IPART
New South Wales

Independent Pricing and Regulatory Tribunal

Assessment of Council Fit for the Future Proposals

Local Government — Final Report
October 2015

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Summary

The NSW Government has asked IPART to undertake the role of the Expert Advisory Panel in assessing local government Fit for the Future (FFTF) proposals.[1] The FFTF reforms aim to improve the strength and effectiveness of local government in providing services and infrastructure that communities need.[2]

This report sets out our assessment of whether local councils are fit or not fit for the future based on the proposals submitted. In undertaking the assessments we have used the Independent Local Government Review Panel's (ILGRP's) options for reform as a starting point for our analysis.

The NSW Government has announced that councils which are assessed as fit will have access to a range of benefits including a streamlined rate variation process, a State Government borrowing facility, priority for other government funding and grants, and eligibility for additional devolved planning powers.[3] Funding will also be provided by the NSW Government to assist with the transitional costs of merging, establishing regional Joint Organisations (JO), and assisting regional and rural councils.[4]

The assessments will now be considered by the NSW Government in determining the next stage of the reform process.

Key findings

We received 139 local council proposals from 144 councils including:

- four Merger Proposals (involving nine councils)
- 115 Council Improvement Proposals, and
- 20 Rural Council Proposals.[5]

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1 The NSW Government's terms of reference for the review is at Appendix A.

2 Office of Local Government (OLG), *Fit for the Future – A roadmap for Stronger, Smarter Councils*, September 2014, p 15.

3 OLG, *Fit for the Future – A roadmap for Stronger, Smarter Councils*, September 2014, pp 14-15.

4 Ibid.

5 Council proposals can be found on the IPART website at www.ipart.nsw.gov.au

We assessed 52 proposals as being fit for the future, which represents 37% of the proposals received.[6] To be assessed as fit, councils must have demonstrated they have sufficient scale and capacity and are financially sustainable.

All four Merger Proposals we received were assessed as fit because they:

- would deliver substantial benefits to their local communities when compared to the councils standing alone, and
- were generally the best available options for the relevant councils as neighbouring councils did not elect to join the Merger Proposals.

We assessed 87 proposals as not being fit for the future, which represents 63% of the proposals received.

Of the 87 proposals assessed as not fit:

- 60 were assessed as not having sufficient scale and capacity, but did meet the financial criteria
- 18 were assessed as having sufficient scale and capacity, but did not meet the financial criteria, and
- 9 were assessed as not having sufficient scale and capacity and not meeting the financial criteria.

The main reasons for councils being assessed as not having sufficient scale and capacity were because:

- A merged entity would have greater scale and strategic capacity to better partner with other levels of government in providing key infrastructure and social services.
- A merged entity could better integrate planning and development, resulting in improved planning decisions and enhanced economic growth.
- The merger option and the business case for the merger commissioned by the council showed substantial gains. Despite this, most councils did not submit a Merger Proposal.
- Our analysis and the analysis undertaken by our independent economic consultants, Ernst & Young, indicated the merger option would provide large net benefits to the local communities.
- The council's proposal to remain a stand-alone council was not at least as good as the preferred merger option.
- The efficiency improvements in the council's proposal could be realised under the merger option, and the merger option could provide significant further benefits to residents.

6 Details of the assessment for each council can be found in Chapter 2 and Appendix C.

In addition to these reasons, in non-metropolitan areas, a number of councils were assessed as not having sufficient scale and capacity because the council's population is declining or static and is forecast to be below 10,000 by 2031. A population of this size would be likely to affect a council's efficiency and strategic capacity to meet the future needs of its community.

For both Metropolitan Sydney and non-metropolitan councils, the main reason councils did not meet the financial criteria was generally because they forecast an operating deficit throughout the period, including in the benchmark year of 2019-20, and other factors suggest the council has a weak financial position.[7]

As discussed further below, most Metropolitan Sydney councils were assessed as not fit because they did not demonstrate they had sufficient scale and capacity. In contrast, in non-metropolitan areas, a number of councils were assessed as not fit as they did not meet the financial criteria.

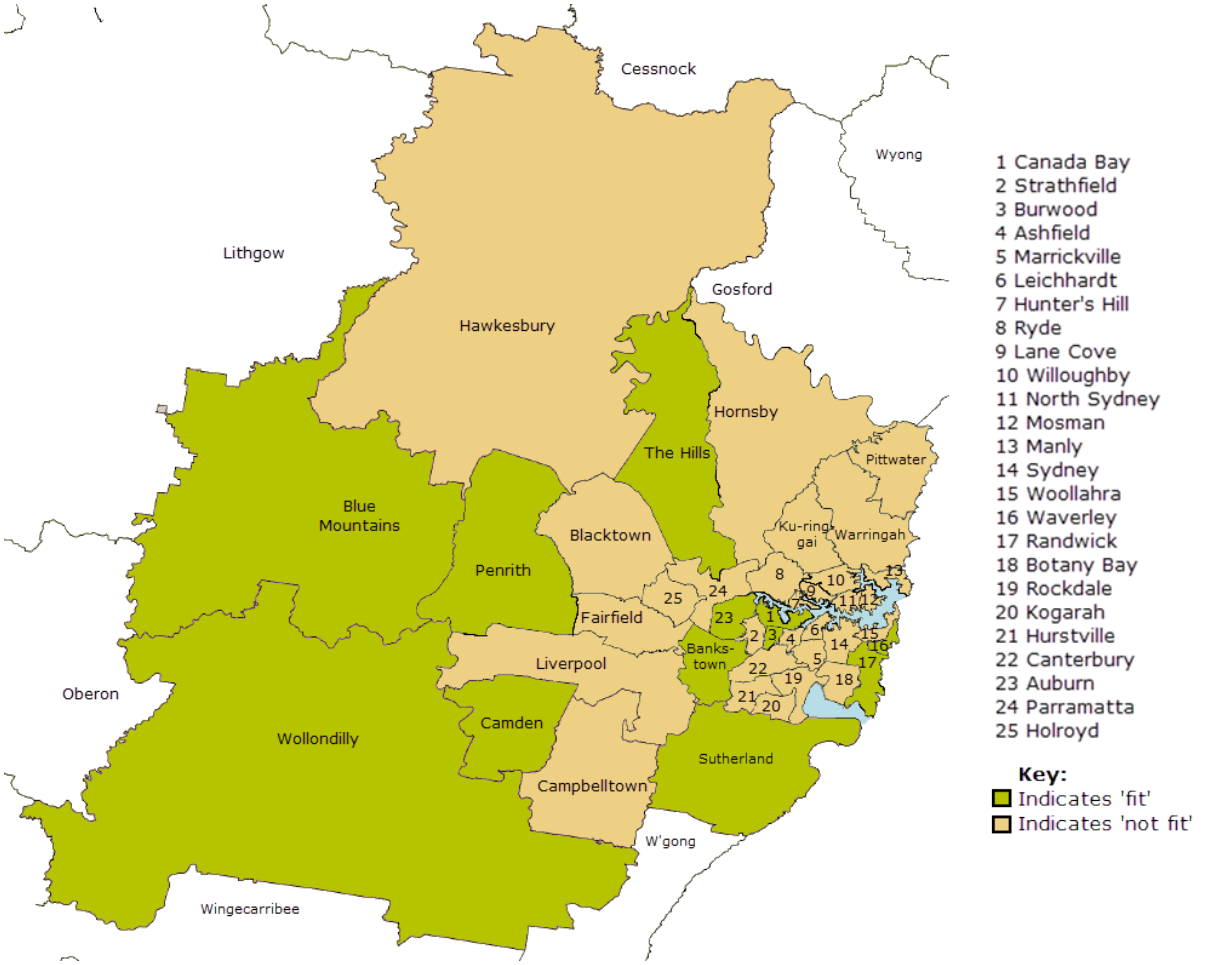
The assessment for each council can be found in Tables 1 to 7 below.

Metropolitan Sydney

In Metropolitan Sydney, we received 38 proposals, which included two Merger Proposals and 36 Council Improvement Proposals. As set out in Figure 1 below, we assessed 9 proposals as fit and 29 proposals as not fit in Metropolitan Sydney.

[7] For rural councils (councils in OLG Groups 8 to 11 and those choosing to submit a Rural Council Proposal) the benchmark year for the operating performance ratio was 2024-25. However, for all other measures and councils the benchmark year was 2019-20.

Figure 1 Metropolitan Sydney assessments



Metropolitan Sydney: Merger Proposals

We received Merger Proposals from:

- Randwick City Council (Randwick) and Waverley Council (Waverley), and
- Auburn City Council (Auburn), Burwood Council (Burwood) and City of Canada Bay Council (Canada Bay).

We have assessed the merger of Randwick and Waverley as fit because the merger:

- Would deliver substantial benefits to their local communities when compared to the councils standing alone.
- Does not preclude the ILGRP's preferred option of a Global City Council should this merger be adopted. However, we note Waverley and Randwick have indicated they do not support a merger with the Council of the City of Sydney (City of Sydney).

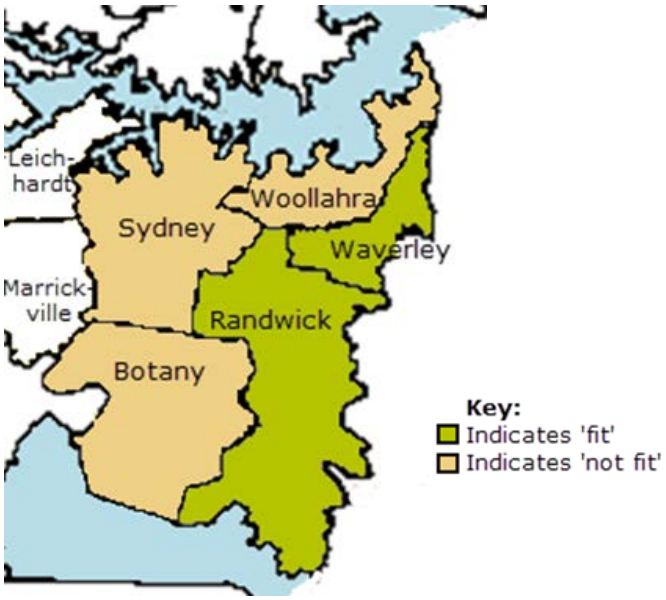
- Was the best available option for these councils given neighbouring councils did not elect to join the Merger Proposal.
- Builds on existing collaborations between Waverley and Randwick, which share communities of interest and similar geography.

Nonetheless, we observe that greater benefits would be realised from including the other neighbouring councils in this merger, including Woollahra Municipal Council (Woollahra), City of Botany Bay Council (Botany Bay), and the City of Sydney, should the Government adopt the Global City Council option.

Over a 20-year timeframe, Ernst & Young's analysis suggests:

- a merger of Randwick and Waverley could provide net present value (NPV) benefits of $99 million
- a merger of Randwick, Waverley, Woollahra and Botany Bay could provide NPV benefits of $218 million, while
- a merger of Randwick, Waverley, Woollahra, Botany Bay and City of Sydney to form a Global City Council could provide NPV benefits of $283 million.

Figure 2 Global City Council



We have also assessed the Merger Proposal from Auburn, Burwood and Canada Bay as fit because the merger:

- Would deliver substantial benefits to their local communities when compared to the councils standing alone.
- Is forecast to improve the operating performance of the councils compared with each council standing alone, and in the absence of rate increases.
- Was the best available option for these councils given neighbouring councils did not elect to join the Merger Proposal.

This merger is consistent with the NSW Government's *Fit for the Future – A roadmap for Stronger, Smarter Councils*, which identifies voluntary mergers as an option to become FFTF.[8] As noted above, the Government is also providing incentives and support to enable councils to pursue voluntary mergers.[9]

We understand Auburn, Burwood and Canada Bay consider the Merger Proposal would result in better outcomes for the community with Strathfield Municipal Council (Strathfield) included and they are advocating for its inclusion in the merger.

Over a 20-year timeframe, our analysis, using information provided by the councils, suggests a merger of Auburn, Burwood and Canada Bay could provide NPV benefits of $114 million. A merger which includes Strathfield is likely to yield additional benefits.

Figure 3 Auburn, Burwood and Canada Bay merger proposal

8 OLG, *Fit for the Future – A roadmap for Stronger, Smarter Councils*, September 2014, p 10.
9 Ibid.

Metropolitan Sydney: City of Sydney

City of Sydney submitted a Council Improvement Proposal to remain a stand-alone council. City of Sydney meets the financial criteria overall as a stand-alone council and its current and projected financial performance is strong. It also demonstrated it has the ability to proactively partner with the government to undertake significant infrastructure and urban renewal projects, such as the Green Square development.

However, we have assessed City of Sydney as not meeting the scale and capacity criterion against the Global City Council option, and therefore as not fit.

A Global City Council may better integrate planning and development across the eastern suburbs and central Sydney as the central business district (CBD) expands. It would also provide for better partnering with other levels of government for key infrastructure, such as the Sydney Light Rail Project and the second Sydney Harbour rail crossing.

Should the Government adopt the Global City Council option, the following issues might require consideration:

- The extent to which the Global City Council should be given control over key infrastructure such as the Sydney Opera House, Barangaroo, Port Botany, Circular Quay and Darling Harbour to enable it to operate effectively as a Global City Council, as this infrastructure is currently administered by bodies separate to local councils.
- How to ensure the development and growth of the CBD and surrounding areas continues. This may require changes and enhancements to the *City of Sydney Act 1988*. In addition, the implications for business voting within the Global City Council may need to be considered, as the *City of Sydney Act 1988* will allocate two votes to businesses in local council elections in the City of Sydney from 2016.
- Measures to ensure the significant council revenues generated from businesses in the Sydney CBD are spent efficiently to realise the key objectives of the Global City Council.

If the Global City Council option is not adopted, City of Sydney has sufficient scale and capacity to stand alone and would be fit as a stand-alone council.

Metropolitan Sydney: Council Improvement Proposals

Of the 36 Council Improvement Proposals we received in Metropolitan Sydney (including City of Sydney), we assessed seven as fit and 29 as not fit.

Councils assessed as fit

We assessed seven Council Improvement Proposals as fit in Metropolitan Sydney. All of these councils are in Outer Metropolitan Sydney, other than Bankstown City Council. These councils include:

- Bankstown City Council
- Blue Mountains City Council
- Camden Council
- The Hills Shire Council
- Penrith City Council
- Sutherland Shire Council, and
- Wollondilly Shire Council.

These councils were assessed as fit because:

- remaining a stand-alone council was consistent with the ILGRP's preferred option, or
- our analysis did not identify a merger alternative that was better than remaining a stand-alone council, and
- they met the financial criteria overall.

In the case of Blue Mountains City Council and Wollondilly Shire Council, whilst their current financial performance is poor, their projected financial performance shows significant improvement. This is due primarily to recently approved large special variations which increased the general income Blue Mountains City Council and Wollondilly Shire Council can collect from their communities, by 28.5% and 38.8% respectively above the rate peg, over the next few years.

In the case of Camden Council, the council is managing large increases in its population which has adversely affected its short term financial performance. We have taken this into account in undertaking the assessment against the financial criteria and have assessed it as meeting the financial criteria overall.

Councils assessed as not fit due to insufficient scale and capacity

We assessed all Inner Metropolitan Sydney councils that had a preferred merger option, but submitted a stand-alone proposal, as not fit, as they did not meet the scale and capacity criterion. As outlined in Table 2 below, we assessed 26 of the 36 Council Improvement Proposals in Metropolitan Sydney as not fit, because the alternative merger option identified and considered in business cases by the councils showed substantial gains that were greater than each council remaining a stand-alone council. For these councils, it is likely that structural changes would be required to enable these councils to be assessed as meeting the scale and capacity criterion.

The ILGRP's preferred mergers could provide a range of benefits to the community including:

- more effective and efficient service delivery
- improved delivery of major infrastructure
- more integrated strategic planning and policy development
- more effective partnering with government, and
- stronger advocacy for local communities.

In addition to these benefits, our indicative analysis suggests $1.8 billion to $2.0 billion in NPV benefits could be realised over 20 years if the ILGRP's preferred Metropolitan Sydney mergers occurred. This analysis was undertaken by using the merger business cases provided by councils and estimating the NPV benefits using a consistent 20-year timeframe and discount rate.[10]

We have also commissioned Ernst & Young to develop its own estimates of the potential financial benefits of the Metropolitan Sydney mergers. This analysis indicated $1.3 billion in NPV benefits could be realised over 20 years. The differences between IPART's estimates and Ernst & Young's estimates represent differences in the assumptions and methodologies used by the councils' consultants and Ernst & Young. However, both estimates suggest substantial net financial gains are likely to arise from these mergers.

Some councils, such as Hornsby Shire Council and Warringah Council, supported the ILGRP's proposed reforms, but were unable to submit a Merger Proposal as they could not reach agreement with neighbouring councils to merge.

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10 A discount rate of 9.5% nominal (7% real) was used in the IPART estimates, with an assumption that the merger takes effect from 2016-17. We note the merger business cases commissioned by councils, which formed the basis of the IPART estimates, have been undertaken by a range of different consultants, using different assumptions, methodologies and timeframes. As a result, our estimates have recalculated the NPVs for these business cases using a consistent 20-year timeframe and discount rate.

A number of councils commissioned business cases of alternative merger options and structural changes to those identified by the ILGRP. Some of these alternative merger options showed there could be substantial benefits from these options. However, despite these potential gains, most Metropolitan Sydney councils did not submit a Merger Proposal.

Hunter's Hill Council, Lane Cove Municipal Council and City of Ryde Council submitted a proposal for a Joint Regional Authority (JRA) as an alternative to a merger. Under the proposed JRA, the councils would share services and centralise planning and development. Our analysis suggests the preferred merger, which would also include Mosman Municipal Council, North Sydney Council and Willoughby City Council, would improve the capacity of the relevant councils to partner effectively with government and undertake strategic planning and development for the Lower North Shore region. The JRA is also likely to provide a lower level of efficiency savings compared to the large gains available from the preferred merger of $280 million over 20 years on a NPV basis.[11] As we assessed standing alone in the proposed JRA would not be as good as, or better than, the preferred merger, we assessed Hunter's Hill Council, Lane Cove Municipal Council and City of Ryde Council as not meeting the scale and capacity criterion, and not fit.

