelopment Analysis (DEA) model.

The results showed that Oberon Council is at optimal scale in its current form and confirmed that Council’s technical efficiency is higher than the average NSW council.

In contrast, the proposed merger option with Bathurst Regional Council will dramatically decrease our existing technical efficiency and will also transfer significant liabilities (in excess of $5,000 per assessment) to our existing ratepayers. This is clearly unacceptable to Council and our community.

Council outlined the potential merger options at a public meeting (9 November) at the Oberon RSL which was attended by over 560 local residents. Our community voted overwhelmingly in support of Oberon remaining as a stand-alone council at this meeting. Council has received the following votes from the community:

<table>
<thead>
<tr>
<th></th>
<th>Stand alone</th>
<th>Amalgamation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Meeting (total 510)</td>
<td>94.3%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Dropped in box at Council Offices (total 99)</td>
<td>93.9%</td>
<td>6.1%</td>
</tr>
<tr>
<td>On line survey (total 23 after duplications removed)</td>
<td>69.6%</td>
<td>30.4%</td>
</tr>
<tr>
<td>Letters received at Council (total 39 - 8 no preference)</td>
<td>77.0%</td>
<td>33%</td>
</tr>
</tbody>
</table>
Introduction

We have worked extensively with our community in recent years to ensure our long term sustainability. In particular, we have engaged our community comprehensively in the establishment of our Community Strategic Plan (CSP); our successful application for a Special Rate Variation (SRV) for essential road maintenance and more recently in the Fit for the Future processes.

We note the Final Report from the Independent Local Government Review Panel (ILGPR, 2013) identified two options for Oberon Council:

1. Stand alone-council as part of a broader Central West Joint Organisation (JO);
2. Merge with Bathurst Regional Council

Both of these options were advanced by IPART in its assessment of Oberon. IPART stated at their meeting in Dubbo that any preference would be marked in bold and it is worth noting that neither of the Oberon Council recommendations were highlighted.

Council endeavoured to comply with the Fit for the Future template issued by the NSW Office of Local Government – we note IPART’s published methodology indicated that ‘scale and strategic capacity’ were identified as a ‘threshold criterion’. Council notes the diagram in the IPART Final Report which outlined the process applied by IPART in assessing the CIPs provided by Councils.

Certainly it is not clear from this diagram the extent to which the 10 subjective criteria (as defined by the ILGRP to represent ‘strategic capacity’) were evaluated. There is no detail in IPART’s Final Report that establishes how this information was weighted. As such, Council remains of the view that ‘scale and capacity’ is not measurable as a single criterion and rejects the assessment of Oberon Council as being ‘unfit’.

Council’s approach in terms of framing our response to the IPART assessment has been evidence based and references highly credible academic research – including published research in economics, accounting, public administration and governance.

We commissioned highly credible economic modelling (Data Envelopment Analysis) by the University of Technology Sydney Centre for Local Government (UTS:CLG) to assess Oberon Council’s scale and the technical efficiency of the Council. UTS:CLG was established in 1991 and is recognised as Australia’s premier research centre for local government.
IPART Assessment: Non-Metropolitan Councils

IPART assessed 101 Non-metropolitan council improvement proposals including:

- 2 Merger proposals
- 79 Council Improvement Proposals (such as proposed by Oberon Council)
- 20 Rural Council Proposals.

Of these:

- 43 proposals were assessed as fit (including nine Rural Council Proposals which were assessed as fit as Rural Councils), and
- 58 proposals were assessed as not fit for the future.

Figure 1 Non-Metropolitan Councils FFTF assessments (Source: IPART, 2015)
About Oberon

Oberon’s Vision is for it to be: “A prosperous town, villages and rural communities set amongst the rolling hills, rivers, forests, mountains and caves of the Great Divide. A breath of fresh air in a landscape of light, colour and seasonal beauty. Life as it should be!”

Our local government area includes the main township of Oberon and surrounding villages of Black Springs, Burraga and O’Connell. The township of Oberon has community infrastructure that would be the envy of many larger regions i.e. hospital and aged care facilities, town and village community centres, library, schools up to Year 12, swimming pool, covered multi-purpose indoor sports centre, public golf course, and a variety of sporting fields and parks. Oberon LGA has a viable commercial area and a combination of forestry, wood processing, rural and tourism industries supporting the local socio-economic viability. It also has a State significant wood processing centre located within the town environs and a sewerage and water system that can cater for more than double the town population.

Our community has a strong sense of history going back 150 years and a strong and resilient community spirit. Our Council is trusted and respected by our local community. In 2003 Oberon fought hard against a merger proposal – and twelve years later, we remain resolute that a merger with Bathurst Regional Council is not the best structural arrangement for our community, our current economic prosperity or our future economic opportunities.

Oberon Council submitted a comprehensive Council Improvement Proposal (CIP) to IPART for consideration. Our Financial Sustainability Ranking from TCorp was sound. In addition, our submission highlighted the efforts Council has already undertaken in terms of making strategic decisions to ensure our Council’s long-term future financial sustainability. Council undertook extensive community consultation with our community in framing our Fit for the Future response and included substantial operational documentation and a clear outline of our intended improvement opportunities. Our proposal was supported by seven submissions. In undertaking community consultation it was noted that Bathurst Regional Council (identified as “Fit”) did not identify any community consultation processes undertaken in the preparation of its CIP and further, that no submissions were provided.

We are passionate about ensuring the ‘local’ stays in our local government. As this evidence-based response will detail, there is no advantage to Oberon in merging with Bathurst Regional Council and there is a large level of uncertainty as to the details provided by the NSW Government in relation to its intended reform of the NSW local government sector.

We remain acutely disappointed at the haste with which the Fit for the Future assessment process has been conducted by the NSW Government. We remain concerned about the lack of clarity provided by IPART and indeed, the NSW Government on how the threshold criterion of ‘scale and capacity’ were ‘measured’ and what weighting was given to the ten criteria for strategic capacity established by the ILGRP. It would appear that scale based on projected population size (2031) has been the primary determinant for the IPART assessment.

We note the very short timeframe provided to NSW councils to consider IPART’s assessment and respond to the NSW Government. We note also the language being used by the NSW Government which suggests that those councils that do not agree to a voluntary amalgamation are somehow letting their communities down. We reject that inference.

Oberon is a financially sustainable council with strong strategic capacity – we are focussed on delivering a strong and sustainable future for our current and future generations.
Map of Oberon LGA:

Source: NSW Electoral Commission, LGA map from 2012 local government elections
Table 1 Summary of Oberon characteristics

| VISION: | A prosperous town, villages and rural communities set amongst the rolling hills, rivers, forests, mountains and caves of the Great Divide. A breath of fresh air in a landscape of light, colour and seasonal beauty. Life as it should be! |
| CSP themes: | Healthy & Active; Basic Services; Economic Prosperity; Responsive & Caring; Open Community; Natural environment |
| Strategic Alliances | CENTROC; Water Utilities Alliance |
| Representation | 9 Councillors (undivided LGA) – representation: 1:560 |
| Revenue | Special Rate Variation (SRV) approved by IPART in 2014 to fund road improvements. As part of the proposal for the SRV Oberon was required to provide a detailed business case and also highlight our consultation processes with the community. The community strongly supported the application for an SRV and it is currently in Year 1 of a five year period. Council has also accessed $2M in low interest loans to fund further road improvements Council continues its proactive approach to tendering for RMS contracts Future growth within the LGA (which has not been factored into the projected census figures) associated with Urban residential expansion (250 new lots) and Mining. |
| Demographics | Population: 5040 (2011), growing aged population (median age 41); 5.2% unemployment |
| Key industries | Manufacturing, Agriculture, Forestry, Mining |
| Locational advantages | Tablelands Way; close to large regional centres; Jenolan Caves, Kanangra National Park and Mayfield Gardens; close links to villages of Black Springs, Burraga and O’Connell |
| Challenges | Road network; unreliable internet; need for more independent living facilities and youth services; constrained rate revenue due to large areas of unrateable land (National Parks and State Forests) |
| Community spirit | Proud and engaged local community, strong rural connection |
### IPART Assessment of Oberon

