



PORT STEPHENS – NEWCASTLE PROPOSED MERGER PROS AND CONS

Prepared by TRRA Inc Committee 31 January 2016

INTRODUCTION

The State Government of New South Wales has a clearly stated policy to achieve a significant reduction in the number of Local Governments across the state. They argue that this will achieve significant savings in costs, better financial management and more effective governance of our local affairs.

Following an assessment process called “Fit for the Future” based on advice from KPMG consultants and from the supposedly independent IPART Tribunal, the State announced its proposed mergers in which it is proposed that Port Stephens and Newcastle Councils be merged. This proposal seems to contradict the earlier IPART assessment that Port Stephens qualified as being “Fit for the Future”.

The State’s arguments for this proposal are contained in its 19 page document “[Merger proposal](#)”.

TRRA Inc., having studied the available documentation and attended a PSC meeting and another public meeting on this proposal, believe that the Government’s arguments for the merger are totally inadequate and unconvincing.

TRRA Inc. however, also has serious doubts about the current and future financial viability of Port Stephens Council, and particularly about information in sections of the “Fit for Future” paper and how this has been used in the proposal to merge with Newcastle Council. TRRA’s Finance Sub Committee has scrutinised the Council’s submission to the IPART evaluation of Council’s fitness and the 2014-15 Annual Financial Report. It has identified serious manipulation of the accounts which present an inflated picture of our Fitness. According to the Proposal paper, **Newcastle is in a worse financial state** with a huge backlog in asset maintenance and an approval to increase rates by 31.7 % over the next 5 years.

The decision made by Port Stephens Council to spend up to \$200,000 on an external consultant to assist with the preparation of a submission to fight the merger would have been better spent on a full independent study on pros and cons of a merger. Mayor MacKenzie has revealed in a recent radio programme on 100.9 Pt Stephens FM, that \$80,00 will be spent on a consultancy to support the case against amalgamation, leaving \$120,000 to be spent on a publicity campaign against the proposal.

TRRA Inc. in a [Press Release](#) has called on the State Government to provide more detailed information on the benefits of a merger including the release of the full KPMG report. This report has been attacked by experts in recent press articles. [Here](#) and [Here](#). The Government seems unwilling to make it public. Even the Office of Local Government (formerly the Department) has revealed that it does not have a copy. TRRA will write to the Premier and the Minister calling for its release.

There will be a Public Inquiry on the proposal (under the Local Government Act) at Horizons Golf Club Salamander Bay on 4 February 2016, 9.00am - 12.00. The public are required to register to attend at www.councilboundaryreview.nsw.gov.au. Or by phoning 1300 813 020. TRRA has asked to speak. Members of the public are able to make their own submissions via this website (closing date, 28 February, 2016).

TRRA will be making a full submission based on feedback from our members.

Members are invited to make their comments to TRRA on the proposed merger and on the specific matters raised in this pros and cons paper. These responses will be taken into account in drafting the TRRA Submission on the merger proposal.

YOUR OWN SUBMISSIONS WILL ADD TO THE PRESSURE ON THE STATE GOVERNMENT TO RETHINK THIS ILL-CONCEIVED PROPOSAL.

OUR ANALYSIS OF THE PROS AND CONS FOLLOWS:

Arguments presented in the Government's Proposal paper are in Black. (Financial and other figures in the proposal document are based on the KPMG Report)

- 1. Proposed merger will generate net savings of around \$65 million over 20 years and the NSW Government will reward the merged Council with an additional \$20 million grant.**

TRRA Comment

- **The bulk of this saving would come from rationalising senior management staff and back office staff**
- **Recent expert analysis reported in the SMH queries whether this level of saving can be achieved as it fails to take into account the generous payouts due to laid off workers under current contracts.**
- **A similar recent Queensland merger initiative apparently resulted in increased staffing costs after the mergers**
- **Other savings of \$11 million gross are attributed to increased purchasing power of materials and contracts. Port Stephens and Newcastle are already benefiting from these savings through their membership of Hunter Councils Incorporated, a regional co-operative. For example, we co-operate in services such as the libraries.**
- **Significant reduction in staffing is likely to result in lower service levels to ratepayers and sackings will impact on the local economy**
- **The estimated \$65 million saving is paltry when considered that it represents only \$14.80 per head per year over the 20 year period.**
- **The \$20 million State sweetener is one off, and would be needed for direct merger costs such as new logos, office rationalisation and overheads.**

2. **Efficiencies of increased scale of the entity including improved capacity to reduce the \$120 million backlog in infrastructure maintenance and development.**

TRRA comment

- While there may be some scope for economies of scale, there is every possibility that the outlying areas of the LGA, such as the Tomaree Peninsula, will be overlooked and afforded a lower priority for expenditure
- Newcastle is currently responsible for the lion's share (PSC originally reported \$29 million) of the backlog on infrastructure so Port Stephens will have difficulty securing a fair share of any merger dividend for this purpose.
- Revitalisation of Newcastle City is expected to require a huge capital investment to which Port Stephens would have to contribute