Councils assessed as not fit due to not meeting the financial criteria

We assessed three Council Improvement Proposals in Metropolitan Sydney as not fit because they did not demonstrate they met the financial criteria overall. These councils are all in Outer Metropolitan Sydney and include:

- Blacktown City Council
- Campbelltown City Council, and
- Hawkesbury City Council.

As these councils were assessed as satisfying the scale and capacity criterion, strategies to improve their financial performance should enable them to become fit. This could include measures to promote financial sustainability, by reducing costs and increasing revenues. However, the strategies that could be adopted will depend on each council's circumstances and the Government's priorities.

In general, most Metropolitan Sydney councils demonstrated their current and forecast financial performance was relatively strong.

[11] This analysis was based on a business case jointly commissioned by Lane Cove Municipal Council, Hunter's Hill Council, City of Ryde Council, Mosman Municipal Council and Willoughby City Council. North Sydney Council was also part of the preferred ILGRP merger, but was not involved in the commissioning of this business case.

Non-metropolitan councils

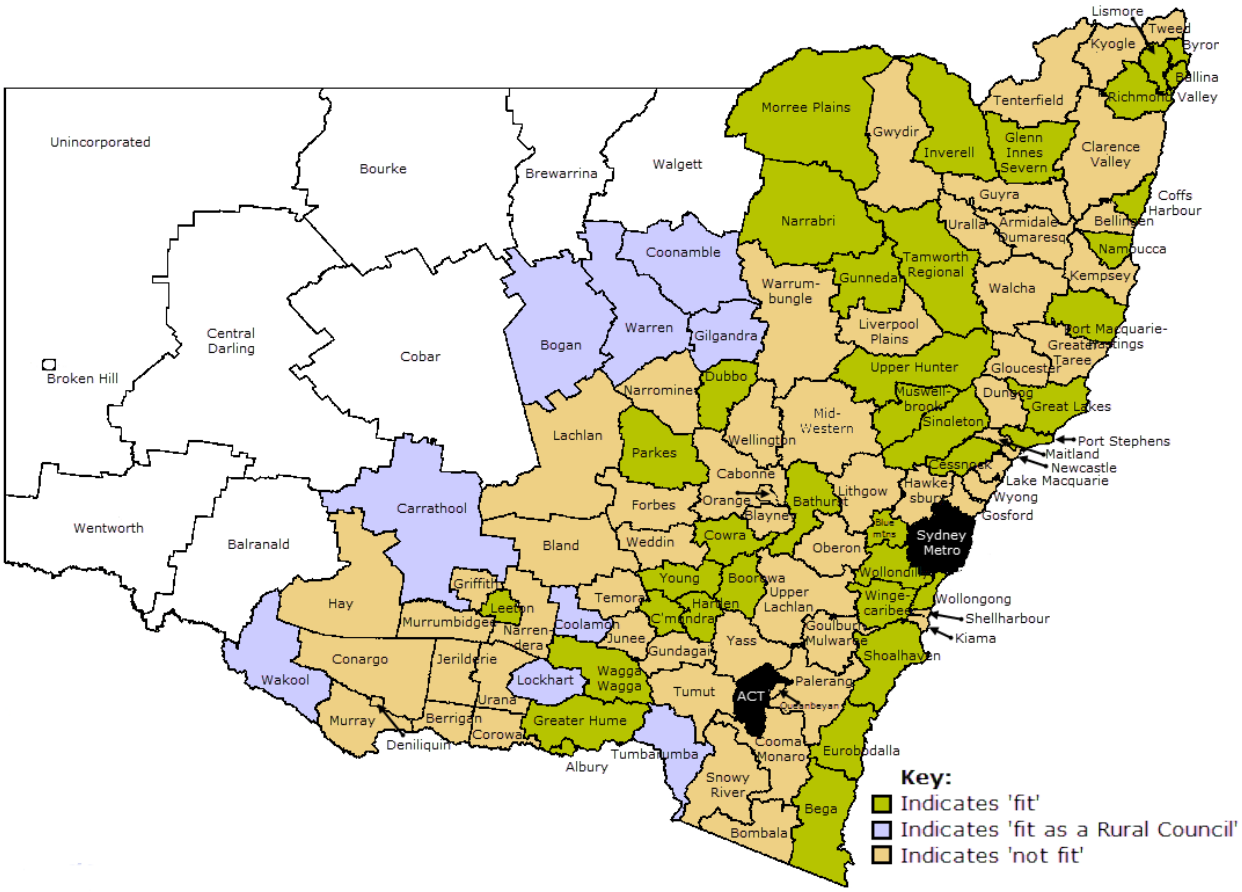
Outside of Metropolitan Sydney, we received:

- 2 Merger Proposals
- 79 Council Improvement Proposals, and
- 20 Rural Council Proposals.

As set out in Figure 4 below, of these 101 proposals:

- 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 4 Non-metropolitan assessments



Non-metropolitan councils: Merger Proposals

We received Merger Proposals from:

- Young Shire Council (Young) and Boorowa Council (Boorowa). This Merger Proposal also included Harden Shire Council without its agreement.
- Cootamundra Shire Council (Cootamundra) and Harden Shire Council (Harden).

We assessed both these Merger Proposals as fit because:

- the mergers would deliver substantial benefits to their local communities when compared to the councils standing alone
- the proposed merger populations are projected to be consistent with the ILGRP's rule of thumb of close to or above 10,000 for non-metropolitan council populations by 2031, and
- in the case of Young and Boorowa, it was the best available option for these councils given neighbouring councils did not wish to join the Merger Proposal.

Our assessment of fit for the Young and Boorowa Merger Proposal is dependent on Young and Boorowa resolving to merge in the absence of Harden. In the event agreement cannot be reached, we find the councils are deemed not fit, as they have not demonstrated scale and capacity as stand-alone councils.

Over a 20-year timeframe, our analysis, based on information provided by the merging councils, suggests:

- a merger of Young and Boorowa could provide benefits of $31 million on a NPV basis,[12] while
- a merger of Cootamundra and Harden could provide benefits of $11 million on a NPV basis.[13]

Young has indicated it supports a four-way merger between Young, Boorowa, Harden and Cootamundra. However, Cootamundra has rejected this option on the basis that it changes the focus of Cootamundra and the southern half of Harden away from the Riverina region. Based on the information provided by the councils we consider a four-way merger is likely to deliver larger gains to the community than the current two Merger Proposals.

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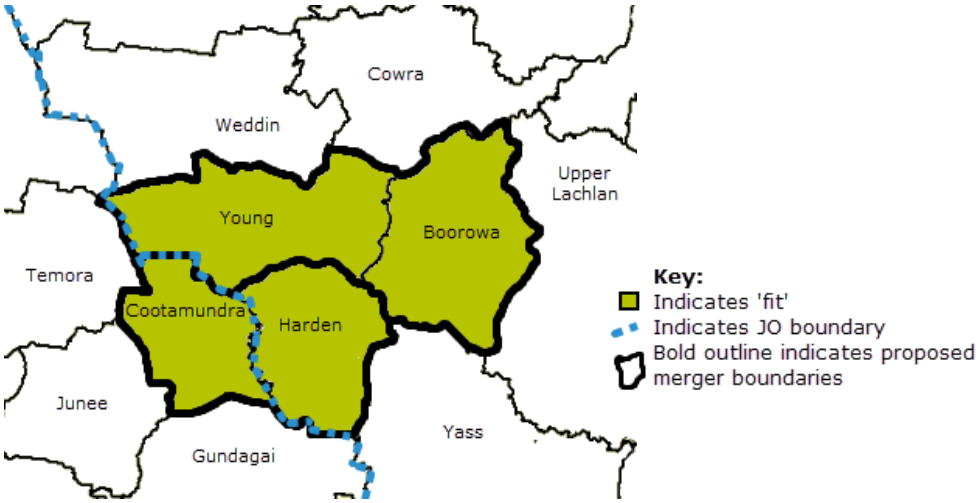
12 This NPV is based on an estimate by IPART using the business case provided by Young and Boorowa in their Merger Proposal.

13 This NPV is based on an estimate by IPART using the business case provided by Cootamundra and Harden in their Merger Proposal.

Figure 5 Merger proposals from Young/ Boorowa and Cootamundra/Harden



Non-metropolitan councils: Council Improvement Proposals

In relation to the 79 Council Improvement Proposals we received in non-metropolitan areas, we assessed 32 as fit and 47 as not fit.

Councils assessed as fit

We assessed 32 Council Improvement Proposals as fit in non-metropolitan areas. The councils that were assessed as fit are spread across all regions in NSW. These councils were generally assessed as fit because:

- remaining a stand-alone council was consistent with the ILGRP's options for reform or
- our analysis has not identified evidence for a better alternative to the council's proposal to stand alone, and
- they met the financial criteria overall.

Councils in non-metropolitan areas were generally more likely to meet the scale and capacity criterion than councils in Metropolitan Sydney. This is because the ILGRP identified fewer preferred merger options in non-metropolitan areas. Councils that did not have a preferred merger option were still required to explore the merger option. However, these councils were not required to demonstrate that standing alone was as good as, or better than, the merger option. As a result, less evidence was required from councils in non-metropolitan areas in relation to these merger options.

We also observe the efficiency gains from enhanced service delivery, integrated planning and development, and partnering with other levels of government in non-metropolitan areas will typically not be as large relative to those in Metropolitan Sydney.

Councils assessed as not fit due to insufficient scale and capacity

We assessed 28 Council Improvement Proposals in non-metropolitan areas as not fit because they did not have sufficient scale and capacity. This was generally because:

- the alternative merger option showed substantial gains that were greater than the council remaining a stand-alone council, or
- the council's population was forecast to decline to below 10,000 by 2031, which would be likely to undermine its scale to efficiently deliver services to the local community, and its long term strategic capacity to partner with other levels of government.

It is likely structural changes would be needed to enable these councils to be assessed as meeting the scale and capacity criterion.

Councils assessed as not fit due to not meeting the financial criteria

We assessed 13 Council Improvement Proposals as not fit in non-metropolitan areas as they did not meet the financial criteria overall. For these councils, improvements to their financial performance could enable them to become fit. For example, this could include measures to reduce costs through structural changes or by sharing services with neighbouring councils. However, as noted above, the appropriate strategies for each council will depend on their circumstances and the Government's policies.

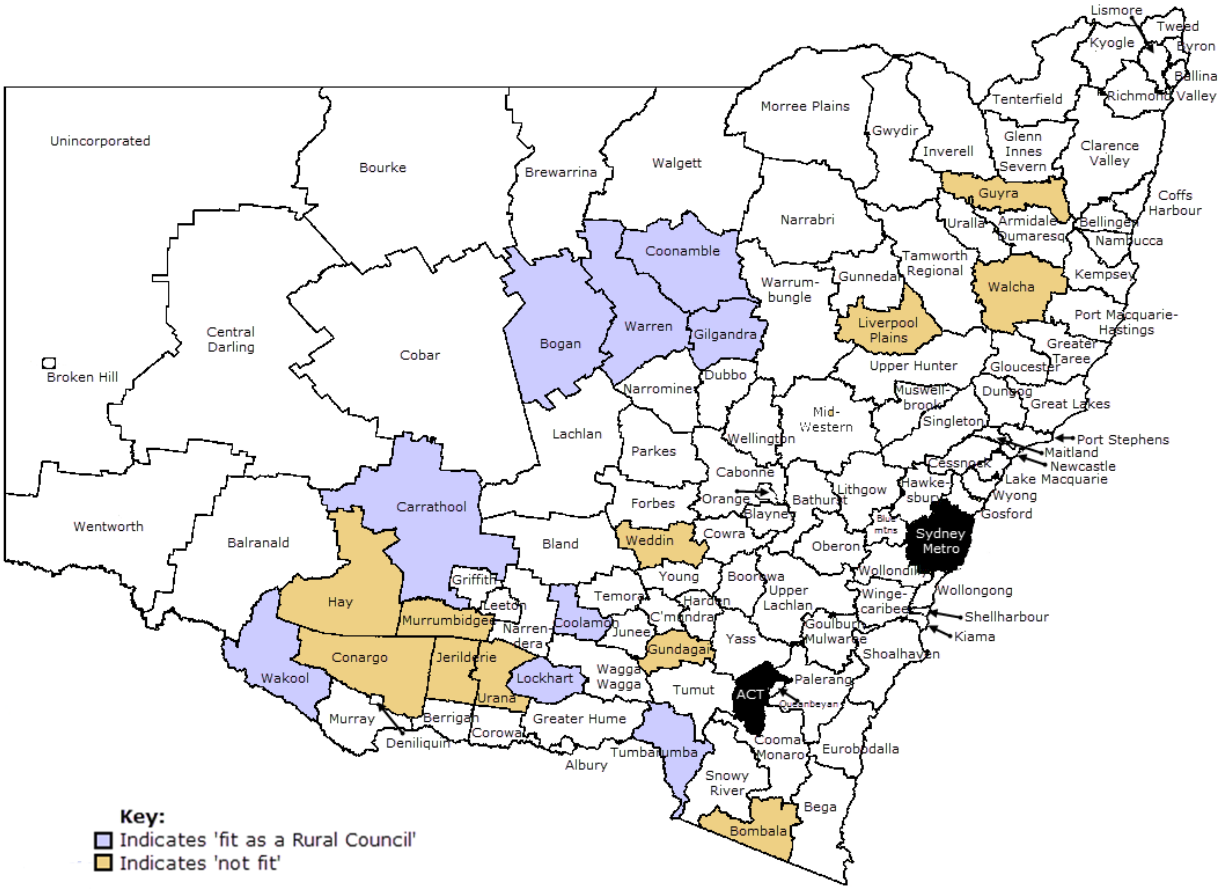
Councils assessed as not fit due to not meeting the financial criteria and insufficient scale and capacity

We assessed six Council Improvement Proposals in non-metropolitan areas as not fit because they did not meet both the scale and capacity criterion and the financial criteria overall. For these councils, both structural changes and improvements to financial performance may be required to enable these councils to become fit.

Non-metropolitan councils: Rural Council Proposals

In relation to the 20 Rural Council Proposals we received, we assessed nine proposals as being fit as Rural Councils and 11 proposals as not fit. Figure 6 sets out a map outlining the councils which submitted Rural Council Proposals and the assessments for these councils.

Figure 6 Rural Council Proposals assessments



To be assessed as meeting the scale and capacity criterion, and fit as a Rural Council, councils were required to demonstrate:

- they met the majority of the Rural Council Characteristics, including they had limited options for mergers, and
- how they planned to achieve real change and improve their capacity and sustainability.

Councils were also required to demonstrate they met the financial criteria overall to be assessed as fit. However, rural councils were provided with greater flexibility in meeting some of the measures for these criteria, as were all OLG Group 8 to 11 councils.

The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on the Government adopting a Rural Council Model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely that most Rural Councils would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Under such circumstances, structural changes would be required to enable these councils to become fit.

We assessed 11 Rural Council Proposals as not fit. Of these 11 Rural Council Proposals:

- Six proposals did not meet the scale and capacity criterion. This was because in most cases there was an alternative merger option that showed substantial gains that were greater than the council standing alone as a Rural Council.
- Two proposals did not meet the financial criteria overall.
- Three proposals did not meet either the scale and capacity criterion or the financial criteria overall.

For the councils that did not meet the financial criteria overall, it is likely substantial changes would be required to enable these councils to become fit. This is because these councils did not meet the financial criteria overall, in spite of the greater flexibility provided to rural councils under the assessment approach.

What process have we followed?

Consistent with the NSW Government's Terms of Reference and our Methodology Paper[14], we assessed the council proposals against the following criteria:

1. scale and capacity to engage effectively across community, industry and governments, and
2. sustainability
3. effectively managing infrastructure and delivering services for communities
4. efficiency.

The NSW Government has established the 'scale and capacity' criterion as the threshold criterion for councils, which requires councils to meet this criterion to be assessed as fit. Further, councils must also meet the remaining three financial criteria on an overall basis to be assessed as fit.

[14] Our final methodology paper for this review was published on 5 June 2015. See: IPART, *Methodology for Assessment of Council Fit for the Future Proposals - Methodology Paper,* June 2015.

What does the rest of this report cover?

The report is structured as follows:

- Chapter 1 discusses our approach to the assessments and the proposals we received
- Chapter 2 outlines the assessments for each council on a regional basis
- Chapter 3 sets out monitoring and reporting issues on FFTF projections
- Appendix A sets out the NSW Government's Terms of Reference
- Appendix B outlines the FFTF financial criteria and issues we have considered in assessing proposals against the financial criteria
- Appendix C provides further detail on the assessment for each council against the FFTF criteria
- Appendix D provides further detail on the merger business cases
- Appendix E includes Ernst & Young's consultant report on the benefits of the Metropolitan Sydney mergers.

Assessment of councils: Metropolitan Sydney councils

Table 1 Metropolitan Sydney Merger Proposals

Councils	ILGRP preferred option	Assessment
Randwick City and Waverley	**Merge to form a Global Sydney council**	Fit
Auburn City Burwood City of Canada Bay	**Auburn to merge with Holroyd, Parramatta, Ryde (part) and The Hills (part);** **Burwood and Canada Bay to merge with Ashfield, Leichhardt, Marrickville and Strathfield**	Fit

Note: Bold indicates an ILGRP preferred option.

Table 2 Inner Metropolitan Sydney Councils

Region	ILGRP preferred option	Councils	Assessment
Global City	**Amalgamate with Randwick City and Waverley Council**	City of Botany Bay	Not fit
		City of Sydney	Not fit as a Global City Council
		Woollahra Municipal	Not fit
Inner West	**Amalgamate with City of Canada Bay and Burwood**	Ashfield	Not fit
		Leichhardt Municipal	Not fit
		Marrickville	Not fit
		Strathfield	Not fit
West Central	**Amalgamate with Auburn, City of Ryde (part) and The Hills (part)**	Holroyd City	Not fit
		Parramatta City	Not fit
Lower North Shore	**Amalgamate**	Hunter's Hill	Not fit
		Lane Cove	Not fit
		Mosman Municipal	Not fit
		North Sydney	Not fit
		City of Ryde	Not fit
		Willoughby City	Not fit
Northern Suburbs	**Amalgamate**	Hornsby Shire	Not fit
		Ku-ring-gai	Not fit
Northern Beaches	**Amalgamate**	Manly	Not fit
		Pittwater	Not fit
		Warringah	Not fit
South West	**Amalgamate**	Fairfield City	Not fit
		Liverpool City	Not fit
Southern	**Amalgamate**	City of Canterbury	Not fit
		Hurstville City	Not fit
		Kogarah City	Not fit
		Rockdale City	Not fit
Bankstown	**No change**	Bankstown City	Fit

Note: Bold indicates an ILGRP preferred option.