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Current</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area (^2)</td>
<td>3,594</td>
<td>3,594</td>
</tr>
<tr>
<td>Population</td>
<td>5,200 (2011)</td>
<td>4,950 (2031)</td>
</tr>
<tr>
<td>Operating revenue</td>
<td>$12.0M</td>
<td></td>
</tr>
<tr>
<td>TCorp assessment</td>
<td>Sound</td>
<td>Negative outlook</td>
</tr>
<tr>
<td>Scale and capacity</td>
<td>Does not satisfy on population projections</td>
<td></td>
</tr>
<tr>
<td>Financial criteria</td>
<td>Satisfies overall</td>
<td></td>
</tr>
<tr>
<td>• Sustainability</td>
<td>Satisfies</td>
<td></td>
</tr>
<tr>
<td>• Infrastructure and service management</td>
<td>Satisfies</td>
<td></td>
</tr>
<tr>
<td>• Efficiency</td>
<td>Satisfies</td>
<td></td>
</tr>
<tr>
<td>Water and sewage</td>
<td>Meets NSW Govt best practice requirements</td>
<td></td>
</tr>
<tr>
<td>Social and community context</td>
<td>Closer links with Blue Mountains than other western towns</td>
<td></td>
</tr>
<tr>
<td>Community consultation</td>
<td>Undertaken in April 2015: support for stand alone council</td>
<td></td>
</tr>
<tr>
<td>Submissions received</td>
<td>7: Six opposing merger; one neutral</td>
<td></td>
</tr>
</tbody>
</table>

Oberon Council notes that on the IPART assessment of the three identified financial criteria:
- Sustainability
- Infrastructure and service management
- Efficiency

IPART has indicated that Oberon Council ‘Satisfies Overall’ in these three criteria. Council notes the TCorp assessment of Oberon’s current financial sustainability ranking (FSR) as being “Sound”. Council refutes the TCorp assessment of Oberon projected financial sustainability as being a “Negative Outlook”.

In refuting this ranking Oberon notes that the TCorp FSR was based on 10 measures – and has been criticised academically for considering too few measures (refer Appendix B). Council concurs with the academic literature that employing a more holistic assessment using 20-30 measures would provide a more credible ranking. Oberon Council also notes academic literature that has highlighted significant concerns about the data compilation methodology used by TCorp in order to assign the FSR – and the influence of the compilation methodology on the outcome of the assigned FSR.

In addition, the manner in which ‘scale and capacity’ as the threshold criterion has been ‘assessed’ by IPART is far from clear.
Oberon Council’s response to IPART Assessment: Challenging assumptions regarding population as a measure of ‘scale’

Scale and capacity is the pre-eminent criteria employed in the IPART assessments of *Fit for the Future*. The Independent Local Government Review Panel (ILGRP, 2013), Office of Local Government, TCorp (2013) and IPART (2015) have failed to provide any publicly available analysis of scale.

However, Drew and Dollery (2015a) and Drew, Kott and Dollery (2015a) have conducted robust empirical analysis of scale in NSW local government using two prominent empirical methods – multiple regression analysis and data envelopment analysis (DEA). The results arising from multiple regression analysis clearly demonstrate that there are no municipal level economies of scale for councils outside of the Greater Sydney Region, although there is some evidence of economies of density (Drew and Dollery, 2015a).

‘Economies of scale’ is a term used to describe a decrease in average total cost as output increases (based on a proxy for size, generally population). It is important to note that councils can be over-scaled and thus exhibit diseconomies of scale: that is, *increasing* total average costs related to size. Economies of density relate to decreasing average total costs as population density increases and can be pursued by prioritising in-fill development. It is difficult to see how economies of density could be manipulated through amalgamation.

Council is also aware of the challenges associated with projecting census data forward (in *Fit for the Future*, the forward population projection is 16 years). Wilson and Rowe (2011) indicated that ‘as a general rule, studies at both national and subnational scales have found that population forecasts tend to be more accurate for shorter rather than longer forecast horizons and more populous rather than less populous regions’ (Wilson and Rowe, 2011). Wilson and Rowe’s analysis is significant as it revealed that errors in LGA population forecasts were large when compared with State population projections (only 60-70% of LGAs were forecast within 10% Absolute Percentage Error after a decade) and that the error increased substantially with projection horizon length (Wilson and Rowe, 2011). Oberon has identified potential growth in mining, timber and agriculture. In addition, there is already a 250 residential land release underway – these inputs to Oberon will in our view yield significant population growth that has not been captured in the projected population assessment by ILGRP or IPART.

In addition to the inherent and large errors associated with long-term population projections for LGAs, Council has further concerns about projected population size being employed by both the ILGRP and IPART to measure of ‘efficiency’ as it implicitly assumes that:

- Councils have no expenditure associated with providing services to businesses or for maintaining council transport infrastructure.
- The use of population (as opposed to a more specific analysis based on household, farm and business assessments) also erroneously assumes that the cost of servicing a person that lives on a farm is the same as the cost of living a person living in town (Drew and Dollery, 2014).

The negative correlation between population size and length of council maintained roads (Pearson correlation coefficient of -0.26) suggests that the failure of the ILGRP (2013) and IPART (2015) to take account of the impost associated with municipal transport infrastructure is most likely to disadvantage rural shires with relatively small populations (Drew and Dollery, 2014).
The data envelopment analysis conducted by Drew, Kortt and Dollery (2015a) using the TCorp (2013) 2011 data set, found that 20 of the 23 ILGRP proposed council mergers would result in over-scaled councils exhibiting diseconomies of scale. Data envelopment analysis is the most sophisticated empirical technique available for estimating relative scale and technical efficiency.

The large body of international and Australian scholarly work utilising DEA to assess the efficiency of local governments (refer Appendix A) suggests that there is little reason to believe that most mergers will result in efficiencies arising from economies of scale. Indeed, when one considers the range of goods and services provided by General Purpose councils it is evident that efficiencies associated with scale are instead likely to be function specific.

Fahey (2015) in his Masters thesis (directed by Principal Supervisor, Drew) conducted an analysis of economies of scale on the functional data found in Schedule 1 of the 2014 audited financial statements. Only three of the twelve Schedule 1 functions common to all General Purpose Councils had evidence to suggest economies of scale:

- Economic Affairs: the evidence suggests economies of scale up to a population of 36,835. For General Purpose councils Economic Affairs accounts for an average of 5.4% of total expenditure.
- Public Order: the evidence suggests economies of scale up to a population of 244,303 (which is the optimal size indicated by the econometric evidence). For General Purpose councils in NSW public order expenditure accounts for an average of 3.1% of budget.
- Transport & Communications: the evidence suggests economies of scale up to a population of 74,810. Transport expenditure makes up, on average, 32.6% of General Purpose council budgets.

The econometric evidence of functional expenditure suggests that the savings from Economic Affairs and Public Order functions are negligible (increasing size of councils will only result in a saving which is a small fraction of the proportion of the existing budget: ie. a fraction of 5.4% and 3.1% respectively). It is unlikely that the savings arising from these functions alone could ever justify the large one-off and ongoing costs associated with amalgamation.

However, the potential savings in the Transport & Communication function are quite large and therefore worthy of attention. Most of these savings relate to exploiting excess capacity in road maintenance and construction. Amalgamation could capture potential savings in this function however, it is critical that merger partners are selected carefully in order to avoid diseconomies which may negate savings made in Transport & Communications. In addition, given that the potential savings are dominated by a single function it would seem that pursuing shared services (rather than amalgamation) might offer less potential for downside risks (such as diseconomies in other functions and/or disruption costs).