3. **Reducing the reliance on SRVs [special rate variation) - Newcastle recently was awarded a cumulative 31.7 % increase over a 5 year period) to fund projects and services.**

TRRA comment

- While there are some question marks over the state of Port Stephens Council's financial position, it has remained under the rate pegging rules with annual rate increases around 2%
- There is a moratorium proposed on rate increases although there are no clear guidelines on how this will apply in our case.
- Presumably, rates would eventually be equalised across the new Council – would this mean Port Stephens rates increasing by at least some of the 31.7% already approved for Newcastle?
- Already many Port Stephens residents fear a significant hike in rates to shore up our Newcastle partner.

4. **Better integrated Strategic Planning and economic development and greater efficiencies for the management of Newcastle Airport.**

TRRA Comment

- There may be a prospect for enhanced capacity to prepare and implement strategic plans in a larger administration.
- TRRA is concerned whether the outlying areas, such as the Tomaree, will have a strong enough representation to tap into this capacity at City Hall.
- TRRA is also concerned about the capacity of a centralised administration to adequately consult with the outlying localities on needs and priorities
- Regional promotion to attract industry and commerce could benefit from the merger.
- "Destination Port Stephens," the organisation responsible for marketing Port Stephens as a tourist destination, has in recent times favoured promotion of our area as a stand-alone destination. This has proved more effective than regionally focused initiatives. Port Stephens Council provides \$500,000 annually to support this programme.

Newcastle Council has recently decided not to fund a similar organisation in its LGA and instead, assigned this function to its council administration. Destination Port Stephens advised that this approach was not effective and that the budget allocation by Newcastle is minimal. They fear that a merger will see them consigned to the same fate with no Council funding.

- Newcastle Airport is effectively managed as an independent business under a Board and yields useful dividends to the joint owners. As a 50 % contributor to the capital, Port Stephens would not wish to see this asset stripped by Newcastle for its own City needs.