Table 3 Outer Metropolitan Sydney Councils

Council	ILGRP preferred option	Assessment
Blacktown City	**No change**	Not fit
Blue Mountains City	**No change**	Fit
Camden	**No change**	Fit
Campbelltown City	**No change**	Not fit
Hawkesbury	**No change**	Not fit
Penrith City	**No change**	Fit
Sutherland Shire	**No change**	Fit
The Hills Shire	**No change**	Fit
Wollondilly Shire	**No change**	Fit

Note: Bold indicates an ILGRP preferred option.

Assessment of councils: Non- metropolitan councils

Table 4 Non- metropolitan Merger Proposals

Councils	ILGRP preferred option	Assessment
Young Shire and Boorowa	**Merge with Boorowa, Harden and Young**	Fit
Cootamundra Shire and Harden Shire*	**Merge with Boorowa and Young**	Fit

Notes: Bold indicates an ILGRP preferred option. *The ILGRP did not have a preferred option for Cootamundra.

Table 5 Hunter, Central Coast and Illawarra Councils

Region	Council	ILGRP options	Assessment
Hunter	Cessnock City	Council in JO	Fit
	Dungog Shire	**Merge with Maitland** or Council in JO[a]	Not fit
	Lake Macquarie City	**Amalgamate with Newcastle** or Council in JO[a]	Not fit
	Maitland City	**Merge with Dungog** or Council in JO[a]	Not fit
	Muswellbrook Shire	Council in JO	Fit
	Newcastle City	**Amalgamate with Lake Macquarie** or Council in JO [a]	Not fit
	Port Stephens	Council in JO	Fit
	Singleton	Council in JO	Fit
	Upper Hunter Shire	Council in JO	Fit
Central Coast	Gosford City	Amalgamate with Wyong or a multi-purpose JO (no separate water corporation until other options properly evaluated)	Not fit
	Wyong City	Amalgamate with Gosford or a multi-purpose JO (no separate water corporation until other options properly evaluated)	Not fit
Illawarra	Kiama Municipal	Council in a JO (if future amalgamation – with Shoalhaven, noting its inclusion in South East-Tablelands region)	Not fit
	Shellharbour City	Council in a JO (amalgamate if future options need to be revisited)	Not fit
	Wollongong City	Council in a JO (amalgamate if future options need to be revisited)	Fit

[a] Possible boundary change included.

Notes: Bold indicates an ILGRP preferred option. JO stands for Joint Organisation.

The ILGRP did not include a table of options for the Hunter, Central Coast and Illawarra regions. Instead, the ILGRP included a discussion of these councils in its report.

Table 6 Non- metropolitan councils[15]

Region	Council	ILGRP options	Assessment
Northern Rivers	Ballina Shire	Council in Northern Rivers JO	Fit
	Byron Shire	Council in Northern Rivers JO	Fit
	Lismore City	Council in Northern Rivers JO or merge with Kyogle	Fit
	Richmond Valley	Council in Northern Rivers JO or merge with Kyogle	Fit
	Tweed Shire	Council in Northern Rivers JO	Not fit
North Coast	Bellingen Shire	Council in North Coast JO	Not fit
	Clarence Valley	Council in North Coast JO	Not fit
	Coffs Harbour City	Council in North Coast JO	Fit
	Nambucca Shire	Council in North Coast JO	Fit
Mid-North Coast	Gloucester Shire	Council in Mid-North Coast JO or merge with Great Lakes and/or Greater Taree	Not fit
	Great Lakes Shire	Council in Mid-North Coast JO or merge with Gloucester	Fit
	Greater Taree City	Council in Mid-North Coast JO or merge with Gloucester	Not fit
	Kempsey Shire	Council in Mid-North Coast JO	Not fit
	Port Macquarie-Hastings	Council in Mid-North Coast JO	Fit
New England	Armidale Dumaresq	Council in New England JO or **merge with Guyra**	Not fit
	Glen Innes Severn	Council in New England JO	Fit
	Inverell Shire	Council in Namoi JO	Fit
	Tenterfield Shire	Council in New England JO	Not fit
	Uralla Shire	Council in New England JO or **merge with Walcha**	Not fit
Namoi	Gunnedah Shire	Council in Namoi JO	Fit
	Gwydir Shire	Council in Namoi JO or merge with Moree Plains	Not fit
	Liverpool Plains Shire	Council in Namoi JO or merge with Gunnedah	Not fit
	Moree Plains Shire	Council in Namoi JO or merge with Gwydir	Fit
	Narrabri Shire	Council in Namoi JO	Fit
	Tamworth Regional	Council in Namoi JO	Fit
Orana	Dubbo City	Council in Orana JO or merge with Wellington and/or Narromine	Fit
	Narromine Shire	Council in Orana CC or merge with Dubbo	Not fit
	Warrumbungle Shire	Council in Orana JO	Not fit
	Wellington	Council in Orana JO or merge with Dubbo	Not fit

15 This excludes Rural Council Proposals and councils in the Hunter, Central Coast and Illawarra.

Region	Council	ILGRP options	Assessment
Central West	Bathurst Regional	Council in Central West JO or merge with Oberon	Fit
	Blayney Shire	Council in Central West JO or merge with Orange	Not fit
	Cabonne	Council in Central West JO or **merge with Orange**	Not fit
	Cowra	Council in Central West JO or merge with Weddin	Fit
	Forbes Shire	Council in Central West JO; merge with Weddin	Not fit
	Lachlan Shire	Council in Central West JO or merge with Parkes	Not fit
	Lithgow City	Council in Central West JO	Not fit
	Mid-Western Regional	Council in Central West JO	Not fit
	Oberon	Council in Central West JO or merge with Bathurst	Not fit
	Orange City	Council in Central West JO or **merge with Cabonne** and/or Blayney	Not fit
	Parkes Shire	Council in Central West JO or merge with Lachlan	Fit
Tablelands	Goulburn Mulwaree	Council in Tablelands JO	Not fit
	Upper Lachlan Shire	Council in Tablelands JO or merge with Goulburn-Mulwaree	Not fit
	Wingecarribee Shire	Council in Tablelands JO	Fit
	Yass Valley	Council in Tablelands JO	Not fit
Riverina	Bland Shire	Council in Riverina JO or merge with Coolamon and/or Temora	Not fit
	Junee Shire	Council in Riverina JO or merge with Cootamundra	Not fit
	Temora Shire	Council in Riverina JO or merge with Coolamon and/or Bland	Not fit
	Tumut Shire	Council in Riverina JO or **merge with Gundagai** and Tumbarumba	Not fit
	Wagga Wagga City	Council in Riverina JO or merge with Lockhart	Fit
Murrumbidgee	Griffith City	Council in Murrumbidgee JO or **merge with Murrumbidgee**	Not fit
	Leeton Shire	Council in Murrumbidgee JO or merge with Narrandera	Fit
	Narrandera Shire	Council in Murrumbidgee JO or merge with Leeton	Not fit
Mid-Murray	Berrigan Shire	Council in Mid-Murray JO or **merge with Jerilderie**	Not fit
	Deniliquin	Council in Mid-Murray JO or **merge with Conargo/Murray** and Wakool	Not fit
	Murray Shire	Council in Mid-Murray JO or **merge with D'quin/Conargo** and Wakool	Not fit

Region	Council	ILGRP options	Assessment
Upper Murray	Albury City	Council in Upper Murray JO or merge with Greater Hume (part or all)	Fit
	Corowa Shire	Council in Upper Murray JO or **merge with Urana**	Not fit
	Greater Hume Shire	Council in Upper Murray JO or merge part or all with Albury	Fit
South East	Bega Valley Shire	Council in South East JO	Fit
	Cooma-Monaro Shire	Council in South East JO or **merge with Bombala** and Snowy River	Not fit
	Eurobodalla Shire	Council in South East JO	Fit
	Palerang	Council in South East JO or **merge with Queanbeyan**	Not fit
	Queanbeyan City	Council in South East JO or **merge with Palerang**	Not fit
	Shoalhaven City	Council in South East JO	Fit
	Snowy River Shire	Council in South East JO or merge with Bombala/Cooma-M	Not fit

Note: Bold indicates an ILGRP preferred option. JO stands for Joint Organisation.

Table 7 Rural Council Proposals

Region	Council	ILGRP options	Assessment
Northern Rivers	Kyogle[a]	Council in Northern Rivers JO or merge with Lismore or Richmond Valley	Not fit
New England	Guyra Shire	Council in New England JO or **merge with Armidale**	Not fit
	Walcha Shire	**Merge with Uralla** or Rural Council in New England JO	Not fit
Orana	Bogan Shire	Rural Council in Orana JO or merge with Warren	Fit as a Rural Council
	Coonamble Shire	Rural Council in Orana JO or merge with Gilgandra	Fit as a Rural Council
	Gilgandra Shire	Rural Council in Orana JO or merge with Coonamble	Fit as a Rural Council
	Warren Shire	Rural Council in Orana JO or merge with Bogan	Fit as a Rural Council
Central West	Weddin Shire	Rural Council in Central West JO or merge with Forbes or Cowra	Not fit
Riverina	Coolamon Shire	Rural Council in Riverina JO or merge with Bland and/or Temora	Fit as a Rural Council
	Gundagai Shire	**Merge with Tumut** or Rural Council in Riverina CC	Not fit
	Lockhart Shire	Rural Council in Riverina JO or merge with Wagga Wagga	Fit as a Rural Council
	Tumbarumba Shire	Rural Council in Riverina JO or merge with Tumut/Gundagai	Fit as a Rural Council
Mid-Murray	Conargo Shire	**Merge with Deniliquin and Murray** or Rural Council in Mid-Murray JO	Not fit
	Jerilderie Shire	**Merge with Berrigan** or Rural Council in Mid-Murray JO	Not fit
	Wakool Shire	Rural Council in Mid-Murray JO or merge with Murray/Conargo/Deniliquin	Fit as a Rural Council
Murrumbidgee	Carrathool Shire	Rural Council in Murrumbidgee JO or merge with Griffith	Fit as a Rural Council
	Hay Shire	Rural Council in Murrumbidgee JO	Not fit
	Murrumbidgee Shire	**Merge with Griffith** or Rural Council in Murrumbidgee JO	Not fit
Upper Murray	Urana Shire	**Merge with Corowa** or Rural Council in Upper Murray JO	Not fit
South East	Bombala	**Merge with Cooma-M** and Snowy R or Rural Council in South East JO	Not fit

[a] Kyogle submitted a Rural Council Proposal. However, the ILGRP did not identify this as one of the options for the council. We assess Kyogle as not fit as a Rural Council nor fit as a stand-alone council.

Note: Bold indicates an ILGRP preferred option. JO stands for Joint Organisation.

1 Assessment approach and proposals received

This chapter sets out:

- the context for this review
- the approach we have undertaken in assessing councils' proposals
- details of the proposals we received, and
- public consultation on the proposals received.

1.1 Context for the review

The NSW Government has asked IPART to undertake the role of the Expert Advisory Panel in assessing local government FFTF proposals.[16] The FFTF reforms aim to improve the strength and effectiveness of local government in providing services and infrastructure that communities need.[17]

The starting point for our analysis is the review of the sector undertaken by the ILGRP in 2012 and 2013. The ILGRP outlined a range of options for governance models, structural arrangements, and boundary changes to increase the strategic capacity of councils and reform the local government sector.

For communities, high capacity local councils can more effectively:

- deliver quality services and infrastructure
- prepare soundly-based plans for the future
- help support local jobs and economic growth
- represent the diverse needs of different groups
- influence state and federal government decisions to achieve local and regional objectives, for example in transport and housing, and
- keep rates and charges at affordable levels and maximise the benefits from spending those revenues.[18]

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16 The Terms of Reference for the review are included in Appendix A.

17 OLG, *Fit for the Future – A roadmap for Stronger, Smarter Councils*, September 2014, p 5.

18 ILGRP, *Revitalising Local Government: Final Report of the NSW Independent Local Government Review Panel* (ILGRP Final Report), October 2013, p 30.

The NSW Government has announced that councils which are assessed as fit for the future will have access to a range of benefits including a streamlined rate variation process and a State Government borrowing facility, priority for other government funding and grants, and eligibility for additional devolved planning powers.[19] There is also funding being provided by the NSW Government to assist with the transitional costs of merging, establishing regional JOs, and assisting regional and rural councils.[20]

1.2 The assessment approach

Our role as the Expert Advisory Panel is to ensure a consistent, impartial and balanced assessment of councils' FFTF proposals. We assessed council proposals in line with:

- the NSW Government's Terms of Reference, which require us to provide a report to the NSW Government by 16 October 2015
- our Methodology Paper, which set out how we would assess council proposals, and
- previous papers relating to the reform of the NSW local government sector, including the ILGRP's Final Report.

Each council was required to submit one of the following types of proposals for assessment after considering the ILGRP's proposed reform options:

- Merger Proposal - for councils proposing to merge with one or more other councils to achieve sufficient scale and capacity.
- Council Improvement Proposal - for councils that currently have sufficient scale and capacity without any structural change, or are proposing improvements to achieve scale and capacity without merging with another council.
- Rural Council Proposal - for councils with 'Rural Council Characteristics', which need to demonstrate plans to achieve real change and improve their capacity and sustainability.[21]

Council proposals were required to be submitted to IPART by 30 June 2015.[22]

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19 OLG, *Fit for the Future – A roadmap for Stronger, Smarter Councils*, September 2014, pp 14-15.

20 Ibid, p 14.

21 OLG developed templates for councils to use for each proposal type, in addition to other resources and guidance to assist councils in assessing their options and preparing their proposals.

22 The eight councils in Far Western NSW (Balranald Shire Council, Bourke Shire Council, Brewarrina Shire Council, Broken Hill City Council, Central Darling Shire Council, Cobar Shire Council, Walgett Shire Council, and Wentworth Shire Council) were not required to submit a proposal and no proposals were received from these councils. County councils were also not required to submit a proposal as they are not part of the Fit for the Future process.

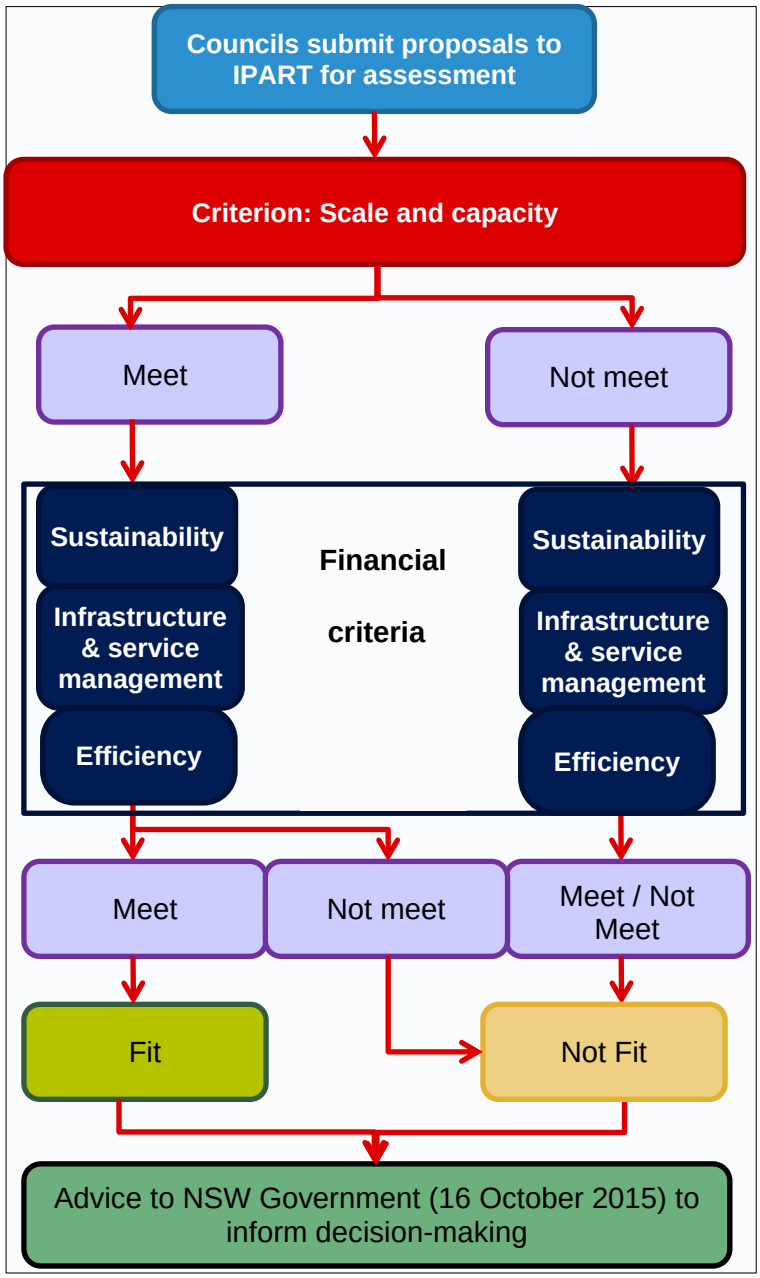
We assessed each proposal in relation to whether they have the scale and capacity criterion to engage effectively across community, industry and governments. We also assessed proposals against three financial criteria:

- sustainability
- effectively managing infrastructure and delivering services for communities, and
- efficiency.

Figure 1.1 outlines how we assessed proposals against these criteria in making our assessment of whether each council is fit or not fit for the future.

The assessment of each council is set out in Chapter 2, with further detail in Appendix C.

Figure 1.1 IPART's FFTF assessment process



1.2.1 Criterion 1: Scale and capacity

As shown in Figure 1.1, the NSW Government established 'scale and capacity' as the threshold criterion for councils. As a result, councils must demonstrate they satisfy the scale and capacity criterion to be considered fit. Accordingly, we assessed councils that did not satisfy the scale and capacity criterion as not fit, even if they met the remaining financial criteria (sustainability, infrastructure and service management and efficiency).

Our analysis of proposals against the scale and capacity criterion considered whether:

- the council's proposed option is at least as good as the ILGRP's preferred option
- the council explored merger options where they were identified
- the proposal demonstrates the council can achieve the key elements of strategic capacity in Box 1.1, and
- the proposal demonstrates the council has sufficient scale.