By way of contrast, ‘capacity’ is an ill-defined concept and owes more to the skills and experience of council officers and the elected representatives than to municipal size. There is a case for entering into strategic arrangements for region-wide matters such as planning and advocacy, particularly in the presence of spill-over effects. This can be achieved, with the least risk, through participation in Joint Organisations, which was a recommendation for Oberon Council from both the ILGRP and IPART.

There are strong grounds for suggesting that it may not be reasonable to rely on the TCorp (2013) Financial Sustainability Ratings or OLG/IPART *Fit for the Future* metrics when making decisions regarding the future configuration of councils (refer Appendix B). The weight of academic evidence indicates that far too few metrics have been employed. Moreover, due to poor design some of the metrics fail to measure the aspect of performance for which they were intended (for instance, the
‘efficiency’ ratio) whilst others are subject to the corrosive influence of data distortion (for example, the infrastructure backlog ratio).

As noted recently by Dr Bligh Grant (UTS:CLG), “councils are too diverse by their very nature for such equations to hold, and at a certain point diseconomies of scale are generated due to councils being too big to be efficient” (Grant, 2015).

Council also notes the inherent contradictions within the ‘Final Report’ of the ILGRP which states (pg 72): ‘amalgamations offer the surest way to achieve efficiency and economies of scale, service improvements and strategic capacity’ – and then on pg 73 states: ‘The Panel accepts that there is no simple relationship between council size and efficiency, and hence no guarantee amalgamations will produce the benefits sought, especially cost savings’ (ILGRP, 2015; Grant, 2015).

Council agrees there is no simple relationship between council size and efficiency. Indeed, a simple comparison of the twenty six merged council entities (between 2004 and present time) indicates that the vast majority 18/26 (69%) of these merged entities have been deemed ‘unfit’ by IPART under the FFTF criteria. This would seem to indicate that merging councils is not the ‘silver bullet’ as suggested by the NSW Government in addressing the challenges facing the local government sector.

Of the 26 merged Council entities, only 7 were deemed fit. Out of these 7, five have a negative outlook and 2 neutral, thereby showing no evidence that merged Councils don’t indicate long term sustainability.

Table 2 IPART Assessment of merged LGA entities

<table>
<thead>
<tr>
<th>Constituent Councils</th>
<th>New Entity</th>
<th>Date</th>
<th>TCorp FSR</th>
<th>Outlook</th>
<th>IPART</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albury Hume (part)</td>
<td>Albury</td>
<td>26 May 2004</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Fit</td>
</tr>
<tr>
<td>Armidale Dumaresq</td>
<td>Armidale-Dumaresq</td>
<td>21 February 2000</td>
<td>Moderate</td>
<td>Neutral</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Bathurst Evans (part)</td>
<td>Bathurst Regional</td>
<td>26 May 2004</td>
<td>Moderate</td>
<td>Negative</td>
<td>Fit</td>
</tr>
<tr>
<td>Concord Drummoyne</td>
<td>Canada Bay</td>
<td>1 December 2000</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Voluntary Merger</td>
</tr>
<tr>
<td>Copmanhurst Grafton City Maclean Pristine Waters</td>
<td>Clarence Valley</td>
<td>25 February 2004</td>
<td>Weak</td>
<td>Negative</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Conargo Windouran</td>
<td>Conargo</td>
<td>1 July 2001</td>
<td>Sound</td>
<td>Neutral</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Cooma-Monaro Yarrowlumia(Part)</td>
<td>Cooma Monaro</td>
<td>11 February 2004</td>
<td>Weak</td>
<td>Neutral</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Corowa Hume (part)</td>
<td>Corowa</td>
<td>26 May 2004</td>
<td>Moderate</td>
<td>Negative</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Glen Innes Severn</td>
<td>Glen Innes Severn</td>
<td>15 September 2004</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Fit</td>
</tr>
<tr>
<td>Goulburn Mulwaree (part)</td>
<td>Goulburn Mulwaree</td>
<td>11 February 2004</td>
<td>Moderate</td>
<td>Negative</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Culcairn Holbrook Hume (part)</td>
<td>Greater Hume</td>
<td>26 May 2004</td>
<td>Moderate</td>
<td>Negative</td>
<td>Fit</td>
</tr>
<tr>
<td>Location (part)</td>
<td>Location</td>
<td>Date</td>
<td>Rating</td>
<td>Outcome</td>
<td>Comments</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>---------------------------</td>
<td>-----------------</td>
<td>----------</td>
<td>----------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>Barraba (part) Bingara Yallaroi</td>
<td>Gwydir</td>
<td>17 March 2004</td>
<td>Very Weak</td>
<td>Neutral</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Evans (part) Lithgow Rylstone (part)</td>
<td>Lithgow</td>
<td>26 May 2004</td>
<td>Sound</td>
<td>Negative</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Murrurundi (part) Nundle (part) Parry (part) Quirindi</td>
<td>Liverpool Plains</td>
<td>17 March</td>
<td>Weak</td>
<td>Negative</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Merriwa (part) Mudgee Rylstone (part)</td>
<td>Mid-Western</td>
<td>26 May 2004</td>
<td>Sound</td>
<td>Negative</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Evans (part) Oberon</td>
<td>Oberon</td>
<td>26 May 2004</td>
<td>Sound</td>
<td>Negative</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Gunning (part) Mulwaree (part) Tallaganda Yarrowlumla (part)</td>
<td>Palerang</td>
<td>11 February 2004</td>
<td>Moderate</td>
<td>Negative</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Nymboida Ulmarra</td>
<td>Pristine Waters</td>
<td>1 July 2000</td>
<td></td>
<td></td>
<td>Subsequently amalgamated into Clarence Valley</td>
</tr>
<tr>
<td>Queanbeyan Yarrowlumla (part)</td>
<td>Queanbeyan</td>
<td>11 February 2004</td>
<td>Weak</td>
<td>Neutral</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Casino Richmond River</td>
<td>Richmond Valley</td>
<td>21 February 2000</td>
<td>Weak</td>
<td>Negative</td>
<td>Fit</td>
</tr>
<tr>
<td>South Sydney Sydney City</td>
<td>Sydney City</td>
<td>6 February 2004</td>
<td>Strong</td>
<td>Positive</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Barraba (part) Manilla Nundle (part) Parry (part) Tamworth</td>
<td>Tamworth</td>
<td>17 March 2004</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Fit</td>
</tr>
<tr>
<td>Tumut Yarrowlumla (part)</td>
<td>Tumut</td>
<td>11 February 2004</td>
<td>Moderate</td>
<td>Neutral</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Murrurundi (part) Scone</td>
<td>Upper Hunter</td>
<td>17 March 2004</td>
<td>Sound</td>
<td>Negative</td>
<td>Fit</td>
</tr>
<tr>
<td>Merriwa (part) Upper Hunter</td>
<td>Upper Hunter Shire</td>
<td>26 May 2004</td>
<td>Sound</td>
<td>Negative</td>
<td>See above</td>
</tr>
<tr>
<td>Crookwell Gunning (part) Mulwaree (part) Yass (part)</td>
<td>Upper Lachlan</td>
<td>11 February 2004</td>
<td>Sound</td>
<td>Neutral</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Coolah Coonabarabran</td>
<td>Warrumbungle</td>
<td>25 August 2004</td>
<td>Weak</td>
<td>Negative</td>
<td>NOT FIT</td>
</tr>
<tr>
<td>Gunning (part) Yarrowlumla (part) Yass (part)</td>
<td>Yass Valley</td>
<td>11 February 2004</td>
<td>Moderate</td>
<td>Negative</td>
<td>NOT FIT</td>
</tr>
</tbody>
</table>
Commissioned modelling of scale and efficiency by Oberon Council on potential merger options

As a result of the concerns Council had over IPART’s assessment of Oberon as being “Not Fit” for the stated reason of “scale and capacity” Council commissioned UTS:CLG to undertake independent and highly credible modelling of scale and efficiency of Oberon Council, Bathurst Regional Council and the potential merged entity (Oberon-Bathurst).
This analysis empirically tests ‘scale’ and the ‘technical efficiency’ of these three options using the most sophisticated modelling available to economists: data envelopment analysis (DEA).