4. Building on the shared communities of interest and strong local identity across the area.

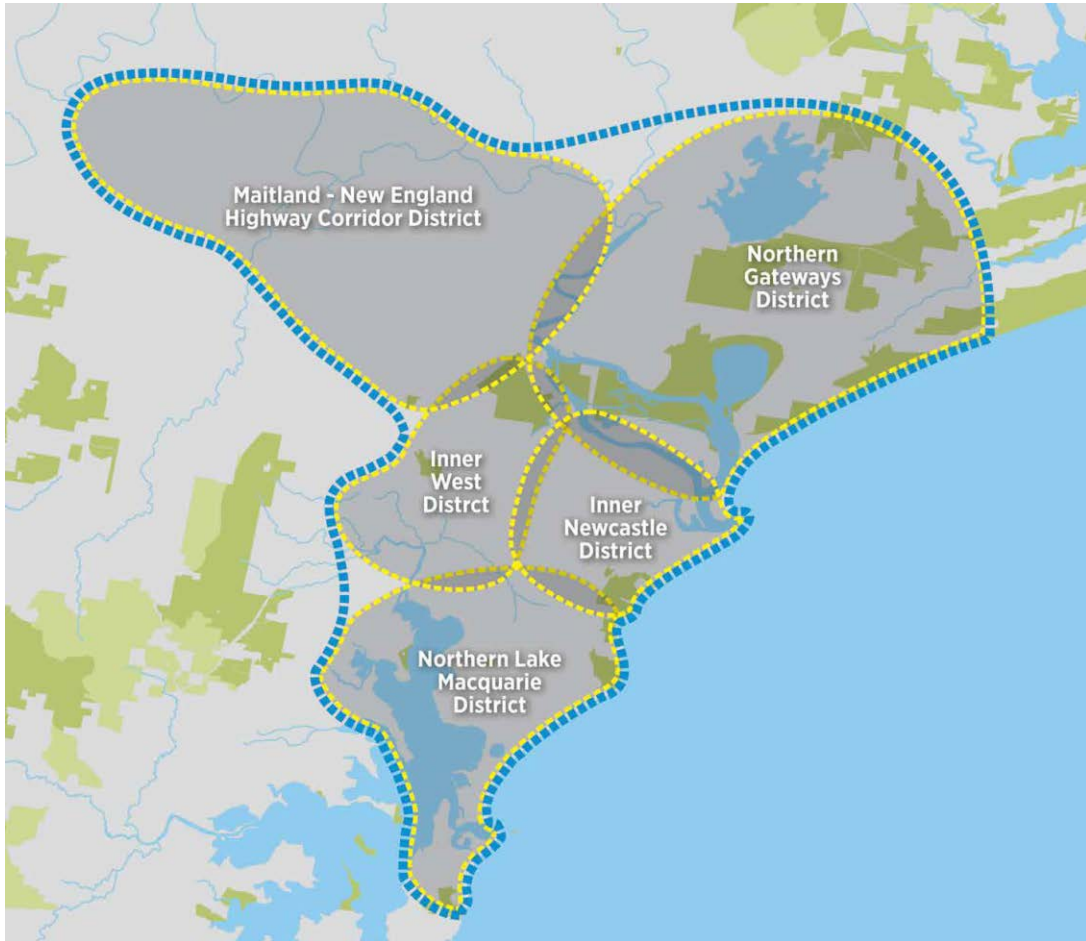
TRRA Comment

- A criterion for merger is the presence of a “community of interest and geographic cohesion”.
- TRRA acknowledges that Port Stephens forms part of Hunter Region, but its local identity is with the Port Stephens locality and individual towns and villages. Newcastle City is relied upon for specialist services and some employment, but day to day sporting and social interactions, as well as trade and commerce, are largely confined to towns and villages within Port Stephens LGA. The main centres of population are just too remote from Newcastle (50+ kilometres in the case of the Tomaree) to result in strong personal affinities or loyalties.
- The Tomaree Peninsula has far fewer traditional and geographical links with Newcastle City than communities such as Charlestown, Cardiff, Warners Bay and Toronto, which have been (in our view arbitrarily) left in a stand-alone Lake Macquarie LGA despite the IPART recommendation to merge those areas with Newcastle.
- In November 2015 the NSW Department of Planning and Environment released a “Draft Plan for Growing HUNTER CITY” with a foreword by Scot McDonald, Parliament Secretary for the Hunter.

The following paragraph sums up the plan’s intentions:

“This Draft Plan for Growing Hunter City has been developed as a companion to the Draft Hunter Regional Plan to reflect the City’s importance to the Hunter and the State. Hunter City is the urban gateway to the Hunter region, the largest regional economy in NSW. For the first time the City is defined as the metropolitan area extending from Toronto and Swansea in the south to Raymond Terrace in the north and from Newcastle harbour in the east to Lochinvar in the west”. (See attached map below)

HUNTER CITY (proposed)



TRRA Comment

-While the plan frequently refers to the need for integration and consistency in policies across the Councils involved, no reference is made to any Hunter City governance strategy.

The boundaries do reflect an area of the Lower Hunter which has established physical connectivity and scope for establishing a unified functional metropolitan unit. The boundary of this unit shown in the above map bears no relationship to that of the proposed merger of Port Stephens and Newcastle City LGAs.

Should this plan be implemented, TRRA suggests that there will ultimately be an initiative to bring the metropolitan area under one Local government.

TRRA believes that it was a major oversight to release this plan without reference to the issue of governance.

We also query why the Proposal for merger of Port Stephens and Newcastle City has no reference to this Hunter City Plan.

6. Providing effective representation. The proposal is for the new Council to have the same number of councillors as Newcastle has now (12 + a Mayor). Port Stephens has (9 + a Mayor). The future of the ward system (Pt Stephens currently has three Councillors for each of three wards) is also uncertain.

TRRA Comment

- At present the East Ward has 3 elected representatives with Port Stephens having a ratio of 6973 residents per Councillor. A merged Council would have ratio of 17,673 per councillor. TRRA's best guess is that we might get 3 councillors for all of Port Stephens to represent us in a council of 13, or as many as 15.
- TRRA considers that this proposal results in a much reduced and unacceptable level of representation and that our access to elected representatives will become more difficult and expensive.
- TRRA predicts that councillors will be subject to excessive workloads and travel across our dispersed populations with a consequent demand for full time status or at very least increased remuneration and allowances to enable them to do justice to their work load.
- Even now Tomaree residents have a significant journey to Raymond Terrace to attend Council meetings and to conduct business with the Council. The journey to Newcastle City Hall will be longer and more costly when parking costs are added. These factors together with the reduced number of Councillors adds up to a far less representative local democracy
- A decision to abandon Wards could see the outlying areas such as the Tomaree denied representation altogether.

7. Being a More effective advocate for the area's interests at State and National levels.

TRRA Comment

- TRRA acknowledges that this could be in the interests of the Port Stephens area, if there is acceptable representation in a merged Council and a more professional and effective administration.
- However, Port Stephens has its own elected representatives in State and Federal governments who are both accessible and directly knowledgeable of the area's needs and priorities. To merge with Newcastle City would dilute this relationship.

FUTURE ACTION

TRRA members are urged to register for the 4 February Public Inquiry at Horizons Golf Course to demonstrate the high level of public concern for this proposed merger.

Members should also write their own submission to the Inquiry (see website address on page 2 of this document).

Geoff Washington
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