In considering the Merger Proposals we received, we also took into account whether the proposed mergers would strengthen the ability for councils to provide the services and infrastructure that communities need, relative to remaining a stand-alone council. This is consistent with the NSW Government's reform agenda.[23]

For non-metropolitan councils, we have taken into account the scale objectives identified by the ILGRP. The ILGRP identified a 'rule of thumb', which indicated the great majority of councils should have populations close to or greater than 10,000 by 2036.[24] The ILGRP also noted that a population of less than around 5,000 is unlikely to support a stand-alone council as governance costs will consume too great a proportion of total revenue.[25]

For a number of non-metropolitan councils, the ILGRP identified an option for the council to remain a stand-alone council in a JO. The NSW Government is currently working with local councils on the pilot of five JOs.[26] These pilots will assist the NSW Government in developing the final JO Model which will be implemented from September 2016, with 15 JOs to be established across NSW.[27]

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23 OLG, *Fit for the Future – A roadmap for Stronger, Smarter Councils*, September 2014, p 5.

24 ILGRP Final Report, p 111. In general, we used the NSW Department of Planning and Environment's current and forecast populations for each council in assessing a council's scale, but have also considered other forecasts provided by councils.

25 Ibid.

26 JOs are currently being piloted in the Central NSW, Hunter, Illawarra, Namoi and Riverina. For further details on these JOs see: http://www.fitforthefuture.nsw.gov.au/joint-organisations

27 OLG, *Joint Organisations: Emerging Directions Paper*, September 2015; OLG, *Joint Organisations: A roadmap for intergovernmental collaboration in NSW*, September 2014.

Box 1.1 Key elements of Strategic Capacity

- More robust revenue base and increased discretionary spending.
- Scope to undertake new functions and major projects.
- Ability to employ wider range of skilled staff.
- Knowledge, creativity and innovation.
- Advanced skills in strategic planning and policy development.
- Effective regional collaboration.
- Credibility for more effective advocacy.
- Capable partner for state and federal agencies.
- Resources to cope with complex and unexpected change.
- High quality political and managerial leadership.

Source: ILGRP Final Report, p 32.

Rural Council Proposals

In assessing Rural Council Proposals against the scale and capacity criterion, we considered if:

- the majority of Rural Council Characteristics, set out below in Box 1.2, were met[28], and
- the plans the council proposed to improve its capacity and sustainability were reasonable and likely to be achievable in the timeframes proposed.

The 'Rural Council Model' developed by the ILGRP was considered to be an alternative to mergers in some rural and remote areas. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO or a partner council performing most of the higher level functions of Rural Councils.[29]

The assessment of Rural Councils against the scale and capacity criterion is contingent on the Government adopting a Rural Council model. If a Rural Council model is not adopted, it is likely that most Rural Councils would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

[28] As noted in the Methodology Paper, we have placed particular emphasis on whether the council has demonstrated it has: a small and static or declining population spread over a large area (Characteristic 1) and, there are limited options for mergers (Characteristic 9).

[29] For example, the ILGRP noted Rural Councils could either fully share administration with an adjoining council or have extensive resource-sharing as part of a JO. See: ILGRP Final Report, pp 92-93.

Box 1.2 Rural Council Characteristics

1. Small and static or declining population spread over a large area.
2. Local economies that are based on agricultural or resource industries.
3. High operating costs associated with a dispersed population and limited opportunities for return on investment.
4. High importance of retaining local identity, social capital and capacity for service delivery.
5. Low rate base and high grant reliance.
6. Difficulty in attracting and retaining skilled and experienced staff.
7. Challenges in financial sustainability and provision of adequate services and infrastructure.
8. Long distance to a major (or sub-regional centre).
9. Limited options for mergers.

Source: FFTF Guidance material for Completing Template 3: Rural Council Proposal pp 11-12.

1.2.2 Criteria 2 to 4: sustainability, infrastructure and service management and efficiency

The other three criteria we used to assess council proposals are financial criteria. Each of these criteria includes one or more measures. These criteria include:

- **Sustainability**. This criterion reflects whether the council will generate sufficient funds over the long term to provide the agreed level and scope of services and infrastructure for communities. The measures for this criterion include:
  - Operating Performance Ratio.
  - Own Source Revenue Ratio.
  - Building and Infrastructure Asset Renewal Ratio.
- **Effective infrastructure and service management.** This reflects the council's ability to maximise return on resources and minimise unnecessary burden on the community and business, while working to leverage economies of scale and meet the needs of communities. The measures for this criterion include:
  - Infrastructure Backlog Ratio.
  - Asset Maintenance Ratio.
  - Debt Service Ratio.
- **Efficiency.** This reflects the council's ability to provide services and deliver infrastructure in a manner that achieves value for money for current and future ratepayers. The measure for this criterion includes:
  - Real Operating Expenditure.

The assessment for each council against the financial criteria was based on the council's forecast performance against defined benchmarks for each measure. In general, councils were required to demonstrate that they met the benchmarks or demonstrated improvement towards meeting the benchmarks within five years, ie, by 2019-20.[30]

We have assessed councils on whether they have met these financial criteria on an overall basis, taking into account:

- which financial benchmarks are met
- the degree to which any financial benchmarks are not met
- the degree of improvement in meeting some of the benchmarks[31], and
- long term sustainability factors.[32]

We consider a council's operating performance ratio provides a key measure of financial sustainability and is a benchmark FFTF councils should meet. As a result, we have emphasised the importance of a council meeting the operating performance ratio in assessing whether councils have met the financial criteria overall.

Appendix B provides further details on these criteria and the considerations we have taken into account in assessing council proposals against these criteria.

Data issues

We were largely dependent on the information provided by the councils in assessing each council against the financial criteria overall. Where possible, we have tried to test and verify the assumptions made by the councils in their proposals through examination of long term financial reports, other available data, and discussions with councils.

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30 As set out in our Methodology Paper, rural councils (councils in OLG Groups 8 to 11 and those choosing to submit a Rural Council Proposal) were given longer timeframes, i.e., a further five years to 2024-25 to demonstrate they met the benchmark for the operating performance ratio. Councils in OLG Groups 8 to 11 were also provided with greater flexibility in meeting the own source revenue and real operating expenditure measures. As noted in our Methodology Paper, we have considered the inclusion of Federal Assistance Grants in assessing own source revenue for these councils. We have also taken into account the impact of falling populations on the real operating expenditure measure. Further, we have taken into account that operational savings may not be practical in the short term for rural councils and councils submitting a Merger Proposal. See: Methodology Paper, pp 42-43, 47.

31 As set out in Appendix B, some of the measures in the financial criteria require councils to meet the benchmark or improve their performance against the benchmark, while for other measures the council must meet the benchmark.

32 We note that OLG and the NSW Treasury Corporation (TCorp) have advised councils in FFTF workshops that they should be aiming for improvement in their overall sustainability rather than meeting all the benchmarks. This was identified in TCorp's submission (see TCorp submission to IPART Consultation Paper, May 2015, pp 1-2). We consider our approach to assessing how councils satisfy the other criteria overall is consistent with TCorp's advice.

When attributing a level of confidence to a council's figures, we have assessed the council's overall approach, the reasonableness of assumptions, and sourced independent material. Where necessary, we have re-calculated ratios based on differing assumptions from those used by councils, where the assumptions used might not be considered reasonable.

1.2.3 Other considerations

During our assessment of proposals, we have also considered other factors in addition to the four criteria discussed above. These included:

- the social and community context of the council
- how the council consulted with its community regarding its proposal or alternative options as relevant, and the outcomes from these consultations
- the impact of the council's water utility and sewer business on its General Fund performance and overall scale and capacity, where the council also has a water utility and sewer function, and
- the submissions received on each council's proposal.[33]

We have also requested additional information from most councils and held in person meetings with a number of councils either at their request, or to clarify and illuminate key issues. We met with all councils that requested meetings. A list of all the councils we met with during the assessment process is set out in Table 1.1.

[33] Copies of submissions received on each council's proposal are available on the IPART website at www.ipart.nsw.gov.au

Table 1.1 Council meetings held during IPART's assessment process

Council	Date
Holroyd City Council	May 2015
Lake Macquarie City Council	
Great Lakes Council	
Warringah Shire Council	
Lane Cove Municipal, Hunter's Hill Council, City of Ryde Council	
Liverpool City Council	
Gosford City Council	
Randwick City Council and Waverley Council	July 2015
Fairfield City Council	August 2015
Armidale Dumaresq Council	
Bankstown City Council	
Queanbeyan City Council	
Auburn, Burwood and Canada Bay	
The Hills Shire Council	September 2015
City of Sydney Council	
Penrith City Council	
Pittwater Council	
Snowy River Shire Council	October 2015

1.3 Council proposals received

We received 139 council proposals from 144 councils including:

- Four Merger Proposals (involving nine councils)
- 115 Council Improvement Proposals, and
- 20 Rural Council Proposals.

The proposals we received differed significantly from the options identified by the ILGRP. Most councils decided to remain a stand-alone council and submitted a Council Improvement Proposal or a Rural Council Proposal, rather than a Merger Proposal.

Only 3% of the proposals we received were Merger Proposals. In comparison, 41% of the ILGRP's options for reform were preferred mergers and a further 29% were merger options that should be equally explored with the stand-alone option.

The ILGRP identified a preference for 30% of councils to remain stand-alone councils. In contrast, 83% of the proposals we received were Council Improvement Proposals, with a further 14% of proposals received for councils to stand-alone as a Rural Council.

A number of councils commissioned business cases, which explored the preferred merger as well as alternative merger options. As councils used different consultants, the business cases provided used different assumptions, timeframes and methodologies in estimating the NPV of the costs and benefits of particular mergers. We have undertaken additional analysis to estimate the NPV of these business cases on a more consistent basis, which has also involved adjusting underlying assumptions in some cases.

We have also commissioned economic consultants, Ernst & Young, to independently estimate the NPV of a number of merger options for Metropolitan Sydney councils. This analysis by Ernst & Young was used to sensitivity test the business cases provided by the councils. Ernst & Young also reviewed the merger business cases submitted by Metropolitan Sydney councils and IPART's analysis of these business cases. There are some differences in the approaches used by councils, and therefore IPART, and Ernst & Young. For instance, Ernst & Young has used a top down approach to independently estimate the NPV of merger options, while IPART's approach was based on standardising the business cases provided by councils. Further detail in relation to our analysis of these business cases is set out in Chapter 2 and Appendix D. A copy of Ernst & Young's report is at Appendix E.

1.3.1 Improvements proposed by councils in their proposals

Councils included a range of strategies in their proposals to improve their scale and capacity and financial performance. We note if these strategies were not adopted, a number of councils would be unlikely to meet the financial criteria overall based on their current performance. As outlined in Chapter 3, OLG will undertake monitoring of councils' performance, which will be a key component in managing the reform process.[34]

Common strategies proposed by councils to improve their performance included:

- Increases to their general income through special variations (SVs)[35] and/or increasing user fees and charges.
- Changes to the approach used to determine asset maintenance requirements, to reduce the cost and volume of asset maintenance and renewals.
- Efficiency improvements, such as reviews of services and functions, to reduce costs.
- Sharing services with neighbouring councils or through a JO to improve the council's capacity and reduce costs.

34 OLG undertakes reporting of council performance each year in the 'Your Council' report.
35 See sections 508A and 508(2) of the *Local Government Act 1993*.

Some councils that submitted a Rural Council Proposal have identified projects to improve their performance that they consider may be suitable for grants under the NSW Government's Innovation Fund. This Fund is open to councils in regional NSW with a population of less than 10,000, with priority given to councils which have been assessed as fit.[36] This Fund is subject to a separate application process.[37] We have not referred any projects to this Fund as part of our process.

In assessing the improvement strategies proposed by councils, we considered whether they were reasonable and likely to be achievable in the timeframes proposed. Where we have assessed these as not reasonable or unrealistic, we have sometimes assessed councils as not meeting the financial criteria overall, and as a consequence, not fit.

1.3.2 Assumptions relating to proposed SVs in proposals

Where a council has assumed a future SV in its proposal, as well as considering the reasonableness of this assumption, we have also taken into account:

- other actions taken by the council to reduce costs or increase revenue
- the amount and frequency of any previously approved SVs
- their current rates relative to the average rates of their peers
- whether there were alternative options to improve general income, and
- whether the council has included its assumed SV in its long term financial plan and commenced community consultation on the proposed SV.

However, if a council has assumed a future SV and we have assessed the council as fit, this does not mean we will approve this future SV. SV applications are subject to a separate approval process and criteria, which is outside the FFTF process.

Some councils have not assumed SVs in their proposals. In these cases, we have assessed the council proposals as they are, on the basis of the council's own financial planning and projections.

Whilst some councils may have been assessed as meeting the financial criteria and fit on the basis of assumed SV increases, it does not mean this course of action is necessarily the best option for local communities under the current reform agenda.

36 OLG, *Innovation Fund Guidelines*, May 2015.

37 The application process for the Innovation Fund will commence in November 2015. See: OLG, *Innovation Fund Guidelines*, May 2015.

A large number of councils have proposed substantial future increases to general income to meet the financial criteria. There is a risk councils have proposed future SVs to improve their financial performance, and may not have fully considered whether alternative structures for the local government area, such as a merger, may be a better outcome. Structural changes could achieve similar or larger improvements to a council's general income and reduce the need for, and size of, potential SV increases, which could limit the impact of higher rates on the community.

This was apparent during the assessment process. For example:

- The merger of Auburn, Burwood and Canada Bay is forecast to result in an improvement in the operating performance ratio of the merged council from -0.4% in 2014-15 to 3.1% in 2019-20, and 4% over the long term because of merger efficiencies.
- Similarly, the merger of Randwick and Waverley is forecast to result in an improvement in the operating performance ratio of the merged council from 1.7% in 2014-15 to 11.4% in 2019-20, mainly driven by merger efficiencies.
- In addition, Young and Boorowa have provided analysis to IPART showing a merger between the councils (and including Harden) would result in an improvement in the operating performance ratio from -3.7% in 2014-15 to 6.5% in 2019-20[38], and about 5% over the long term due to merger efficiencies.

1.4 Public consultation on council proposals

Public consultation on council's FFTF proposals was undertaken over July 2015 and 1570 submissions were received by the 31 July 2015 closing date.[39] In addition, 52 submissions were received either before the consultation process or following the closing date.[40] All of the submissions received were considered as part of the assessment process.[41]

Close to 90% of the submissions received during the consultation process related to councils in the Metropolitan Sydney area, with a third of all submissions received relating to City of Sydney Council's proposal. Table 1.2 sets out the top 10 council areas which received the most submissions during the consultation process. A number of council proposals received no submissions, with 75 out of the 139 council proposals receiving no submissions on their proposals.[42]

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38 The operating performance ratio figures are annual figures, as the proposal did not include three year averages.

39 Submissions received during the consultation process are published on the IPART website at www.ipart.nsw.gov.au. Confidential submissions have not been published.

40 This takes into account late submissions received as at 10 October 2015.

41 However, only those submissions received during the consultation process were published on the IPART website.

42 This takes into account early and late submissions received outside of the consultation process.

Table 1.2 Top 10 council areas by number of submissions received[43]

Council	Number of submissions received
City of Sydney Council	520
Strathfield Municipal Council	204
Leichhardt Municipal Council	190
Auburn City Council	121
Bankstown City Council	94
Pittwater Council	47
Marrickville Council	40
Lake Macquarie City Council	31
Woollahra Municipal Council	27
Hunter's Hill Council	23

Most submissions received were from private individuals and community groups, with some businesses and councils also providing submissions.

The themes across submissions received across all council areas were relatively consistent, with the majority of submissions supporting their council's position to remain a stand-alone council. This is broadly consistent with the community consultation conducted by councils in developing their FFTF proposals. The main reasons outlined in submissions for supporting their council's position to stand-alone included:

- satisfaction with their council's current performance
- concern about the potential for loss of representation and focus on local issues following a merger
- concern about the potential costs of a merger and doubt that the anticipated efficiency benefits of a merger would arise, and
- concerns about the potential for reduced services and higher rates following a merger.

Some submissions supported their council merging with other councils. This was generally because the stakeholder considered their council was performing poorly and a merger would assist to improve services, financial management, and the quality of leadership.

However, most of the submissions received in relation to the voluntary mergers proposed by Randwick/Waverley and Auburn/Burwood/Canada Bay did not support these mergers. In relation to both of these voluntary mergers, stakeholders raised concerns about the lack of community consultation that had been undertaken. No submissions were received in relation to the two other Merger Proposals we received from Young/Boorowa, and Cootamundra/Harden.

43 The submissions in this list do not include early and late submissions received outside of the consultation process.

2 Assessments by region

In this chapter, we provide further detail on our assessment of whether each council is fit or not fit for the future. We discuss our findings by the NSW regions including:

- Metropolitan Sydney, which we discuss by the following areas:
  - Global City
  - Inner Metropolitan Sydney
  - Outer Metropolitan Sydney
- Central Coast, Hunter and Illawarra, and
- Non-metropolitan regions.[44]

The individual council assessments can be found in Appendix C.

2.1 Metropolitan Sydney

There are 41 councils in Metropolitan Sydney. For the majority of these (31), the ILGRP proposed merger options for investigation, as a preferred starting point. The remaining 10 councils include a number of councils in Outer Metropolitan Sydney. The ILGRP suggested these councils could remain stand-alone and did not propose preferred mergers for these councils, although it noted some merger options could be considered in the longer term.

Many Metropolitan Sydney councils submitted business cases with their proposals, which assessed the costs and savings of the merger options identified by the ILGRP. We conducted additional analysis where this information was provided and estimate $1.8 billion to $2.0 billion in NPV benefits could be realised over 20 years if the ILGRP's preferred Metropolitan Sydney mergers were to occur. Ernst & Young also estimates these mergers could yield substantial financial gains with $1.3 billion in NPV benefits over 20 years.

Table 2.1 provides a summary of the business case analysis for selected merger options for Sydney Metropolitan councils.