DEA is a particularly useful empirical technique for assessing relative scale and technical efficiency outcomes arising from proposed municipal amalgamation. Unlike other empirical techniques DEA does not require a priori specification of functional form, is able to accommodate multiple outputs, and provides specific point estimates for each council or proposed amalgamated entity.

Technical efficiency (TE) is evaluated in terms of the ability of a council to convert inputs (staff and capital) into a set of outputs (number of residential assessments, number of farm assessments, number of business assessments and total length of municipal roads) (see Drew, Kortt and Dollery (2015a) for the justification of the DEA specification employed).

The empirical methodology uses linear programming to create an efficient frontier (comprised of the councils which most efficiently convert inputs into outputs) and then estimates relative efficiency of councils lying in the interior of the efficiency frontier according to their distance from the frontier. The data envelopment analysis algorithm is detailed below:

\[
\begin{align*}
\min_{\theta, \lambda} & \quad \theta, \\
\text{s.t.} & \quad -y_i + \theta \lambda \geq 0, \\
& \quad \theta x_i - x \lambda \geq 0, \\
& \quad \l_1 \lambda = 1 \\
& \quad \lambda \geq 0
\end{align*}
\]

where \( y_i \) is a vector of outputs and \( x_i \) is a vector of inputs, \( \theta \) is a scalar (the efficiency score for each council) and \( \lambda \) a vector of constants. The subscript \( i \) refers to the \( i \)th council and the inequalities ensure non-negative weights. The CRS (Constant Returns to Scale) specification evaluates inefficient councils against any peer on the frontier – irrespective of size. The variable returns to scale (VRS) algorithm is achieved by adding the convexity constraint \( \l_1 \lambda = 1 \) so that inefficient councils are only evaluated against municipalities of a similar size. Under both estimates efficient councils are given a score of 1 and inefficient councils assigned a score between 0 and 1. Scale estimates are simply the quotient of CRS and VRS efficiency scores and a third estimate (non-increasing returns to scale (NIRS)) is made by imposing the restriction \( \l_1 \lambda \leq 1 \) so that the nature of the scale inefficiency can be determined. An input orientation was adopted for the DEA which ‘minimises inputs while satisfying at least the given output levels’ (Ji and Lee, 2010, p. 268). This orientation is to be preferred given that councils take outputs as exogenous – that is, councils have little control over the number of assessable properties and length of municipal roads in the short-term.

**Assumptions of the DEA model**

Cooper, Seiford and Tone (2007) outline an empirical method for estimating the efficiency and scale effects arising from proposed mergers in the Japanese banking industry. We have adapted this method in order that we might estimate the efficiency and scale effects of putative municipal merger options (see also, Drew Kortt and Dollery, 2015a).

In common with all empirical techniques some assumptions must be made. In particular, it has been assumed that the inputs and outputs of merged entities will be the sum of the inputs and outputs of the existing councils in the short-run. In the case of outputs this seems to be an indisputable

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1. Thus a council with an efficiency score of 0.9 is far more technically efficient than a council with a score of 0.6.
assumption – it is completely reasonable to expect that the merger of councils will not alter the sum of the length of municipal roads nor the sum of business, farm and residential assessments in the short-term.

In addition, the prohibition on forced redundancies for non-senior staff detailed in s354F of the Local Government Act (1993), as well as the stipulation that staff number in rural councils must be maintained (s218CA(2)), would seem to suggest that staff expenditure following amalgamation is likely to be materially consistent with the sum of existing staff expenditures (indeed, staff expenditure increased in the short-run following the 2007/08 Queensland amalgamations (Drew, Kortt and Dollery, 2013)). It is possible however, that a council may alter the quantum of capital employed to provide municipal services subsequent to amalgamation and this could introduce a small error into the scale and efficiency projections (Drew, Kortt and Dollery, 2015a). However, it should be noted that evidence from the 2007/08 Queensland amalgamations suggests that additional capital will be deployed in the short-term following merger (Drew, Kortt and Dollery, 2013).

Results – modelled scale and technical efficiency

Table 3 presents the measures of scale and technical efficiency for the existing municipal structures calculated according to 2014/15 audited financial data – the scale and technical efficiency for the whole of NSW local government sector included to provide context for the results for Oberon; Bathurst and Oberon-Bathurst.

As can be seen from the scale result, Bathurst is already relatively over-scaled (0.96007) and therefore shows decreasing returns to scale which is reflected in its lower CRS technical efficiency score (0.560041).

In contrast, Oberon is extremely close to optimal scale (0.979445) and has a technical efficiency of 0.700512, which is higher than the average for NSW Councils (increasing returns to scale).

The merged Oberon-Bathurst entity is over-scaled (decreasing returns to scale) at: 0.812421 and has a reduced technical efficiency of 0.578503, which is substantially less technically efficient than Oberon as a stand alone council. On the basis of this empirical analysis, the evidence suggests that a merger with Bathurst would be ill-advised.

It should be noted that this empirical analysis contrasts with the assumption of economies of scale utilised in both the ILGRP (2013) and IPART (2015) reports (which are based on projected population data).
Table 3 Comparison of measured scale and technical efficiency (DEA)

<table>
<thead>
<tr>
<th>Council entity</th>
<th>Relative Technical Efficiency (CRS)</th>
<th>Scale</th>
<th>Returns to Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW state average (under‑scaled councils: IRS)</td>
<td>0.676465</td>
<td>0.93758</td>
<td>IRS</td>
</tr>
<tr>
<td>Oberon</td>
<td>0.700512</td>
<td>0.979445</td>
<td>IRS</td>
</tr>
<tr>
<td>NSW state average (over‑scaled councils: DRS)</td>
<td>0.701715</td>
<td>0.924319</td>
<td>DRS</td>
</tr>
<tr>
<td>Bathurst</td>
<td>0.560041</td>
<td>0.96007</td>
<td>DRS</td>
</tr>
<tr>
<td>Oberon – Bathurst</td>
<td>0.578503</td>
<td>0.812421</td>
<td>DRS</td>
</tr>
</tbody>
</table>

**Consideration of implicit and explicit liabilities**

The explicit liabilities (such as borrowings) and implicit liabilities (such as estimated cost to bring assets up to a satisfactory standard) of potential merger partners must be carefully considered given that a portion of the liabilities will be effectively transferred to Oberon residents in the event of a merger.

Under the current *Fit for the Future* package it is quite likely that the compensation provided by Government will *not* even cover the one-off costs of amalgamation (let alone ongoing disruption costs and diseconomies of scale). Moreover, it has been claimed, in the media, that the estimated cost to bring assets up to a satisfactory condition is not an implicit liability. This statement is also demonstrably false. If the combined entity is ever going to address infrastructure backlogs – which is one of the principle motivations for *Fit for the Future* – then clearly at some stage residents of the combined council will be required to provide the funding.

Council notes the importance of considering both implicit and explicit liabilities associated with a potential merger scenario. Oberon residents currently hold an average of $3,273 in total explicit and implicit municipal liabilities per assessment. This is less than the total average liabilities per assessment attributable to residents of Bathurst ($5,002 per assessment).

If Oberon is merged with Bathurst the average total liability for Oberon residents would increase for the Oberon-Bathurst (by $1,445 per assessment). It should be noted that this is an analysis of gross debt only (i.e. the nett effect of assets has not been considered due to uncertainty regarding non-pecuniary asset values).

This summary of implicit and explicit liabilities was based on the 2014/15 Financial Audited Statements provided by Oberon Council and Bathurst Regional Council to the NSW Office of Local Government.
If Oberon and Bathurst Regional Councils were to amalgamate a thorough examination of both Oberon and Bathurst Financial Statements would need to be conducted as part of due diligence.

