Cash for contradictions: KPMG's model for council mergers

GovernmentNews April 20, 2016
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Tuning in to the news recently it was hard to avoid the barrage of media attention regarding management consultants BIS Shrapnel's economic modelling of Labor's proposed changes to negative gearing policy.

Across radio and television reports, much time and attention was given to criticism of the 'dark art' of economic modelling and its apparent capacity to deliver whatever results or findings are required by those commissioning it.

In NSW at present, economic modelling is providing strong support and justification for the Baird Government's plans for council amalgamations. Consulting company KPMG was contracted to perform the economic modelling and prepare the 45 amalgamation proposals currently under consideration at a reported cost of $400,000.

Reading through the proposals, two characteristics stand out. The first is KPMG's modelling that indicates the consistently positive economic impacts that will flow to NSW communities as a result of the amalgamations. The second is the absence of any account of the assumptions or detailed data underpinning this modelling.

Some disturbing insights into the ‘variability’ of this economic modelling are evident in examining the three-into-one amalgamation proposal for Cooma Monaro, Snowy River and Bombala Councils in the State’s south-east.

According to introductory statements in the document, *“The proposal …. is supported by independent analysis and modelling by KPMG.”* The proposal provides a strong rationale for the amalgamation of these councils, citing numerous financial and other benefits to both the new council and its communities.

With amalgamations on the horizon in early 2015, these three councils commissioned KPMG, for a total cost of $80,000, to do some economic modelling for them and prepare a ‘Merger Business Case Analysis’.

In light of the recent criticisms of economic modelling and in a quick game of ‘spot the contradictions’, a comparative assessment of the two reports makes interesting reading. Consider the following statements from the reports:

State Government amalgamation proposal: “*The efficiencies and savings generated by the merger will allow the new council to invest in improved service levels and/or a greater range of services and address the current infrastructure backlog across the three councils.”*
Council merger business case analysis: “*… a merged council is likely to materially underperform against benchmarks relating to asset renewal and infrastructure backlog*.”
or:

State Government amalgamation proposal: “*This merger proposal will provide the new council with the opportunity to strengthen its balance sheet and provide a more consistent level of financial performance. Overall, the proposed merger is expected to enhance the financial sustainability of the new council.”*
Council merger business case analysis: “*The assumptions adopted in the financial analysis are conservative and acknowledge the likely difficulties in generating efficiencies and economies of scale from the proposed merger.”*
or:

State Government amalgamation proposal: “*These communities are bound by their sense of place as an alpine region. Box 2 provides examples of community organisations, services and facilities that have a presence across the region, which indicate the existence of strong existing connections between the communities in the existing council areas.”*
Council merger business case analysis: “*… a merged council entity may also encounter challenges in tailoring programs and initiatives to diverse community interests and profiles across a region spanning more than 15,000 km2.”*

Think about these statements – they are some of the outcomes of two economic modelling exercises performed by one consultant [KPMG] focusing on the same amalgamation scenario. Total public money expended – $480,000. Yet reading these statements, it’s hard to believe that the two reports came from one single source. The apparent contradictions are alarming.

What makes this more concerning is that whilst the full KPMG report prepared for the councils is freely available, that prepared for the State Government, along with any supporting analysis and assumptions, has not been publicly released despite numerous requests from councils, communities, the State Opposition and others.

In his essay in The Monthly in April 2015 titled *'Spreadsheets of power – How economic modelling isused to circumvent democracy and shut down debate',* Australian economist Richard Denniss observed that *"Economic models are at their most powerful when only the powerful are aware of what they contain: thousands of assumptions that range from the immoral and implausible to the well-meaning but estimated. However they are made, the conclusions of a model are only as reliable as its assumptions."*

In the end, the economic modellers may get these NSW amalgamations over the line. But these reports should sound warning bells for the State Government, that if they're about to introduce sweeping changes across the State that may have far-reaching impacts on communities, modelling only for the outcomes they want is probably not good practice.

There are risks and costs involved in amalgamations – any council that has been through the process will say the same. If the State Government's own consultants found them in one case, they can probably find them in the other 44.

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