44 The assessments are based on council proposals which can be accessed on the IPART website at: www.ipart.nsw.gov.au.

Table 2.1 Estimates of NPV - Selected merger options for the Sydney Metropolitan area

Merger option	Council consultant	IPART 20-year NPV estimate using standardised assumptions based on council consultant business cases	Ernst & Young 20-year independent NPV estimate using standard assumptions (mid-point of range)
ILGRP preferred merger options		**$ million**	**$ million**
Randwick, Waverley, Woollahra, Botany Bay, City of Sydney Council	Randwick Council	416	283
Ashfield, Burwood, Canada Bay, Leichhardt, Marrickville, Strathfield	Morrison Low	396	194
Hunter's Hill, Lane Cove, Mosman, North Sydney, Willoughby, Ryde (part)	Morrison Low[a]	280	187
Auburn, Holroyd, Parramatta, The Hills (part), Ryde (part)	Morrison Low[a]	254	150
Hornsby, Ku-ring-gai	KPMG	61	88
Manly, Warringah, Pittwater	KPMG	116	116
	SGS Economics & Planning	265	
Canterbury, Kogarah, Rockdale, Hurstville	Morrison Low	280	172
Fairfield, Liverpool	Fairfield City Council	NA[b]	131
Total benefits		**1,803 – 1,953**[c,d]	**1,323**
Other selected mergers		$ million	$ million
Bankstown, Canterbury	Bankstown City Council	70	86
The Hills, Hawkesbury	NA	NA	60
Gosford, Wyong	Third Horizon	101	196

a Uses efficiency realised scenario.

b Fairfield estimated cumulative costs of $27 million from a merger with Liverpool. We consider assumptions underlying the estimate to be based on a limited sample and contrary to other information provided to IPART regarding benefits from mergers.

c The summation of the IPART calculations for the ILGRP mergers reflects the different underlying methodologies used by the different consultants.

d The sum of the IPART calculations excludes Fairfield – Liverpool.

Note: The council consultants and Ernst & Young note there is an array of risks about the estimates. The IPART calculation of net present value uses the consultant's information and base data, with adjustments to some assumptions, and a consistent 20-year forecast period and a 9.5% nominal (7.0% real) discount rate. The IPART calculations are based on submitted business cases and are subject to the limitations of the models and data on which they are based. Refer to Appendix D for a full list of assumptions and limitations.

Source: IPART, Ernst & Young.

Notwithstanding the estimated NPV of the ILGRP's preferred mergers is high, we received only two Merger Proposals (involving five councils) in Metropolitan Sydney and 36 Council Improvement Proposals for councils to stand-alone.

Our analysis finds:

- both Merger Proposals are fit
- seven councils submitting Council Improvement Proposals are fit, and
- 29 councils submitting Council Improvement Proposals are not fit.

2.1.1 Global City

The ILGRP considered the expansion of the cities of Sydney and Parramatta to be a centerpiece of local government reform.[45] It argued against a small 'CBD council' and discussed the concept of a 'Global Capital City' with attributes listed in Box 2.1.

Figure 2.1 Global City Council

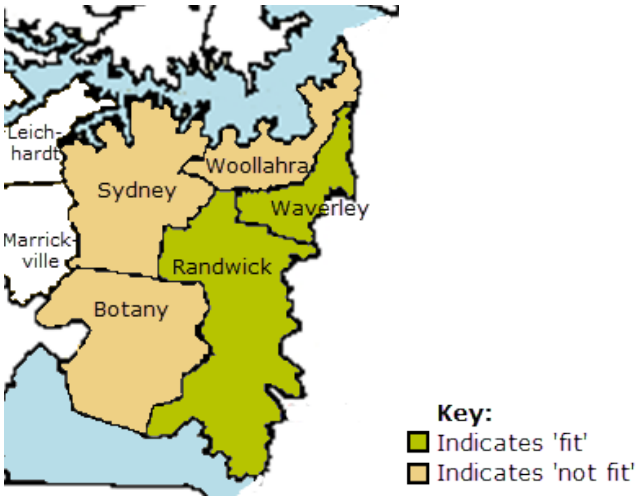


Figure 2.1 shows the five metropolitan councils that were identified to merge into a 'Global Capital City', ie, City of Sydney, Randwick City Council, City of Botany Bay Council, Waverley Council and Woollahra Municipal Council.

45 ILGRP Final Report, p 99.

A merger of these councils results in a forecast population of 653,250 by 2031.[46] The prospective Global City Council incorporates the whole of the eastern suburbs, south to Sydney Airport, Port Botany, nearly all the iconic locations and features that contribute to Sydney's global identity[47] and much of the supporting infrastructure. The ILGRP suggested that a Global City Council could 'become a highly capable and well-resourced partner of the State government in projecting Sydney's image, fostering economic development and providing essential infrastructure.'[48]

Our assessment of this group of councils considers if each submitted proposal is consistent with, or better than, the option to merge to form a Global City Council. This is in line with our published assessment methodology.

Box 2.2 Key Attributes of a Global Capital City

Physical size – area encompasses a broad area and cross-section of inner metropolitan suburbs, including iconic locations of global significance.

Hierarchy – include major infrastructure and facilities that are at the peak of the hierarchy for that function (government, transport, health, education, business, recreation, culture etc).

Leadership – 'first amongst equals' of metropolitan councils due to the importance of its decisions, geographic scale, budget and responsibilities, reputation and profile, and relationship to political, business and civic leaders.

Strategic capacity – ability to manage major regional facilities and undertake or facilitate major economic and infrastructure development to address the changing needs of the inner metropolitan region.

Global credibility – a leader in the Asia Pacific and maximise opportunities to partner or compete as required with other global capital cities in the race for capital investment and international reputation.

Governability – attracts the best of candidates for political leadership, with a broad, diverse and balanced constituency that will facilitate good governance.

Partnership with the State- not be so large as to challenge the primacy of the State, but have the stature, maturity and skills to be a respected partner and to develop a productive working relationship with state and federal agencies.

Source: ILGRP Final Report, Box 36, p 100.

46 DP&E.

47 As discussed below, the Government would need to consider the extent to which the Global City Council should be given control over key infrastructure.

48 ILGRP Final Report, p 100.

City of Sydney

The City of Sydney submitted a Council Improvement Proposal to remain a stand-alone council. We find the council is not fit for the future as it does not meet the scale and capacity criterion when compared to a Global City Council, although it meets the financial criteria overall.

The City of Sydney demonstrated it is a high performing council in the Sydney region as:

- It maintains low residential rates while achieving high financial performance indicators.
- It was the only council to receive a 'strong' financial sustainability rating with a 'positive' outlook when reviewed by TCorp.
- It proactively partners with the Government and has made large contributions to infrastructure and urban renewal, such as the Green Square development.
- It is one of the few Local Government Areas (LGAs) in NSW to exceed the housing targets set by the NSW Government. The City of Sydney has achieved an annual growth rate in housing supply of 3.4% per annum since 1993, 250% above the Sydney average.[49]

We also note City of Sydney received the highest number of public submissions of any council regarding its proposal. The majority of the more than 500 submissions received, supported the council remaining a stand-alone council.

Nevertheless, we assess that City of Sydney does not meet the scale and capacity criterion when compared to a Global City Council because:

- It did not show that its stand-alone option is as good as or better than a Global City Council.
- A Global City Council would deliver greater benefits for the people of NSW by better integrating planning and development across central Sydney and the eastern suburbs as the CBD expands.
- It would also facilitate better partnering with other levels of government to develop and deliver key infrastructure, such as the Sydney Light Rail Project and the second Sydney Harbour rail crossing.
- The estimated benefits from a Global City Council merger is $283 million over 20 years based on Ernst & Young's mid-point range of NPV benefits.

[49] NSW Department of Planning & Environment, *New South Wales State and Local Government Area Population, Household and Dwelling Projections: 2014 Final* (DP&E).

Should the Government adopt the Global City option, the following issues may require consideration:

- The extent to which the Global City Council should be given control over key infrastructure such as the Sydney Opera House, Barangaroo, Port Botany, Circular Quay and Darling Harbour to enable it to operate effectively as a Global City Council, as this infrastructure is currently administered by bodies separate to local councils.
- Measures to ensure the development and growth of the CBD and surrounding areas continue. This may require changes and enhancements to the *City of Sydney Act 1988*. In addition, the implications for business voting within the Global City Council may need to be considered, as the *City of Sydney Act 1988* will allocate two votes to businesses in local council elections in the City of Sydney from 2016.
- Measures to ensure the significant council revenues generated from businesses ($189 million in 2012-13) in the Sydney CBD are efficiently spent to realise the key objectives of the Global City Council.

If the Global City Council option is not adopted, City of Sydney has sufficient scale and capacity to stand alone and would be fit as a stand-alone council.

Randwick City Council and Waverley Council

We find the Merger Proposal submitted by Randwick and Waverley is fit for the future. It meets the scale and capacity criterion and the financial criteria overall.

A merger of Randwick and Waverley would deliver substantial scale and capacity benefits to their local communities compared to the councils standing alone. The merger builds on existing collaborations between the councils which share communities of interest and similar geography.

We calculate, drawing on information provided by Randwick, that the merger of Randwick and Waverley could produce benefits of around $139 million over 20 years. The mid-point of Ernst & Young's estimated benefits of the merger is $99 million on an NPV basis over 20 years.

The merged council is forecast to perform better financially than the councils individually, particularly with respect to the operating performance ratio. The operating performance ratio is forecast to reach 11.4% by 2019-20 under the merger, compared to 3.3% for Randwick and 3.0% for Waverley respectively without a merger. The merged council will also meet all the other financial benchmarks by 2019-20.

The merger is the best available option for the councils given neighbouring councils did not want to merge. The merger does not preclude a Global City Council should the NSW Government elect to adopt this option. However, we note Randwick and Waverley have indicated they do not support a merger with City of Sydney.

Woollahra Municipal Council and the City of Botany Bay

Woollahra and Botany Bay submitted Council Improvement Proposals to remain as stand-alone councils. We find both councils are not fit for the future as neither council meets the scale and capacity criterion, although Woollahra and Botany Bay both meet the financial criteria overall.

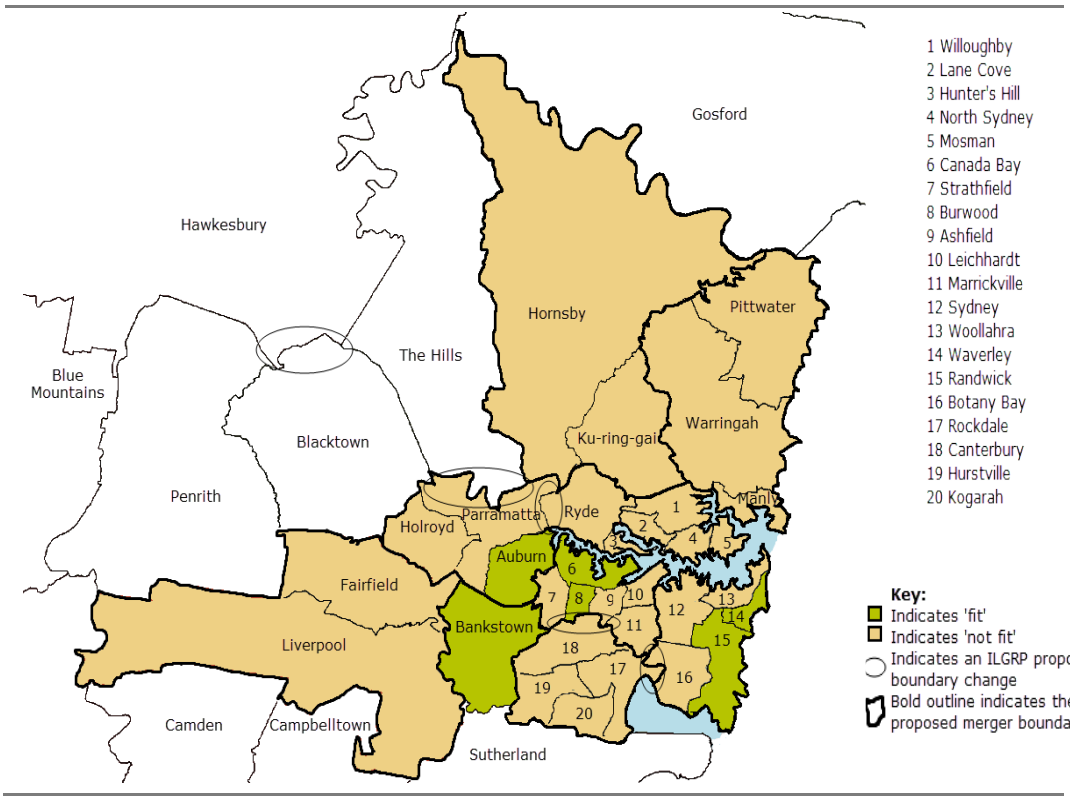
Our analysis suggests the councils do not have sufficient scale and capacity to effectively partner with governments compared to the merger. Further, the efficiency improvements in the councils' proposals can be realised under the merger option. We find merging these councils with similar neighbouring councils would produce significant benefits. For example, over a 20-year timeframe, Ernst & Young's analysis suggests:

- a merger of Randwick, Waverley, Woollahra and Botany Bay could provide NPV benefits of $218 million, while
- a merger of Randwick, Waverley, Woollahra, Botany Bay and City of Sydney to form a Global City Council could provide NPV benefits of $283 million.

2.1.2 Inner Metropolitan Sydney Councils

As illustrated in Figure 2.2, Inner Metropolitan Sydney includes 27 councils situated roughly between the Global City area and the Outer Metropolitan Sydney area.

Figure 2.2 Inner Metropolitan Sydney council assessments



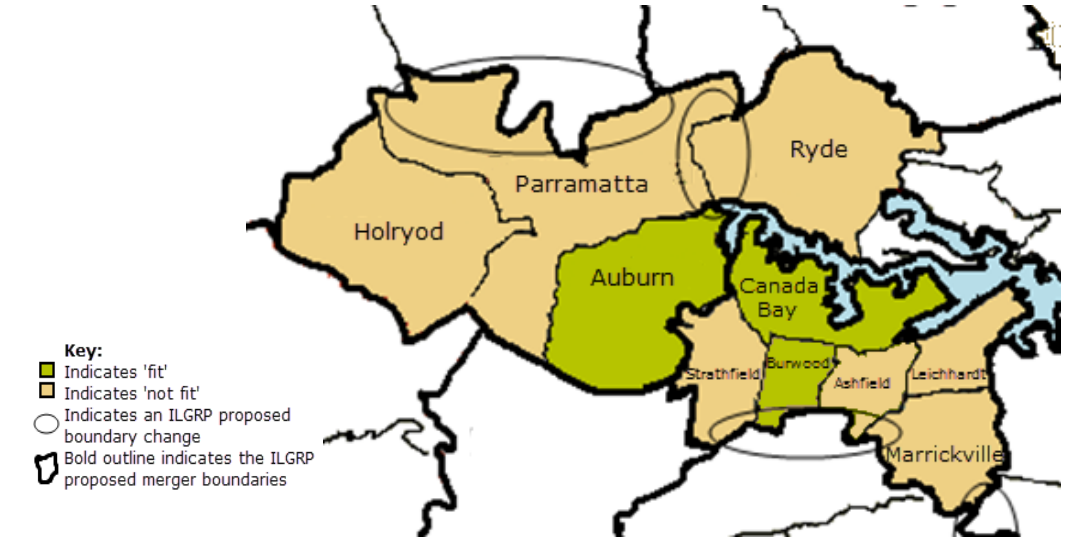
With the exception of Bankstown City Council (Bankstown), the ILGRP proposed a merger as the preferred option for all councils in this group.

From the Inner Metropolitan Sydney councils, we received:

- one Merger Proposal from Auburn, Burwood and Canada Bay, and
- 24 Council Improvement Proposals to stand alone, including a proposal from Hunter's Hill Council (Hunter's Hill), Lane Cove Council (Lane Cove) and City of Ryde Council (Ryde) to form a Joint Regional Authority (JRA) as an alternative to a merger.

Merger Proposal - Auburn, Burwood and Canada Bay

Figure 2.3 Merger proposal from Auburn, Burwood and Canada Bay



We find the proposed merger of Auburn, Burwood and Canada Bay fit for the future as it meets the scale and capacity criterion and the financial criteria overall (Figure 2.3).

These councils submitted a voluntary, alternative merger to the options identified by the ILGRP. The ILGRP's preferred options were for:

- Auburn to merge with Holroyd City Council (Holroyd), Parramatta City Council (Parramatta), City of Ryde Council (Ryde) (part) and The Hills Shire Council (The Hills) (part).
- Burwood and Canada Bay to merge with Ashfield Council (Ashfield), Leichhardt Municipal Council (Leichardt), Marrickville Council (Marrickville) and Strathfield.

Our assessment of the Auburn, Burwood and Canada Bay Merger Proposal finds:

- The merged council's population would provide the new council with sufficient scale to capably partner with state and federal agencies on regionally significant projects such as major transport infrastructure.
- This arrangement would likely be a desirable outcome in that a voluntary merger would facilitate a faster progression towards achieving efficiencies when transitioning to a new council.
- The merger is expandable, and the councils inform us it would be possible and desirable to include Strathfield, and possibly Ashfield.

- Auburn notes it prefers not to merge with Parramatta, as it has concerns that any increase in rates would be used to fund Parramatta's growth as a strategic centre and it has a lack of communities of interest with Parramatta. These issues were not stated as concerns under the proposed voluntary merger with Burwood and Canada Bay.
- The merger could provide estimated NPV benefits of $114 million over 20 years to the merged communities, after accounting for merger implementation costs.
- The merged council meets all the financial criteria, and in particular, the operating performance ratio is forecast to improve from -0.4% in 2014-15 to 3.1% in 2019-20 through efficiency gains from the merger.

Our analysis suggests there are considerable benefits to the community from a merger between Auburn, Burwood and Canada Bay. As noted by the councils, these benefits could be increased further if the merger includes other councils, such as Strathfield.

Council Improvement Proposals from Inner Metropolitan Sydney Councils

The remaining 24 Inner Metropolitan Sydney councils submitted Council Improvement Proposals to stand-alone. With the exception of Bankstown, the ILGRP proposed a merger as the preferred option for all of the councils in this group.

Bankstown

We find Bankstown meets the scale and capacity criterion and the financial criteria overall. The preferred option presented for Bankstown by the ILGRP was 'No change'. The council's proposal is consistent with this option.

However, Bankstown has provided IPART with estimated cost savings from a merger with Canterbury. We calculate, drawing on information provided by Bankstown, that the merger of Bankstown and Canterbury City Council (Canterbury) could produce benefits of around $70 million over 20 years. The mid-point of Ernst & Young's estimated range of NPV benefits is $86 million over 20 years. While it was not included as an option for Bankstown, the ILGRP noted:[50]

> …a merger of Bankstown and Canterbury could offer considerable benefits, and this option needs to be kept open.