Table 4 Summary: Implicit and Explicit Liabilities upon Merger (per Assessment Share in Parentheses) $'000

<table>
<thead>
<tr>
<th>Council</th>
<th>No. Assessments</th>
<th>Borrowings (Current and Non-Current)</th>
<th>Other Liabilities (excluding borrowings)</th>
<th>Estimated Cost to Bring Assets to a Satisfactory Standard</th>
<th>Total Explicit and Implicit Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oberon</td>
<td>3,550</td>
<td>1,568 (0.442)</td>
<td>2,370 (0.668)</td>
<td>7,680 (2.163)</td>
<td>11,618 (3.273)</td>
</tr>
<tr>
<td>Bathurst</td>
<td>18,120</td>
<td>21,826 (1.205)</td>
<td>18,694 (1.032)</td>
<td>50,108* (2.765)</td>
<td>90,628 (5.002)</td>
</tr>
<tr>
<td>Oberon-Bathurst</td>
<td>21,670</td>
<td>23,394 (1.080)</td>
<td>21,064 (0.972)</td>
<td>57,788 (2.667)</td>
<td>102,246 (4.718)</td>
</tr>
</tbody>
</table>

Source: Number of assessments from OLG (2015); financial data from audited financial statements 2014-15.

Realignment of fees and charges (harmonisation)

Councils provide different quality and quantity of local government goods and services in response to the particular needs of their communities. This is, in fact, the raison d’être of federal systems of government, that is: ‘by tailoring outputs of such goods and services to the particular preferences and circumstances of their constituencies, decentralised provision increases economic welfare above that which results from the more uniform levels of such services that are likely under national provision’ (Oates, 1999, p. 1121).

When two or more councils amalgamate then there must be some loss in economic welfare, and this outcome has been identified as a prominent cause for subsequent de-amalgamation activism (Drew and Dollery, 2015g). In addition, different quality and quantity of local government services also results in different fee and taxation rates.

Table 5 details the existing fees and rates applicable to various categories of properties in Oberon and Bathurst. If an amalgamation occurred, fees and charges will need to be realigned (or harmonised). The final rates set for an amalgamated entity will be decided by the new Administration. However, it is reasonable to expect that residents currently paying relatively low fees might be required to pay more should the council merge with an entity with higher charges. The probability of this outcome is quite high when one considers that the international scholarly evidence has demonstrated that service levels are invariably increased following amalgamation (see, for instance, Dur and Staal, 2008; Steiner, 2003).

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2 We note that the Estimated Cost to Bring Assets up to a Satisfactory Standard estimate for the 2014 f/yr was $72,336, (000). This emphasises the need for thorough due diligence as the per capita liability using the larger estimated asset maintenance cost would increase the liabilities per capita from $5002 to $6628.
Table 5 Existing Rates and Charges requiring alignment ($)  

<table>
<thead>
<tr>
<th>Council</th>
<th>Average Residential Rate</th>
<th>Average Farm Rate</th>
<th>Average Business Rate</th>
<th>Typical Water and Sewer</th>
<th>Average Domestic Waste Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oberon</td>
<td>649.08</td>
<td>1,351.97</td>
<td>755.56</td>
<td>982</td>
<td>93.58</td>
</tr>
<tr>
<td>Bathurst</td>
<td>877.99</td>
<td>1,381.28</td>
<td>4,132.09</td>
<td>959</td>
<td>200.64</td>
</tr>
</tbody>
</table>

Source: OLG Audited Financial Statements 2014/15

Oberon as a stand-alone council – part of a Central West Joint Organisation

In IPART’s Final Report the assessment of non-metropolitan councils indicated that an option for the Council was to stand alone and be part of a broader Joint Organisation. This was the case for Oberon Council which was assessed as being able to be part of a Central West Joint Organisation.

The ILGRP Final Report described Joint Organisations:

*The name ‘Joint Organisations’ (JOs) has been adopted as a generic descriptor of the new regional entities. This term is deliberately neutral: groups of councils would be free to use whatever name they agree for their particular organisation (e.g.: ‘Council of Mayors’, ‘XYZ Councils’). A new JO would be established for each region by negotiation amongst member councils and with the Minister. Planning and facilitation support would be provided through expert consultants (see section 18.2). (Final Report, ILGRP (2013, p. 81)*

Oberon Council is currently an active member of Centroc (a voluntary regional collaboration of 16 councils in Central NSW). Centroc exists to advocate for and improve operational efficiencies for the 236,000 people that live in Central West NSW. We believe our engagement with Centroc provides strong opportunity for Oberon in terms of advocacy, collaboration and identification of potential shared services or service delivery arrangements that are cost effective, efficient and aligned with the community priorities identified in Oberon’s Community Strategic Plan.

Centroc’s agreed priorities include:

- Bells Line of Expressway;
- Telecommunications’ services, particularly broadband;
- Environmental Sustainability;
- Health;
- Transport and Water Infrastructure; and
- Regional Development.

We believe the NSW Government should be looking at building on the work of Centroc to establish a Joint Organisation for Central Western Councils – or establish Centroc as the Joint Organisation.

Council considers that with a strong institutional design, Oberon as a stand-alone Council and operating as part of a Central Western JO is the most strategic and appropriate response for our community. The importance of strong institutional design is highlighted in the recent publication, “Councils in Cooperation” (Dollery, Grant, Koort, 2012)
However Council is alarmed at the Minister’s recently stated position (9 November 2015) that “membership of a Joint Organisation is not an alternative to a merge.”

Council seeks urgent clarification from the NSW Government on why Joint Organisations have apparently been discounted as a structural reform opportunity when it has been recommended by both the ILGRP and IPART as being a viable option for Oberon Council.

The NSW Government has provided no reason as to why a JO is not an acceptable strategic arrangement for those councils that wish to stand alone but work collaboratively on opportunities for collective benefit and opportunity.

“Why Local Government Matters”

Council notes the 2014 national social research conducted by the University of Technology Sydney Centre for Local Government (UTS:CLG) on behalf of the Australian Centre of Excellence in Local Government (ACELG) on “Why Local Government Matters”.

Council concurs with the summary findings of the report in relation to the role of local government as ‘place-shapers’ and the importance of councils in meeting the needs that most drive people’s attachment to, and satisfaction with, the area in which they live (Ryan et. al, 2015).

The survey also showed that overwhelmingly, Australians feel at home in the place where they live and have a high level of emotional connection to their local community – the survey found this level of emotional connection to place was higher in rural and regional areas than in larger metropolitan areas.

Overall, most Australians feel their sense of identity and emotional wellbeing are supported by the attributes of the local area in which they live. This is certainly true of Oberon where people strongly value our 150 year heritage and our strong sense of community. Another key finding of the survey that has resonated with Oberon is that people believe it is very important for community to be involved with government in making decisions about their local area and the services that should be delivered.

![Figure 2 Survey data - “Why Local Government Matters” (Ryan, et al 2015)](image)

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3 Minister Toole stated that “membership of a Joint Organisation is not an alternative to a merge” in a teleconference with the Mayor of Oberon, Councillor Kathy Sajowitz (9 November 2015) in response to the Mayor’s question: ‘Would being a member of a joint organisation be a better compromise to allow Oberon to remain independent but with the joint administrative support of adjoining Councils?’
This national research is consistent with many of the recommendations arising from the Local Government Act Taskforce which focus on making the 2009 Integrated Planning and Reporting (IP&R) framework the central focus of the revised Act.

The IP&R framework is designed to encourage greater involvement and participation by local communities in the decisions that councils make – a move towards a community governance model for local government. Oberon Council strongly supports this concept and we have always had a strong and connected relationship with our community. We have established a comprehensive community engagement strategy that we have used to:

- Develop our Community Strategic Plan;
- Develop our business case for our successful Special Rate Variation (SRV)
- Develop our Community Improvement Process; and
- Respond to the IPART assessment of Oberon Council (this report)

On the basis of the engagement that we have done with our community we are clear about our community’s views in relation to a potential merger with another local government entity.