The benefits of a merger of Bankstown and Canterbury, including the increase in the scale and capacity of Bankstown, would need to be considered in light of the ILGRP's preferred options for both Bankstown and Canterbury.

50 ILGRP Final Report, p 101.

Inner West

The ILGRP's preferred option in the Inner West was a merger between Ashfield, Burwood, Canada Bay, Leichhardt, Marrickville and Strathfield.

Figure 2.4 Ashfield, Burwood, Canada Bay, Leichhardt, Marrickville and Strathfield

In this group of councils we find Burwood and Canada Bay are fit for the future as part of the Auburn, Burwood and Canada Bay merger proposal discussed in the section above.

We find Ashfield, Leichhardt, Marrickville and Strathfield not fit for the future as they did not meet the scale and capacity criterion although each council met the financial criteria overall.

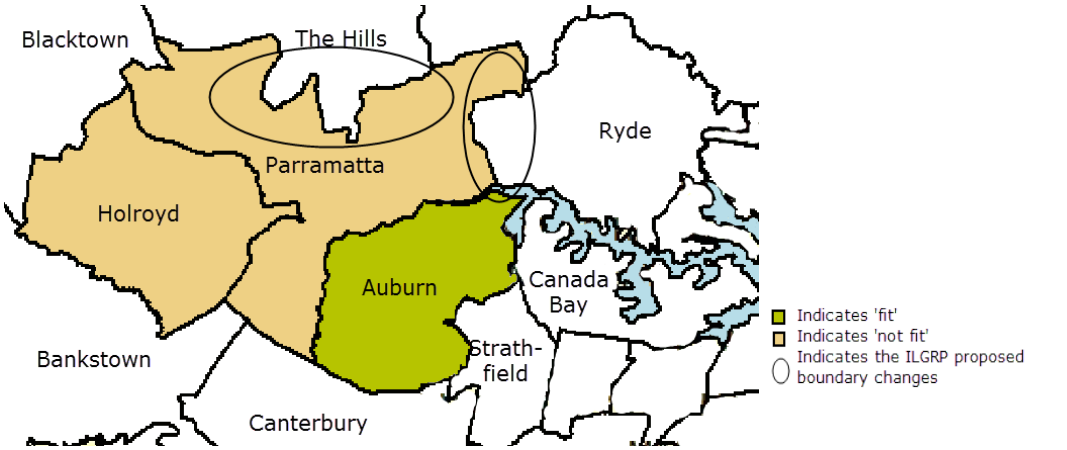
These councils did not demonstrate that their proposals to stand alone would be as good as or better than the merger. For example, an Inner West Council would have greater scope to undertake new functions and major projects, conduct regional planning for the entire Inner West and collaborate with the government on projects that span the six LGAs.

The councils, except Strathfield, commissioned a business case for an Inner West merger. Based on this model, our analysis estimated the merger could produce NPV benefits of $396 million over 20 years. Ernst & Young estimated NPV benefits from the merger of $194 million over 20 years. These analyses showed large gains to the local community from a merger.

West Central

The ILGRP's preferred option in the West Central was a merger between Auburn, Holroyd, Parramatta, Ryde (part), and The Hills (part).[51]

Figure 2.5 Auburn, Holroyd, Parramatta, Ryde (part) and The Hills (part)



We find Holroyd, Parramatta and Ryde are not fit for the future as they do not meet the scale and capacity criterion. They did not demonstrate that their proposals to stand alone are as good as or better than the merger. However, each council met the financial criteria overall. In the case of Holroyd, the additional revenue from the SV approved in 2014 of 44.2% (29.1% above the rate peg) assists the council to meet the benchmark for the operating performance ratio.

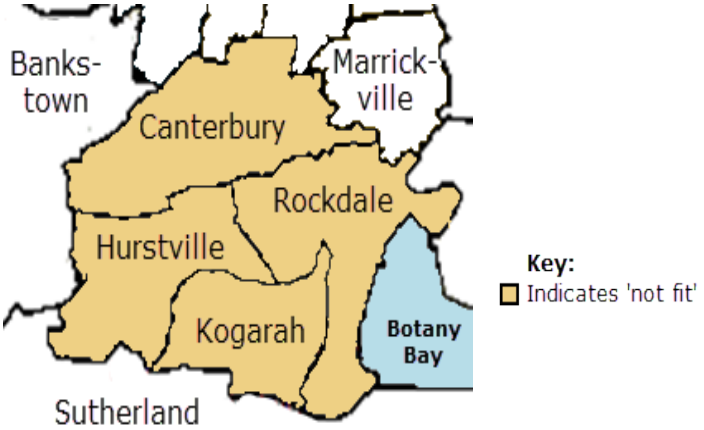
Holroyd submitted a business case for a merger of this group of councils. Based on this model, our analysis suggests the merger could produce NPV benefits of $254 million over 20 years. Ernst & Young estimated NPV benefits from the merger of $150 million over 20 years. These analyses showed large gains to the local community from a merger. An enlarged council in the West Central area of Metropolitan Sydney will have a more robust revenue base, better regional collaboration and greater scope to undertake functions and projects that span several LGAs.

Southern Suburbs

The ILGRP's preferred option in the Southern Suburbs was for a merger of Canterbury, Hurstville City Council (Hurstville), Kogarah City Council (Kogarah) and Rockdale City Council (Rockdale).

51 We discuss Auburn in the previous section as part of the Auburn, Burwood, Canada Bay Merger Proposal and The Hills in the following section on the Outer Metropolitan Sydney councils.

Figure 2.6 Canterbury, Hurstville, Kogarah, and Rockdale



We find Canterbury, Hurstville, Kogarah and Rockdale not fit for the future, as they did not meet the scale and capacity criterion. Each council submitted a proposal to remain a stand-alone council. However, we find the councils did not demonstrate that standing alone was as good as, or better than the preferred merger option.

The merger could assist the councils to:

- partner more effectively with government
- provide significant benefits to communities in delivering infrastructure consistent with the South Subregion plan, and
- better manage the Georges River catchment.

The councils each commissioned a business case of the merger. Based on this model, our analysis suggests the preferred merger could produce benefits of $280 million over 20 years in NPV terms. Our independent consultants, Ernst and Young estimated benefits from the merger of $172 million over 20 years in NPV terms.

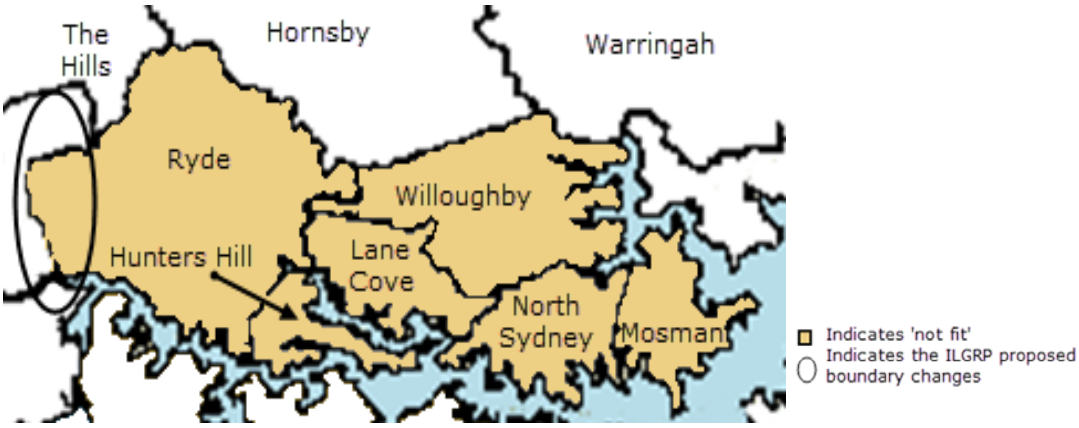
The ILGRP included an alternative for Canterbury to merge with Bankstown. As noted above, our analysis, based on information provided by Bankstown, suggests a merger between Canterbury and Bankstown could provide benefits of $70 million over 20 years in NPV terms, with $86 million of benefits in NPV terms for this alternative merger also estimated by Ernst & Young.

Canterbury, Hurstville, Kogarah and Rockdale met the financial criteria overall. The forecast improvement in Canterbury, Kogarah and Rockdale's financial performance over the outlook period is driven by approved SVs for asset renewal and to improve financial sustainability.

Lower North Shore

The ILGRP's preferred option in the Lower North Shore was a merger between Hunter's Hill Council (Hunter's Hill), Lane Cove Municipal Council (Lane Cove), Mosman Municipal Council (Mosman), North Sydney Council (North Sydney), Ryde (part), and Willoughby City Council (Willoughby).

Figure 2.7 Hunter's Hill, Lane Cove, Mosman, North Sydney, Ryde (part) and Willoughby



We find these councils' proposals to stand alone, including the JRA proposal from Hunter's Hill, Lane Cove and Ryde, are not fit for the future as they did not meet the scale and capacity criterion although each council met the financial criteria overall. These councils did not demonstrate that their proposal was as good as, or better than the merger.

Hunter's Hill, Lane Cove and Ryde submitted a JRA proposal as an alternative to a merger. This proposal indicates the JRA would provide benefits from shared services and centralised planning and development without the disruption of a merger. The proposal indicates the JRA would generate net benefits over 15 years of $0.5 million, or $3.4 million if it also included Mosman, North Sydney and Willoughby. The proposal does not fully quantify any efficiency savings that may also eventuate under the JRA.

Our analysis suggests a merger of all councils in this group would improve their capacity to partner effectively with government and undertake strategic planning and development for the Lower North Shore region. The councils (except North Sydney) also commissioned a business case for a merger of all six councils. Based on this model, we estimated the merger could produce NPV benefits of $280 million over 20 years. Ernst & Young estimated NPV benefits from the merger of around $187 million over 20 years. The preferred merger is likely to provide a higher level of efficiency savings than the JRA.

Northern Suburbs

In the Northern Suburbs, the ILGRP's preferred option was for Hornsby Shire Council (Hornsby) and Ku-ring-gai Council (Ku-ring-gai) to merge with each other.

Figure 2.8 Hornsby and Ku-ring-gai

We find Hornsby and Ku-ring-gai not fit for the future as they did not meet the scale and capacity criterion, although both councils met the financial criteria overall. Each council submitted a proposal to remain a stand-alone council. However, we find the councils did not demonstrate standing alone was as good as, or better than the preferred merger.

A study commissioned by Ku-ring-gai indicated Hornsby and Ku-ring-gai have similar economic and demographic links, although Ku-ring-gai considers it is more closely linked with Warringah Council.

Hornsby indicated it was willing to further investigate a merger by developing a business case together with a neighbour to allow proper assessment. However, Hornsby could not reach an agreement to complete a merger business case with other councils. Ku-ring-gai has indicated it would prefer to merge with Warringah Council and for Hornsby to merge with The Hills Shire Council.

Hornsby submitted a business case which investigated the preferred merger, and an alternative merger with The Hills. Based on this model, our analysis suggests the preferred merger could produce benefits of $61 million over 20 years in NPV terms. Ernst & Young estimated benefits from the merger of around $88 million over 20 years in NPV terms.

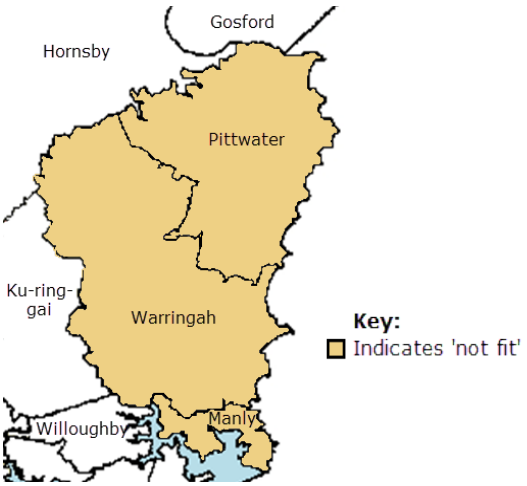
Our analysis suggests the alternative merger between Hornsby and The Hills Shire Council could produce net benefits of $85 million over 20 years in NPV terms. This was not an option identified by the ILGRP and we have not undertaken any further analysis of the regional impacts of this alternative merger. The Hills did not seek to pursue this option.

All merger options showed significant gains to the local communities that were better than the stand alone options for each council.

Northern Beaches

In the Northern Beaches, the ILGRP's preferred option was for a merger of Manly Council (Manly), Pittwater Council (Pittwater) and Warringah Council (Warringah).

Figure 2.9 Manly, Pittwater and Warringah



We find Manly, Pittwater and Warringah not fit for the future, as they did not meet the scale and capacity criterion. Each council submitted a proposal to remain a stand-alone council. However, we find the councils did not demonstrate that standing alone was as good as, or better than the preferred merger. We consider a merger would improve the capacity of the councils to partner more effectively with governments and undertake better strategic planning and development for the Northern Beaches region.

Analysis of the preferred merger was undertaken separately by Manly and Pittwater, Warringah, and Ernst & Young. This analysis shows over a 20-year timeframe in NPV terms, the preferred merger could produce:

- net benefits of $116 million, using business cases provided by Manly and Pittwater
- net benefits of $265 million, using business cases provided by Warringah
- net benefits of $116 million, based on estimates by Ernst & Young.

Each of these merger assessments was based on different inputs and underlying methodologies, however all of them suggest a merger could provide substantial net benefits to the local community.

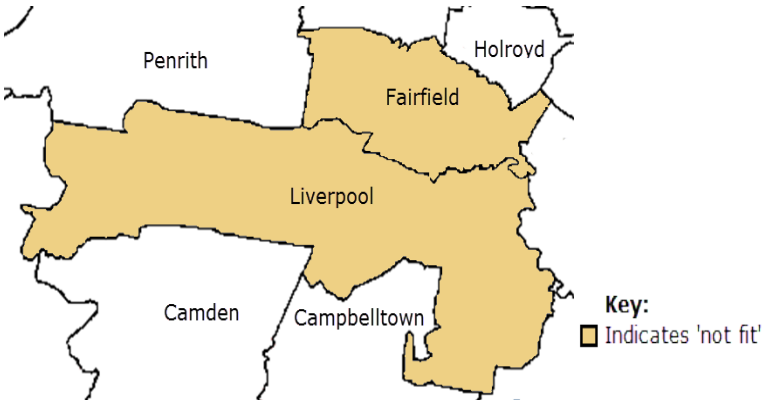
Manly and Pittwater commissioned additional analysis relating to the creation of two new councils, Greater Manly and Greater Pittwater, from the existing three councils. Manly has indicated this would be its preference if a merger was required. However, our analysis suggests this alternative merger is unlikely to provide net benefits which are as large as the preferred merger. Warringah noted it does not support this alternative merger option and supports the preferred three-way merger, but could not reach agreement for the preferred merger with Manly and Pittwater.

All three of these councils meet the financial criteria overall. Manly's proposal assumes a moderate SV in 2017-18 of 2.2% above the rate peg for one year (4.7% including the rate peg).

South West

The ILGRP preferred a merger between Fairfield City Council (Fairfield) and Liverpool City Council (Liverpool) in the South West.

Figure 2.10 Fairfield and Liverpool



We find Fairfield and Liverpool are not fit for the future as they do not meet the scale and capacity criterion. The councils did not demonstrate their proposals to stand alone are as good as or better than the merger. A merged council would have enhanced scale to partner more effectively with governments compared to the stand alone option.

Liverpool conducted analysis of merger options which showed over 10 years[52]:

- a merger with Campbelltown and Camden produces NPV benefits of $243 million, and
- a merger with Fairfield produces NPV benefits of $64 million.

52 SGS Economics & Planning, Fit for the Future: Options for Liverpool, Lead Council model.

In addition, Ernst & Young estimated NPV benefits from the merger of Liverpool and Fairfield of $131 million on a top down basis, over 20 years.

Each council met the financial criteria overall. Fairfield's operating performance ratio is forecast to reach 1.6% by 2019-20 which is just above the benchmark. The improvement in its operating performance is primarily due to the approved SV in 2014-15 of 10% (7.7% above the rate peg), proposed efficiency savings and adjustments for depreciation. Liverpool's operating performance ratio is also forecast to improve, to 0.3% by 2019-20, which meets the benchmark. Both councils included interest income on section 94 reserves. We adjusted the operating performance ratio by removing interest income on section 94 reserves as we do not consider this inclusion appropriate. Nevertheless, both councils still meet the sustainability criterion.

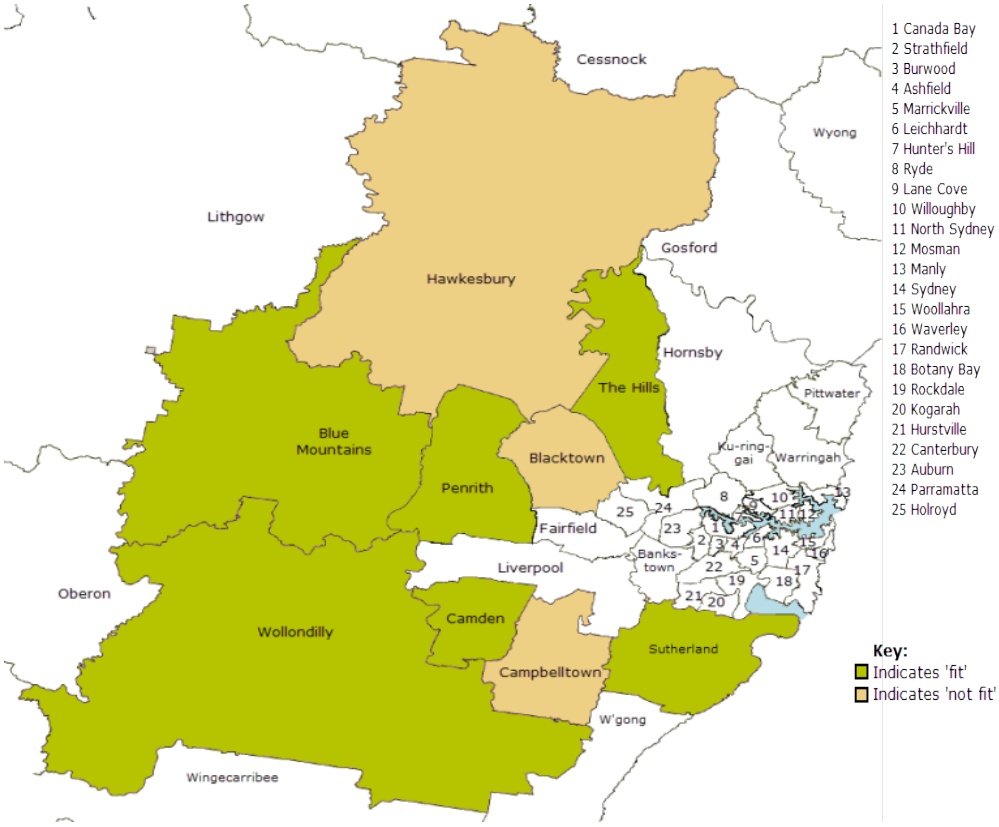
Both councils suggested that socio-economic differences and divergent strategic directions would create issues if they were merged. Both councils suggested that if necessary, alternative merger options would be preferred. Fairfield expressed concerns that a merged council's focus would shift to the Liverpool CBD which would undermine Fairfield's current growth strategies and social objectives. Liverpool City Council indicated that due to its growth profile, a merger with a council in the south west growth centre might provide better outcomes.