At a recent public meeting (9 November) over 560 local residents from Oberon and our surrounding villages attended and made their position very clear. Indeed, 94% of the community at the meeting (and in the days that have followed) have indicated their desire for Oberon to stand alone as an independent council and as part of a broader Central West Joint Organisation. (Refer Appendix C for a summary of feedback from our local community).

We also note that the Local Government Act recommended that local government remain ‘a body politic’ – highlighting the importance of the role of democratically elected representatives, making decisions with, and on behalf of, their local communities.

We consider the NSW Government’s focus on ‘scale’ an inherent contradiction to the community governance principles that are advanced in the IP&R framework. The Fit for the Future processes and the NSW Government’s language in talking about ‘scale’ suggests that the value placed on the importance of local representation at a local government level has been significantly reduced. And indeed, at times we consider the NSW Government’s language to be quite dismissive of this fundamental tenant of democracy. It is alarming to Council that in terms of an administrative paradigm, Fit for the Future appears to align more closely with former (and discredited public administration paradigms; bureaucratic and New Public Management).

Council raises this, not as an esoteric point, but as an important consideration for the NSW Government. In our view, Fit for the Future should be taking the local government sector forwards, towards an empowered and community-centric administrative paradigm, not returning to past models of public administration where the views of the local community were not considered in a particularly robust way.
Other considerations

Financial Assistance Grants (FAGs)

By far the biggest problem for the future sustainability of rural councils is that the financial assistance grants (FAGs) do not achieve the full horizontal equalisation objectives enshrined in the enabling legislation (Local Government (Financial Assistance) Act 1995):

(a) Ensures that each local governing body in a state is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the state; and

(b) Takes account of differences in the expenditure required to be incurred by local governing bodies in the performance of their functions and in their capacity to raise revenue’ (Local Government (Financial Assistance) Act 1995, s6(3)).

Recent academic research (refer Drew and Dollery, 2015b) has demonstrated that the algorithms employed to allocate the road component of the FAGs are chaotic and empirically indefensible. This is significant in terms of the road maintenance costs for Oberon Council.

In addition, the methodology for allocating the General Purpose FAG component is flawed on a number of counts:

- the standardised revenue adjuster is not compatible with actual revenue raising limitations (nor does it respond to the fact that revenues are paid out of flows of income rather than stocks of wealth),
- the standardised expenditure allowances appear contrary to s 6(3)(b) of the Act
- the disability factors lack transparency and robust empirical evidence.

When combined with s6(2)(b) of the Local Government (Financial Assistance) Act 1995 - 30% minimum payment based on population size - it is certain that non-metropolitan and rural councils are not being provided with sufficient allocations to achieve the legislation’s objective of full horizontal equalisation.

Amalgamating councils will not address the deficiencies in FAG allocations. In fact, amalgamation may well result in lower FAG allocations in the medium to long term. Indeed, the Proclamation under subsection 6(4) of the Local Government (Financial Assistance) Act 1995 was made in response to the fact that some merged councils had received lower FAG (with respect to the sum of earlier pre-merged allocations) subsequent to amalgamation.

The Proclamation stipulates that merged entities must receive no less than the sum of individual allocations (based on pre-merged boundaries) for a period of four years following amalgamation.

Council remains concerned over the sustained FAG indexation freeze as an adverse impact on Council’s financial position however we maintain that the major problem for General Purpose councils is that FAGs are not being allocated according to the full equalisation objective. Amalgamation will not address this core funding problem and may indeed exacerbate same.

Council notes that we raised concerns over FAG allocations in our 2003 submission opposing amalgamations at that time. Council has enclosed this submission for your reference (refer Appendix D). In the twelve years since, our concerns regarding the inequities of FAG allocations have remained unaddressed. Indeed, we are dismayed the NSW State Government has been ineffective during this time in terms of lobbying the Federal Government to address FAG allocations to rural councils.
Cost of Amalgamation

The final matter which must be considered is the cost of amalgamation.

Council notes the announcement by the NSW Government of ‘up to $5m funding’ to address potential amalgamation costs. However Council is alarmed that the process for applying for this funding has not been established by the NSW Government – nor has there been a guarantee by the NSW Government that in the event that a merger occurred between Oberon and Bathurst – and the costs of amalgamation were in excess of the $5m that the NSW Government would fully meet the additional costs incurred. The absence of such a guarantee is a significant consideration for Oberon Council in considering the risks associated with structural reform options.

Council is aware that the Queensland Treasury Corporation (QTC, 2009) received claims following the 2007/08 amalgamations for an average of $8.1 million. Moreover, in 2012 the QTC (2012) estimated the one-off costs for the de-amalgamation of Sunshine Coast Regional Council to be $11.02 million. De-amalgamation is a less costly process than amalgamation (QTC, 2012). In addition, there are on-going unquantified costs which should be considered (such as the diseconomies of scale demonstrated in UTS:CLG’s DEA scenario testing). Accordingly, Council is rightfully concerned that the ‘up to $5M’ compensation provided by the NSW Government may well fall short of meeting the actual expenditure associated with amalgamation. This cost must be set against the projected savings arising from any amalgamation – but in many cases it appears that this has not occurred. In undertaking the scenario analysis for Council UTS:CLG did not include the likely out-of-pocket expense associated with amalgamation. Therefore, the analysis provided by UTS:CLG represents a “best case scenario”.

Governance considerations

The governance arrangement of any merged entity is another issue that requires careful consideration. Table 6 details the existing ratio of elected representatives from Oberon and Bathurst Regional Council on a per capita basis.

Oberon Council in its CIP submission to IPART highlighted an option of reducing its number of elected representatives to seven.

Table 6 Summary - Political Representation

<table>
<thead>
<tr>
<th>Political Representation</th>
<th>Number of Councillors (Per Capita)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oberon</td>
<td>9 (1:560)</td>
</tr>
<tr>
<td>Bathurst</td>
<td>9 (1:4,439)</td>
</tr>
</tbody>
</table>

It is important to recognise that local government in Australia is the third tier of Australia's federal democracy. In this respect, it fulfils a very important role in terms of community representation. If a merger is countenanced between Oberon and Bathurst Regional Council there will need to be some consideration given to the extent to which local views in Oberon Council will be advanced in the merged entity. On a population basis and without a Ward structure it is likely that Bathurst will have the majority level of representation on the new council. There is no clarity as to how Oberon might be assured that issues local to Oberon will be given balanced consideration.

Introduction of two Wards as a transitional option may be worth considering if a merger was an option for Oberon.
Conclusion

Amalgamation is an important decision with pecuniary implications for the residents of Oberon. It is therefore critically important that residents are provided with relevant facts and given a strong voice in the decision making process.

UTS:CLG has produced empirical evidence which indicates Oberon has close to optimal scale and that an amalgamation with Bathurst will result in an over-scaled entity with concomitant decreasing returns to scale and reduced technical efficiency.

Council concurs with this analysis.

Council also notes there are clear disadvantages to Oberon in the context of implicit and explicit liabilities; potential harmonisation (increase) in fees and charges and reduced representative opportunities for the Oberon community.

Council also notes the important role of Financial Assistance Grants in rural council financial sustainability and the potential for a merged entity resulting in lower total FAG allocations after the protection period of four years.

Council also notes the information that has been provided in relation to the costs of amalgamation. On the information available from the Queensland local government amalgamation experience (as detailed in Queensland Treasury data) there is significant risk to Oberon that the NSW Government may not fully reimburse the costs of a voluntary amalgamation. The costs of amalgamation may well exceed the ‘up to $5M’ that is available for the merged entity to apply for. Indeed, the application process for this reimbursement is unclear at this point in time.

In the event that Oberon voluntarily merged with Bathurst Regional Council and there was a shortfall in costs to cover the amalgamation process the potential deficit would need to be resourced by the ratepayers of the merged entity over time.

Oberon Council has conducted a thorough assessment of the options recommended by the ILGRP and in the IPART assessment:
• Remain as an independent stand-alone council and as part of a Central West Joint Organisation;
  OR
• Merge with Bathurst Regional Council.

On the basis of the evidence considered by Council and in response to the clearly stated preference of the overwhelming majority of our community we have elected to pursue Option 1: A stand alone council and a member of a Central West Joint Organisation.
Note from UTS:CLG

UTS:CLG was commissioned to undertake an independent critique of the IPART assessments based on a desk-top analysis of IPART reports, audited financial statements, and *Fit For the Future* proposals. No ‘brief’ was provided by Oberon Council in terms of directing an ‘outcome’. The evidence of the modelling speaks for itself.

The researchers who undertook the scenario modelling have no conflict of interests to declare and have not had any role in the IPART assessment process, nor in compiling the various *Fit For the Future* proposals for Oberon Shire.

The advice provided by UTS:CLG is based on the researchers’ professional judgement after reviewing various documents associated with the IPART assessment and conducting a number of empirical estimations. It is important to note that the source documents have been taken at face value and the accuracy of the financial statements or other documentation provided to the NSW Office of Local Government has not been verified.

UTS:CLG notes that this report is in no way to be considered as a substitute for due diligence. Any council contemplating merger should seriously consider conducting thorough due diligence, particularly in relation to the written down value of assets, estimates of required maintenance and accuracy of non-current liabilities.

UTS:CLG recommends that if Oberon is to contemplate a merger that a caveat should be included in the merger proposal; that it is subject to satisfactory outcomes arising from due diligence.
References


Appendix A: What our community is telling us
Feedback from the minutes taken at the community public meeting on 9 November 2015

“This is one of most important issues for Oberon. I believe we should fight to the end. Oberon has been fighting Amalgamation since 2003 – 12 years”

“How can a town that has been around for 150 years and has passed all the financial criteria be judged not fit?”

“NSW Government established this as the threshold criteria to be considered Fit for the Future. But the problem is the difficulty defining the term. Capacity is difficult to objectively measure. There was no attempt made to determine if there is a statistically significant correlation or if a proposed merged entity would be more financially viable. I believe this to be a critical point, the concept of scale and capacity is an elusive term with no firm definition. It derives more from skills and talents of people running the council than the size of the council.”

“In 2013 under the Mid-Western Regional Performance Measures, Oberon was given a sustainability rating of sound and Bathurst achieved moderate. In the 10 performance ratios established by IPART Oberon out performed Bathurst in the majority of cases, now only 2 years later IPART has switched them around.”

“Any organisation that is financially fit and delivering services customers require should be found economically fit.”

“The fact that IPART has suggested in 2031 Oberon’s population would have decreased from 5,200 people to 4,950 people is incorrect. Oberon is one of most prosperous areas in state. We have the biggest manufacturing plants, low unemployment, and the Oberon Timber Mills produce 1 Million tonnes of products annually. The Oberon Timber Complex is the largest in the southern hemisphere. Oberon will never reach the hypothetical figure of declining population.”

“A $5 million infrastructure fund will be given to the merged entity....Over 5,000 people live in the Oberon Shire and 44,000 in Bathurst Shire. If the $5 Million is divided, the amount equates to $200.00 each for a merger – a pittance.”

“Oberon was settled early in Australia exploration by hard working battlers. The town of Oberon is reaping the rewards of their hard work and persistence. The Oberon Council formed over 100 years ago. Oberon Council is a rural council that is in step with the wishes and desires of rural people and their values. Council staff are local people, readily available. Community understands relationship between the forests and timber industries, agriculture and the environment. There is always cooperation and consultation not confrontation.”

“Oberon Council is one of the major employers in Oberon. Amalgamation would result in loss of employment. This would have an effect on schools and community services. Oberon Council has a higher employment rate of women and if we were to amalgamate, they would be unlikely to find another equal opportunity in town.”

“After speaking with people in areas where mergers have occurred, the greatest loss is representation. Oberon would be lucky to have one representative on a merged council. We would have no voice and would lose our local identity. There won’t be anyone in town to discuss your problems with. I fear we would be an isolated community at the end of the line.”
“Our identity is unique, it is one of the coldest towns in Australia and we are the closest rural town to Sydney. Oberon is now on the up due to the sealed road between Oberon and Goulburn, which is now called the Tablelands Way, a major tourist road. We must remain that way, independent.”

“Professor Brian Dollery stated that there is no empirical evidence that amalgamations and larger local council areas deliver greater benefit to local residents.”

“On the point of population which we all know is flawed premise – how many of you have come from elsewhere in the last two years? Five years? 10? 15? Even though we can’t guarantee the numbers Sydney real estate prices will continue to skyrocket. We know that people will continue to look for other options. We cannot guarantee the figure but we are doing our best, we are doing pretty well.”

“I arrived from Sydney 21 years ago. Oberon has worked well until now on its own...We are not broken and I cannot see the worry with it. If you want to have something to do with Bathurst, go there and do your business and then come home. This whole situation seems rather silly and I cannot see the need to amalgamate.”

“I am a Gingkin resident and we moved here 6 years ago. I moved here with my children for a better life. One of the aspects is that we are a small town. Everybody cares about each other. Mayor Rush stated at one of the rallies that the only people who attended were older, those that are younger do care. We do also have an interest in the matter. This will affect our lives as well as the young people. We have a Youth Council who are the voice of our children. It is a continuous generational thing. We do care and those that are bringing our next generation through are here to represent.”

“I arrived here 35 years ago and fell in love with township, the people, fresh air and the fact that there are Pine Forests everywhere. I still love it. I live in Rutters Ridge. We are asked to increase population but who wants to have 30,000 people in Oberon. All of the local nature would be gone. We have to think of our children. Unemployment is very low and we have one of the best figures around Australia. The Industry in Oberon is fantastic. This is based on our production of pine trees and mining. When it comes to the economy of the town, it is quite good. Council has been taking care of Oberon for over 100 years...Oberon Council is one of the best councils in the Blue Mountains and over the mountains...We can take care of our town. I don’t want to see in 10 years time that we increase to a huge population. I don’t want that type of community.”

“I am currently working in Bathurst but we are still living in Oberon. We still live in Oberon because it is a beautiful town. My family are still living here also. We travel 1000 km per week to go to work in Bathurst and come back to this town. The council does a fantastic job. Facilities are great and we have everything we need here. There is nothing wrong with Oberon. I am still happy to drive to Bathurst and live in Oberon.”

“I live along Duckmaloi Road on a farm. I am a newcomer to town. I have many fond memories of Oberon. I moved here because it is a small country town and I like the sense of community. First day here, I came to have a look at a house. I liked that people talked to me like I was a local. Before moving to Oberon, I lived in the Hills Shire for 27 years and only once met the Mayor. I only met him because I was on the Chamber of Commerce. I lived so far from Castle Hill so where I lived was just somewhere they were collecting our rubbish. The Hills are classified Fit but weren’t interested in their community. Then I lived in Blue Mountains and again they weren’t interested. Oberon is a true community. People care about each other and know each other. I would like to see Oberon stay as Oberon.”
“I moved here 16 years ago from Brisbane. I lived in a Shire that amalgamated with the one next door. Within 2 years we were an outcast, services were downgraded month by month. My feeling is if we area amalgamated this would happen and we would be at the end of the line. We don’t want to go there.”

“I live in Black Springs and have been here 2 years. I came from a council that had been amalgamated in the last round of amalgamations. We have been given a lot of figures tonight. These are helpful to those that will make the decision what will happen to Oberon. At our former council that was amalgamated, the cost was huge. To keep both ends of the council happy it was decided to keep offices in both towns. The offices of the council found it was necessary to work out of both offices and it was difficult to find where employees were. Council’s fleet of motor cars grew and they were driving between two towns all the time. They wore down the road. Those two councils were reasonably successful but not as good as this one. They are in big trouble now and it is not good.”