Fairfield estimated cumulative costs of $27 million from a merger with Liverpool.[53] However, neither Fairfield nor Liverpool undertook sufficient financial analysis for a possible merger. Ernst & Young estimated NPV benefits from a merger of the two councils of around $131 million over 20 years.

[53] As noted in Table 2.1, we consider assumptions underlying the estimate to be based on a limited sample and contrary to other information provided to IPART regarding benefits from mergers.

2.1.3 Outer Metropolitan Sydney

Figure 2.11 Outer Metropolitan Sydney council assessments



There are nine councils on Sydney's fringes which we assessed as part of Outer Metropolitan Sydney (Figure 2.11).

For some councils in this group, the ILGRP noted there was merit in retaining them as stand-alone councils, as they are responsible for a mix of growing urban centres and rural or natural areas (including water catchments) that provide important 'green spaces' around the metropolitan complex.[54] However, the ILGRP also noted some merger options could be considered in the longer term.

54 ILGRP Final Report, p 102.

Blue Mountains, Camden, Penrith, Sutherland, The Hills and Wollondilly

We find Blue Mountains City Council (Blue Mountains), Camden Council (Camden), Penrith City Council (Penrith), Sutherland Shire Council (Sutherland), The Hills and Wollondilly Shire Council (Wollondilly) are fit for the future. All of these councils meet the scale and capacity criterion as well as the financial criteria overall.

In 2015-16, relatively large SVs were approved for Blue Mountains and Wollondilly respectively, of 28.5% and 38.8% above the rate peg, over four years (40.3% and 50.7% respectively including the rate peg). This additional revenue assists these councils to meet the operating performance benchmark by 2019-20.

Although Camden is not expected to meet the benchmarks for a number of measures by 2019-20, including the operating performance benchmark, its reported financial performance has been adversely affected by its forecast population growth. Camden is forecast to be the fastest growing council in NSW and expected to grow by 5.1% on average a year, which will increase its population from 58,450 in 2011 to 162,350 in 2031.[55] This results in growth of almost 180% between 2011 and 2031. We assess Camden as meeting the financial criteria overall as its inability to meet a number of benchmarks has been affected by its expected high population growth as opposed to underlying structural issues. In the long term, as Camden's growth rates moderate to more normal levels, it would likely meet the operating performance benchmark based on current data.

The Hills' proposal to stand alone is consistent with the ILGRP's preferred option of 'no change'. We therefore assess that it meets the scale and capacity criterion.[56]

The ILGRP's report included a possibility for The Hills to merge with Hawkesbury in the longer term. Ernst & Young calculated that a merger between these two councils could produce benefits of $60 million over 20 years in NPV terms. The Hills also submitted its preferred option for boundary changes, but we did not assess the NPV of these changes due to insufficient information.

Blacktown, Campbelltown and Hawkesbury

We find Blacktown City Council (Blacktown), Campbelltown Council Campbelltown) and Hawkesbury City Council (Hawkesbury) are not fit for the future based on these councils not meeting the financial criteria overall. However, all three councils met the scale and capacity criterion.

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55 NSW Department of Planning and Environment, *New South Wales State and Local Government Area Population Projections 2014*.

56 However, we note there may be alternative merger options which could yield significant net benefits.

While Blacktown satisfies the infrastructure and service management criterion and the efficiency criterion, it does not satisfy the sustainability criterion based on its forecast of continuing operating deficits and a building and infrastructure renewal ratio significantly below the benchmark by 2019-20. For this reason it does not satisfy the financial criteria overall.

Blacktown's operating performance ratio is forecast to decrease from -5.6% in 2014-15 to -8.4% in 2019-20. If the interest income on section 94 reserves is removed, this ratio decreases further to -10% in 2019-20. The trend in growing operating deficits will have a significant impact on the council's financial sustainability and ability to address asset renewals over the long term. The council has forecast its building and infrastructure renewal ratio will be 38.6% by 2019-20, which is significantly below the benchmark of 100%. Blacktown's long term financial plan forecasts a significant asset renewal funding gap of around $140 million by 2025-26, which is expected to increase further to $626 million by 2035.

A factor adding to the council's poor operating performance is its depreciation expense, which is forecast to grow because of the accumulation of new assets to support population growth. Blacktown's depreciation rates are based on weighted average useful asset lives of approximately 60 years, which is reasonable.[57] The accumulation of new assets is normal for a growth council.[58] Given its scale and capacity and revenue raising ability we consider that there are many options for Blacktown to become fit in future years. This includes exploring revenue and cost-reduction opportunities, refinements to asset management planning, and efficient use of debt for capital and infrastructure projects.

Campbelltown did not meet the financial criteria overall based on a negative and declining operating performance ratio which does not meet the benchmark by 2019-20. Its operating performance ratio is forecast to improve from -0.9% in 2014-15 to 2.0% in 2016-17, but then declines significantly to -2.4% by 2019-20. It is then forecast to deteriorate further to -3.5% by 2024-25. It also forecasts not meeting the building and infrastructure asset renewal benchmark, although it reports it is funding 100% of its renewal requirements in accordance with its Asset Management Plan.

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57 Accounting standards require councils to regularly review assumed useful asset lives and the depreciation methodology and rates used. This enables the reliability of annual depreciation estimates to be enhanced based on past actual asset performance.

58 The forecast population growth in the Blacktown LGA is 51.5% based on DPE projections over the period from 2011 to 2031. This is not as large as other councils such as Camden which is projected to grow by 178% over the same period.

Campbelltown notes its modelling assumes no significant new capital expenditure over the outlook period which may not be reasonable. It notes its focus is on eliminating the infrastructure backlog and annual maintenance gap. Campbelltown's need to undertake additional new capital expenditure to meet population growth may be mitigated to some extent, as a number of infrastructure projects will likely be delivered by other government agencies and developers. However, additional capital expenditure will likely be required to meet Campbelltown's population growth, which would have an adverse impact on its operating performance ratio through increased depreciation.

Growth in Campbelltown may be bolstered over the long run by the Glenfield to Macarthur Priority Urban Renewal Corridor initiative and the Greater Macarthur Land Release Preliminary strategy. These developments, if progressed, will provide scope for significant additional dwellings. The timing of most of the potential housing development is uncertain, with additional preparatory work required before much of the development could proceed.

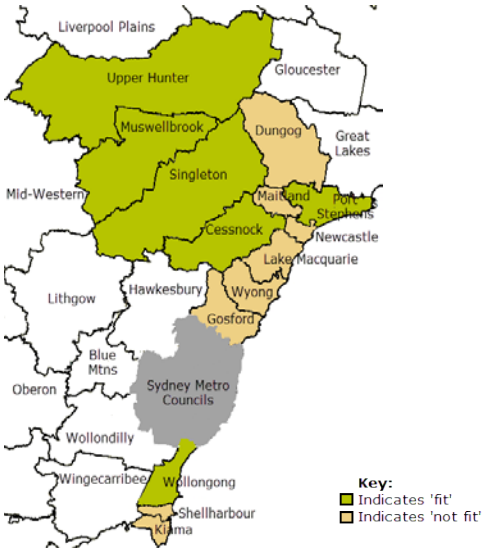
For these reasons, and the recent announcement of the strategy, Campbelltown's forecasts in its long term financial plan and proposal do not include the substantive part of these potential developments. These developments will require additional infrastructure spending. The funding mechanism for the additional infrastructure is uncertain, but it is expected Campbelltown will draw on state government funding and voluntary planning agreements to fund this infrastructure.

We assessed Hawkesbury as meeting the scale and capacity criterion as its proposal is consistent with the ILGRP's preferred option for no change. However, Hawkesbury did not meet the financial criteria overall based on its negative operating performance ratio of -1.1% in 2019-20. In addition, the improvement in its operating performance relies on a proposed SV of 16.0% above the rate peg over five years from 2017-18 (29.7% including the rate peg) to approach break-even, as well as unspecified service level reductions to fund asset maintenance and renewals.

As shown in Table 2.1 above, analysis by Ernst & Young suggests a merger between Hawkesbury and The Hills may be a better alternative to Hawkesbury's proposal to stand alone.

2.2 Central Coast, Hunter and Illawarra

Figure 2.12 Central Coast, Hunter and Illawarra Regions



Unlike the metropolitan and non-metropolitan councils, the options for the Central Coast, Hunter and Illawarra regions were not specifically set out by the ILGRP. However, it stated:

> The Hunter and Illawarra regions are vital 'engine rooms' of the NSW economy, and local government has an essential role to play in ensuring sound regional development. This requires improved frameworks for local and regional governance. The Central Coast has important links with both the Hunter and the Sydney metropolitan region, is experiencing significant growth pressures, and would also benefit from stronger governance.[59]

In addition, the ILGRP's Final Report discussed potential mergers for specific councils in these regions. Table 2.2 provides the options set out in our Methodology Paper for the Central Coast, Hunter and Illawarra based on the ILGRP's discussion of these regions.[60]

59 ILGRP Final Report, pp 108.
60 Methodology Paper, p 64; and ILGRP Final Report, pp 108 -110.

Table 2.2 ILGRP recommendations for Hunter, Central Coast and Illawarra

Council/s	Options (preferred option in bold)
Central Coast	
Gosford, Wyong	Amalgamate or a multi-purpose Joint Organisation (no separate water corporation until other options properly evaluated)
Hunter Region	
Dungog, Maitland	**Merge** or Council in Joint Organisation (possible boundary change)
Newcastle, Lake Macquarie	**Amalgamate** or Council in Joint Organisation (possible boundary changes)
Cessnock	Council in Joint Organisation
Muswellbrook	Council in Joint Organisation
Port Stephens	Council in Joint Organisation (possible boundary change)
Singleton	Council in Joint Organisation
Upper Hunter	Council in Joint Organisation
Illawarra	
Kiama	Council in a Joint Organisation (if future amalgamation – with Shoalhaven, noting its inclusion in South East-Tablelands region)
Shellharbour, Wollongong	Council in a Joint Organisation (amalgamate if future options need to be revisited)

Source: Adapted from Methodology Paper, p 64; and ILGRP Final Report, pp 108-110.

Central Coast Councils – Gosford and Wyong

In the Central Coast, we find Gosford City Council (Gosford) and Wyong Shire Council (Wyong) are not fit for the future. Gosford and Wyong's proposals did not meet the scale and capacity criterion although both proposals met the financial criteria overall.

We observe that for the Central Coast, the ILGRP stated:[61]

> The potential for an amalgamation warrants further investigation, but if that option is rejected or deferred indefinitely, then a Joint Organisation *should* be established and should assume responsibility for water along with other strategic functions [emphasis added].

We have approached the assessment of the Central Coast councils on the basis that a merger should be explored first. However, if this is not progressed, then the alternative option identified by the ILGRP is for the councils to participate in a multi-purpose JO.

61 ILGRP Final Report, p 109.

Gosford noted there were net present value benefits from a merger but ruled it out on the basis of the risks, upfront costs and time lags for benefit realisation. It proposes to stand alone and join a Hunter JO rather than to join a Central Coast JO with Wyong.

Wyong ruled out a merger based on its consultant's report and proposes to stand alone with 'business improvements'. It notes that it is open to exploring shared services with Gosford similar to a JO, but does not propose to form a Central Coast JO with Gosford.

We consider a merger of Gosford and Wyong would give the councils greater scope to undertake new functions and projects, more capacity to effectively partner with governments and effectively advocate on behalf of their communities. Further, the efficiency improvements in the councils' proposals could be better realised under the merger option.

We find:

- The proposals submitted by Gosford and Wyong are not consistent with the FFTF objectives for stronger and more strategic governance for the Central Coast as the councils propose to stand-alone and not participate in a Central Coast JO.
- Based on our indicative analysis, up to $101 million over 20 years in NPV benefits could be realised from a Gosford and Wyong merger. In addition, Ernst & Young estimated NPV benefits from a merger of Gosford and Wyong is $196 million over 20 years.

For these reasons we consider that Gosford and Wyong did not demonstrate their stand-alone proposal was as good as or better than the merger option.

Hunter region

In the Hunter region, we find Cessnock City Council (Cessnock), Muswellbrook Shire Council (Muswellbrook), Port Stephens Council (Port Stephens), Singleton Council (Singleton) and Upper Hunter Shire Council (Upper Hunter) are fit for the future. All of these councils met the scale and capacity criterion as well as the financial criteria. We note for all these councils, the only option presented was to remain stand-alone councils in a Hunter JO, and these council proposals were consistent with this option.

We find Lake Macquarie City Council (Lake Macquarie), Newcastle City Council (Newcastle), Dungog Shire Council (Dungog) and Maitland City Council (Maitland) not fit for the future. These councils did not meet the scale and capacity criterion. However, with the exception of Dungog, these councils met the financial criteria overall. In particular, Dungog did not meet the sustainability criterion. The council has proposed a significant SV of 108.2%

(92.2% above the rate peg) over six years to achieve the operating performance benchmark which may not be reasonable.

Lake Macquarie and Newcastle did not show that their proposals to stand alone were as good as, or better than, the merger option. We consider a merger of Lake Macquarie and Newcastle is likely to provide system-wide benefits to their communities, better strategic capacity and broader benefits to NSW. We calculated significant NPV benefits over 20 years from a merger of the two councils.

Maitland and Dungog did not show that their proposals to stand alone were as good as, or better than, the merger option. In particular, given Dungog's small and stagnant population, limited capacity to increase revenue and challenges in overcoming infrastructure backlogs, we consider a merger would strengthen the region's ability to be fit for the future. Our analysis suggests the area in aggregate is likely to be better off with a merger. We calculated NPV benefits of an estimated $5 million over 20 years from a merger of the two councils.

Illawarra

In the Illawarra region, we find Wollongong City Council (Wollongong) is fit since it meets both the scale and capacity criterion and the financial criteria overall. The only option presented for Wollongong by the ILGRP is to remain a stand-alone council in the Illawarra JO, and its proposal is consistent with this option. In addition, Wollongong, Shellharbour, Shoalhaven and Kiama have successfully applied to form a pilot JO.

We find that Shellharbour City Council (Shellharbour) and Kiama Municipal Council (Kiama) are not fit. Both councils meet the scale and capacity criterion since their proposals are consistent with the option presented to stand-alone in an Illawarra JO. However, neither of these councils meet the financial criteria.

Shellharbour does not satisfy the financial criteria, primarily due to its operating performance ratio falling short of the benchmark in 2019-20. It forecasts operating deficits despite a relatively large rate increase over four years from 2013-14. A merger between Wollongong and Shellharbour could be explored, consistent with the ILGRP's suggestion.

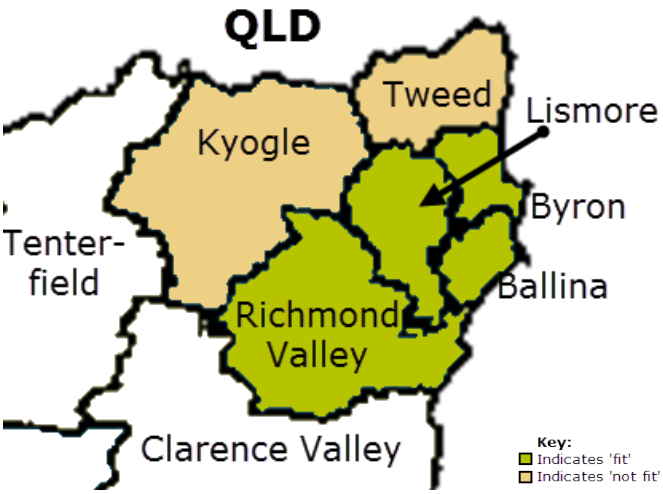
Kiama does not meet the financial criteria due to consistent operating deficits, despite a proposed SV to increase revenue by 17.4% over three years from 2018-19. It does not meet the efficiency criterion as it forecasts an increase in real operating expenditure per capita over time. This is partly due to plans for a new aged care facility which may be over extending the council financially.

The ILGRP suggested that Kiama and Shoalhaven could amalgamate if future options need to be revisited. A merged council would likely perform better in terms of long-term financial sustainability and in particular for Kiama given the potential efficiencies available from a merger.

2.3 Non-Metropolitan Regions

2.3.1 Northern Rivers[62]

Figure 2.13 Northern Rivers Region



There are six councils in the Northern Rivers region as seen in Figure 2.13.

In the Northern Rivers region we find Ballina Shire Council (Ballina), Byron Shire Council (Byron), Lismore City Council (Lismore) and Richmond Valley Council (Richmond Valley) are fit for the future. These councils met the scale and capacity criterion and the financial criteria overall. Only one option was identified for each of Ballina and Byron - to remain stand-alone councils in a Northern Rivers JO. In contrast, two options were presented for Lismore and Richmond Valley – to either merge with Kyogle Shire Council (Kyogle) or stand alone in a Northern Rivers JO. Lismore and Richmond Valley both submitted stand-alone proposals consistent with the options identified.