“I moved here 2½ years ago and I love this town. I originally came here for fishing in 1978 and always knew I would retire here. I am very happy to see that everybody is fighting for the council and I will fight for it as well. What kind of services would the State Government deliver? They want to take our people and reduce the number of Local Government offices. They are promising that nothing would change for 3 years, which is nothing. We should not believe what they are promising. We have to fight very hard. I can see we have a committee that is working hard to fight this. I will be going on the bus. We have a big fight on our hand. It is nice to see the people here, we will have to continue to fight every day. It is best for us to stay as we are now.”

“I was born here in 1947. I live in Sydney most of time but I have a property on Abercrombie Road. I encourage you to talk to everybody you know outside Oberon relatives etc. We are planning succession within our family to continue our agricultural business. Your consultants would confirm agriculture has a vital and increasing role into the future. The Consultants have again pointed out you can get too big. Oberon seems to be somewhere in the middle. The real battle is the battle of politics. An example of this is the high voltage power line that came through the district a few years ago. The EIS said they don’t want it on forest land, so they plonked it on the landholders. The Member for Goulburn failed to change that opinion, and was so far out of political favour he wasn’t re-elected. Oberon can use considerable political clout. I encourage you to support the committee and their work.”

“I live at Black Springs. My concern about Amalgamation with Bathurst is from the Rural Fire Service perspective. I spent a number of years as the Fire Control Officer in Oberon. During that time we built up our bush fire fleet to one of the highest and most respected in the state. Some of our second hand tankers are going to Bathurst. My concerns are if we amalgamate our rates will go to Bathurst to help them build their fleet and ours will diminish. We have the newest tanker in the Chiefly Zone… My fear is if we are amalgamated we will also be contributing to the Bathurst Fire Control Centre. We need to stay by ourselves and let Bathurst worry about their own area.”

“I have been here 15 years. I think we should have a simple message to the NSW Government. We are going to stand alone and we want the money.”

“Tonight we are gathered to find out what the Oberon residents want to do about amalgamation. The lack of information is astounding. Residents of many of the affected councils are gathering in Sydney on Wednesday 18 November in a last ditch bid to try to get the Baird Government to understand how we feel about forced amalgamations.”
“MP Paul Toole gave advice to Keith Sullivan that they would not proceed with forced amalgamation and it is up to us to make sure they adhere to this. Bigger is not always better. We will lose our identity, representation, a voice on council and will have very little to say on what will happen in our community. We have been told we could have a committee system. Past experience has not been successful and it does not work.”

“We ask you to vote to stand alone. Leichardt Council voted last night to Stand alone, Cabonne are also taking a stand. I ask you to be brave... “Please be brave, vote to stand alone... Don’t let Oberon down. Help prevent an absolute injustice to small communities. Paul Toole is our Local Member so he must understand how we feel.”

“I have been living in Oberon the last 12 yrs. I didn’t want to move here. After the first 18 months here, I met people and made good friends. My kids attend school here and it is the kids that are important here as well, my children love it here. They are aged 12 & 15. Living here has been a blessing, it is a wonderful town... I would like to see more than one or two busses going down to Sydney and I would be happy to take day off and go to Sydney. I would also like to see kids go as well as it is all the kids’ future as well. Ask the schools to organise busses get as many parents and kids to go as well.

“It appears that Oberon is the most important town in the state of NSW. Simple fact is if Oberon rolls over Mr Toole wins. It is the most crucial seat in all of NSW. We have to win.”

“If it is 1.95 billion over 20 years it is a very unusual way of representing a saving in public life. It only works out to be $13 per person per year to have a local council.”

“I really wonder whether the State Government has another agenda going. Maybe their long term goal is that they want to get rid of local government. Once you lose a local council it is very hard to get it back. To me the further away the Government is from the people the less say we have in our own destiny. Let’s keep the Government close so that we have a say in our own destiny.”
Appendix B: Frequently Asked Questions

Will my rates increase if Council merges and what will happen with the Oberon Special Rate Variation that has been approved?

The Minister for Local Government has indicated that current rate levels will remain in place in the short term and over time a realignment of the rating structure could occur.

If Oberon Council is merged what happens to local jobs?

Under the current Local Government Award provisions all staff (with the exception of the General Manager) within Oberon Council are protected for a period of not less than 3 years. The Minister for Local Government has indicated that there will be no forced redundancies, and potentially increased staffing, however there will likely be relocation of some positions.

Is there any way of ensuring local representation on a new merged Council? Will there be a ward system introduced?

The Minister for Local Government has advised there are options, this can mean Wards, or two Council areas. This would be a matter for the merged entity. The Minster has verbally guaranteed there will be local representation, however there is no guidelines established to date.

What are the financial benefits of merging?

Currently $5million is on offer to facilitate the cost of voluntary mergers. There is an additional $5million Stronger Communities Fund, which is available for application for merged entities to fund infrastructure projects. Any application under this fund would be at the discretion of the new entity. Additionally the State Government has indicated any merged entity will have access to low interest subsidised loans.

How will any financial benefits be split up – will Oberon have a say in how this money is distributed?

$5million Stronger Communities Fund, which is available for application for merged entities to fund infrastructure projects. Any application under this fund would be at the discretion of the new entity.

Would being a member of a joint organisation be a better compromise to allow Oberon to remain independent but with the joint administrative support of adjoining Councils?

The Minister for Local Government has advised that membership of a Joint Organisation is not an alternative to a merge.

Is Oberon Council financially sound?

Under the Fit for the Future assessment, Oberon Council has been found to meet all financial criteria.
Appendix C: Scholarly work relating to Data Enveloping Analysis

Data Envelopment Analysis (DEA) is a complex methodology - seminal texts used at universities throughout the world include: Cooper, Seiford and Tone (2007) and Coelli, Rao, O’Donnell and Battese (2005).

Further academic references which have employed DEA in relation to local government analysis. It should be noted that all of the following academic papers are double blind peer reviewed works which use DEA:

Appendix D: Scholarly work relating to “Fit for the Future”

<table>
<thead>
<tr>
<th>Author</th>
<th>Journal</th>
<th>Message</th>
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<tbody>
<tr>
<td>Drew, Kortt and Dollery</td>
<td>Local Government Studies</td>
<td>The Queensland amalgamations were poorly targeted and produce deleterious results for residents.</td>
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<tr>
<td>(2013)</td>
<td></td>
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<tr>
<td>Drew and Dollery (2014)</td>
<td>Public Money and Management</td>
<td>ILGRP proposed amalgamations in Sydney will not improve overall TCorp measures of financial sustainability.</td>
</tr>
<tr>
<td>Draw and Dollery (2015b)</td>
<td>Public Administration Quarterly</td>
<td>Demonstrates that the Road component of FAG grants are chaotic and empirically indefensible.</td>
</tr>
<tr>
<td>Draw and Dollery (2015a)</td>
<td>Administration &amp; Society</td>
<td>Uses DEA analysis to demonstrate that 20 of the 23 ILGRP (2013) proposed merger Groups will actually be over-scaled and thus elicit decreasing returns to scale.</td>
</tr>
<tr>
<td>Drew and Dollery (2015d)</td>
<td>Australian Accounting Review</td>
<td>Demonstrates that the TCorp financial sustainability ratings were grossly distorted by ‘inconsistent’ depreciation accrual data (unreliable data).</td>
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<tr>
<td>Drew and Dollery (2015e)</td>
<td>Public Administration Quarterly</td>
<td>Demonstrates the TCorp financial ratings are in no way ‘facts’ – they owe more to the method TCorp chose to assess councils than actual performance.</td>
</tr>
<tr>
<td>Drew and Dollery (2015a)</td>
<td>Australian Journal of Public Administration</td>
<td>Details a number of problems associated with TCorp, IPART and the OLG metrics.</td>
</tr>
<tr>
<td>Abelson and Joyuex (2015)</td>
<td>Public Money and Management</td>
<td>Addresses the role of rate pegging on financial sustainability.</td>
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