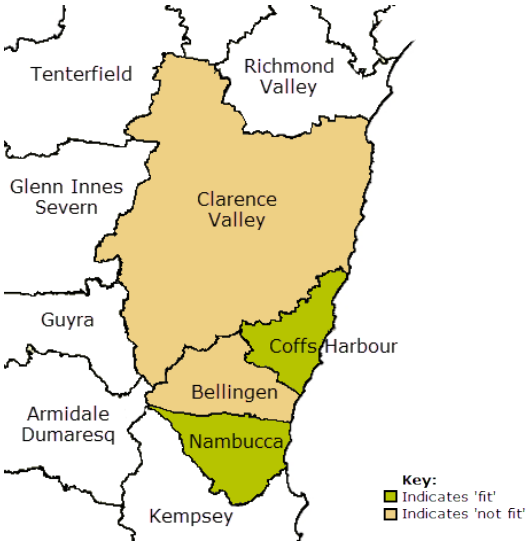
62 This chapter discusses councils on the basis of the regional allocations by the ILGRP in its Final Report.

We find Tweed Shire Council (Tweed) is not fit for the future. It meets the scale and capacity criterion as no evidence was provided for an alternative that was better than its proposal to stand-alone in a Northern Rivers JO. However, it does not meet the financial criteria. This is because Tweed forecasts that its performance in 2019-20 will be below the benchmark for the operating performance ratio at -4.9% and the building and infrastructure asset renewal ratio at 52.2%. Moreover, the council forecasts a high and increasing infrastructure backlog of 8.9% and a below benchmark asset maintenance ratio of 71.3% in 2019-20.

We find Kyogle is not fit for the future as it does not meet the scale and capacity criterion. However, it does meet the financial criteria overall. The council was presented with an option to stand alone in a Northern Rivers JO or merge with either Lismore or Richmond Valley. Kyogle submitted a Rural Council Proposal, which was not an option identified for this council. The council did not demonstrate it meets the majority of the Rural Council Characteristics, in particular two key characteristic for a Rural Council, that is, 'small and static or declining population' and 'limited options for mergers'. The council's population of around 9,550 (2011) is significantly higher than most other councils identified as suitable for being a Rural Council'.[63] Additionally, Kyogle has merger options with Lismore or Richmond Valley as identified by the ILGRP.

2.3.2 North Coast

Figure 2.14 North Coast Region



There are four councils in the North Coast region as seen in Figure 2.14.

63 We note in particular that Groups B and C councils that the ILGRP identified as suitable to be Rural Councils have populations below 5,000. ILGRP Final Report, pp 114-115.

In the North Coast region, we find Coffs Harbour City Council (Coffs Harbour) and Nambucca Shire Council (Nambucca) are fit for the future. These councils meet the scale and capacity criterion and the financial criteria overall. The only option identified for each of the North Coast councils was to stand alone within a North Coast JO. These councils' proposals are consistent with this option.

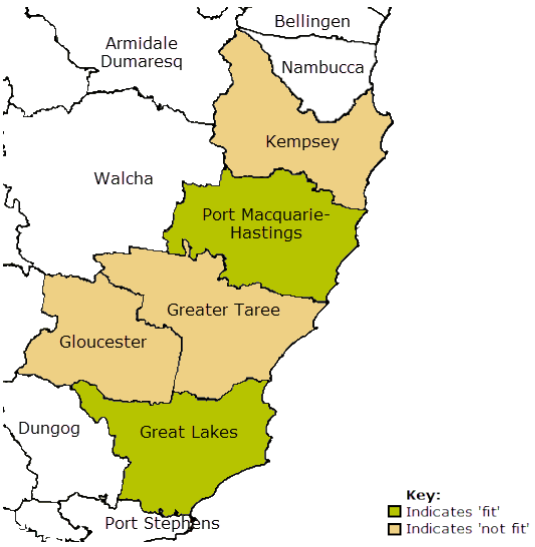
We find Clarence Valley Council (Clarence Valley) and Bellingen Shire Council (Bellingen) are not fit for the future. These councils meet the scale and capacity criterion as their proposals to stand-alone were consistent with the ILGRP's identified option, however, they do not meet the financial criteria overall.

Clarence Valley proposes to increase rates by 34.0% above the rate peg over five years commencing in 2016-17. Despite this proposed rate increase, Clarence Valley forecasts it will have an operating performance ratio in 2019-20 of -5.7%, which is below the benchmark. Clarence Valley also does not meet the infrastructure backlog benchmark of 2% or lower.

Bellingen forecasts its operating performance ratio will be -7.2% in 2024-25, which is below the benchmark, despite proposing a SV from 2016-17 of 44% above the rate peg over nine years (69% including the rate peg). In addition, its building and asset renewal ratio is forecast to be below the 100% benchmark.

2.3.3 Mid North Coast

Figure 2.15 Mid North Coast Region



There are five councils in the Mid-North Coast region as seen in Figure 2.15.

In the Mid-North Coast region, we find Great Lakes Council (Great Lakes) and Port Macquarie-Hastings Council (Port Macquarie) are fit for the future. These councils met the scale and capacity criterion as well as the financial criteria overall. Port Macquarie-Hastings was presented with only one option by the ILGRP – to stand-alone in a Mid-North Coast JO. Great Lakes was presented with an option to merge with Gloucester Shire Council (Gloucester) or to stand-alone in a Mid-North Coast JO. Great Lakes undertook a business case for a merger with Gloucester but considered it provided no financial benefit to the council.

We find Greater Taree Council (Greater Taree) and Kempsey Shire Council (Kempsey) are not fit for the future. These councils meet the scale and capacity criterion but not the financial criteria overall. Greater Taree was also presented with an option to merge with Gloucester or remain a stand-alone council in the Mid-North Coast JO. It considered the merger but found it would not be beneficial to its financial sustainability. Kempsey was presented with only an option to remain a stand-alone council in the Mid-North Coast JO. Both councils submitted a stand-alone proposal. Our analysis did not find sufficient evidence for a better alternative than the stand-alone option. However, both councils do not meet a number of the financial benchmarks. In particular, neither council meets the benchmark for the operating performance ratio which is a key financial sustainability benchmark. Both councils forecast a negative operating performance ratio in 2019-20, which is below the benchmark.

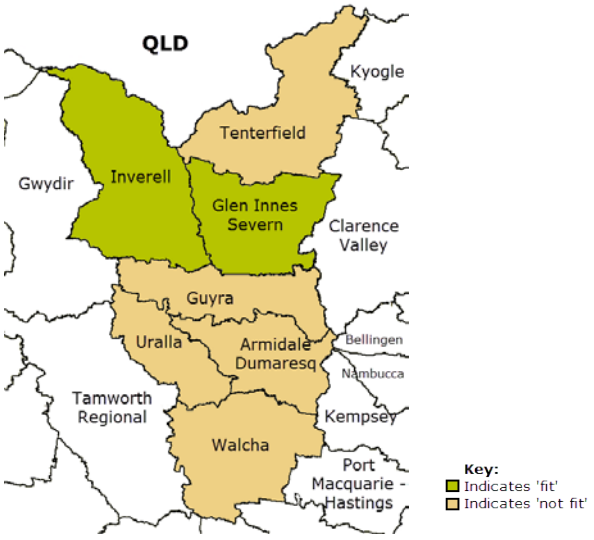
We find Gloucester is not fit for the future. The council does not meet the scale and capacity criterion nor the financial criteria overall. Our analysis suggests the council has insufficient scale to deliver services efficiently to its community and to partner effectively with government. The council's population in 2011 was 5,000 and is forecast to decline to 4,850 by 2031. In addition, our analysis of the merger business case submitted by the council suggests a merger with Great Lakes may generate benefits to the local communities of $11 million over 20 years.[64]

Gloucester also does not satisfy the financial sustainability criterion. It forecasts an improvement in its operating performance ratio from -47.5% in 2014-15 to 6.1% in 2024-25. The improvement relies on the approval of a SV of 36.6% above the rate peg, from 2018-19. This would immediately follow a similarly large SV approved in 2015-16, which would amount to a cumulative rate increase over six years of 92% above the rate peg. The proposed increases are not considered a reasonable assumption and are unlikely to be in the public interest given the other options available to the council.

64 Gloucester and Great Lakes councils commissioned Morrison Low to undertake a business case for a potential merger which returned an NPV of the costs and benefits of -$1 million. However, our analysis of this modelling suggests the merger may generate a positive NPV.

2.3.4 New England

Figure 2.16 New England Region



There are seven councils in the New England region as seen in Figure 2.16.

In the New England region we find Glen Innes Severn Council (Glen Innes) and Inverell Shire Council (Inverell) are fit for the future. These councils meet the scale and capacity criterion and the financial criteria overall. The only option identified for each of these councils was to remain stand-alone councils within the New England JO. Both councils' proposals are consistent with this option.

We find Armidale Dumaresq Council (Armidale), Tenterfield Shire Council (Tenterfield), Uralla Shire Council (Uralla) and Walcha Council (Walcha) are not fit for the future. Armidale does not meet the scale and capacity criterion nor the financial criteria overall. Uralla and Walcha do not meet the scale and capacity criterion but meet the financial criteria overall. Tenterfield meets the scale and capacity criterion but does not meet the financial criteria overall.

Armidale was presented with two options - a merger with Guyra Shire Council (Guyra) as the preferred option or to stand alone in a New England JO. Armidale's proposal suggests it favours a merger with Guyra and Uralla, and possibly Walcha. As this option was not available and Guyra rejected a merger with Armidale, the council submitted a proposal to stand alone. We find Armidale's stand-alone proposal is not as good as or better than the merger option with Guyra because there is limited evidence it could meet the elements of strategic capacity needed to stand-alone compared to the merger option.

Uralla and Walcha were also presented with a preferred option to merge with each other. Uralla did not demonstrate its proposal to stand alone in a New England JO is as good as or better than the proposed merger. Walcha submitted a Rural Council Proposal but did not demonstrate its proposal is as good as or better than the merger. In particular, given Uralla and Walcha are exploring sharing services and staff, the merger potential between the councils is likely to be possible and beneficial. However, both councils meet the financial criteria overall.

Tenterfield was presented with only one option - to remain a stand-alone council in a New England JO. The council would prefer to stand alone within the Northern Rivers JO. We assessed it as meeting the scale and capacity criterion as its proposal is consistent with the identified option. However, it did not meet the financial criteria overall because:

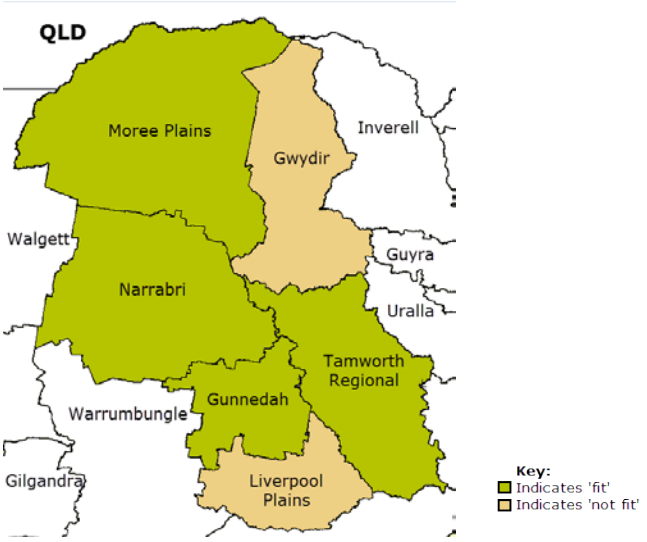
- Its operating performance ratio is -7.2% in 2014-15. To achieve the benchmark by 2024-25 it proposes a cumulative SV from 2018 over seven years of 31.5% above the rate peg (50.4% including the rate peg). In addition to an SV approved in 2014 of 43% above the rate peg, this assumption represents combined increases over 11 years of 99% above the rate peg, which we consider is unreasonable.
- Even with this additional revenue it would not meet the infrastructure backlog ratio which is forecast to be 3.8% in 2019-20 which is above the benchmark of less than 2%.
- With a small, stagnant population and a Socio-Economic Indexes for Areas rating in the bottom decile of the state, it has limited scope to increase its revenue to improve its financial performance.

We also find Guyra Shire Council (Guyra) is not fit as a Rural Council. The ILGRP identified two options for Guyra - a merger with Armidale or to stand alone in a New England JO. The merger option was preferred by the ILGRP. Guyra prefers to stand alone and submitted a Rural Council Proposal. The council does not meet some key Rural Council Characteristics, in particular in relation to the characteristics of having 'limited options for mergers' and a 'long distance to a major (or sub) regional centre. As the council already outsources some functions to Armidale, a merger between Armidale and Guyra is feasible and likely to be beneficial. In addition, the council's major centre (Guyra), with more than 50% of the LGA's population, is close to Armidale (30 mins). Guyra did not demonstrate its proposal to stand-alone is as good as or better than the preferred merger option.

Guyra also does not meet the criterion for sustainability based on its forecasts for the operating performance ratio which depends on approval for a significant SV to take effect in 2016-17, as well as unrealistic depreciation assumptions. Using more realistic assumptions, Guyra's operating performance ratio would be negative throughout the period to 2024-25.

2.3.5 Namoi

Figure 2.17 Namoi Region



There are six councils in the Namoi region as seen in Figure 2.17.

In the Namoi region, we find Gunnedah Council (Gunnedah), Moree Plains Council (Moree Plains), Narrabri Council (Narrabri), and Tamworth Regional Council (Tamworth), are fit for the future. All of these councils meet the scale and capacity criterion as well as the financial criteria overall. The ILGRP presented only a stand-alone option for Gunnedah, Narrabri and Tamworth and these councils' proposals were consistent with this option. It presented two options for Moree Plains to either merge with Gwydir Council (Gwydir) or to stand alone, but neither option was preferred. Moree Plains discussed a merger with Gwydir but did not pursue it. The council meets the scale and capacity criterion as there was insufficient evidence for a better alternative than the stand-alone option.

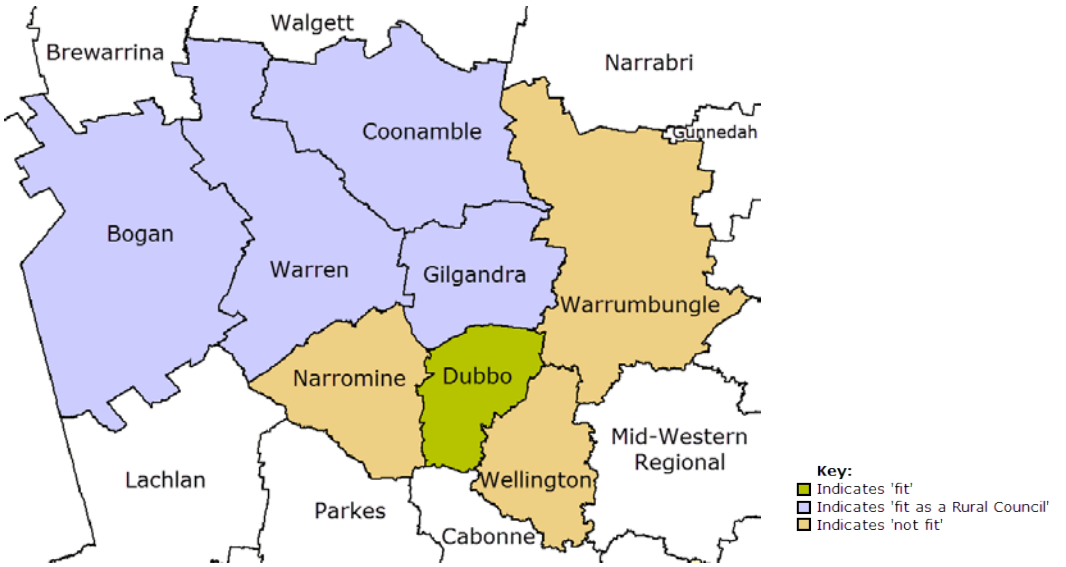
We find Gwydir and Liverpool Plains Council (Liverpool Plains) are not fit. We consider Gwydir is not fit, as it does not meet the scale and capacity criterion nor the financial criteria overall. In particular, Gwydir's small, declining and aging population, which is forecast to fall by 1% a year to 4,200 by 2031[65], is unlikely to be sufficient to support a stand-alone council. Gwydir also has a weak financial position with large operating deficits. Gwydir has proposed a relatively large rate increase of 29.8% above the rate peg over one year and reducing service levels to improve its financial position. However, our analysis finds the council is unlikely to be sustainable in the long term as a stand-alone council.

65 DP&E.

We find Liverpool Plains is not fit, as it does not meet the scale and capacity criterion. Its small population (forecast to reach 7,950 in 2031)[66] is likely to affect the council's future strategic capacity. Further, the council does not appear to have a robust revenue base and its resources to cope with complex and unexpected change appear limited. The council also did not fully explore a merger with Gunnedah, which could have improved its scale and capacity. However, Liverpool Plains meets the financial criteria overall, provided it successfully applies for and implements its proposed SV of 11.4% above the rate peg from 2017-18.

2.3.6 Orana

Figure 2.18 Orana Region



There are eight councils in the Orana region as seen in Figure 2.18.

In the Orana region, we find Dubbo City Council (Dubbo) is fit for the future. The council meets the scale and capacity criterion as well as the financial criteria overall. Dubbo was presented with an option to merge with Wellington and/or Narromine or to stand alone, but neither option was preferred by the ILGRP. Dubbo explored a merger but did not pursue it. However, as Dubbo's proposal is consistent with the options identified, we find it meets the scale and capacity criterion.

66 DP&E.

In this region, we also find Bogan Shire Council (Bogan), Coonamble Council (Coonamble), Gilgandra Shire Council (Gilgandra) and Warren Shire Council (Warren) are fit as Rural Councils. These councils were presented with options to merge or become a Rural Council in the Orana JO, but no preference was identified by the ILGRP. These councils' proposals to become Rural Councils are consistent with the options presented and they met the financial criteria overall. However, should a Rural Council Model not be adopted by Government, these councils would likely be found not fit against the scale and capacity criterion.

We find Warrumbungle Shire Council (Warrumbungle) is not fit for the future. It meets the scale and capacity criterion as its proposal was consistent with the only option presented by the ILGRP - to remain a stand-alone council in the Orana JO. However, the council does not meet the financial criteria overall, in particular it does not meet the benchmark for the operating performance ratio. The council forecasts its operating performance ratio would reach 0.1% by 2024-25 to meet the benchmark, based on an assumption that FAGs would increase by $1 million in 2017-18 which our analysis indicates is not reasonable. Our revised estimate suggests the operating performance ratio will be -2.2% in 2024-25 which does not meet the benchmark. The council also does not meet the criterion for efficiency based on our estimate of an increasing real opex per capita over time.

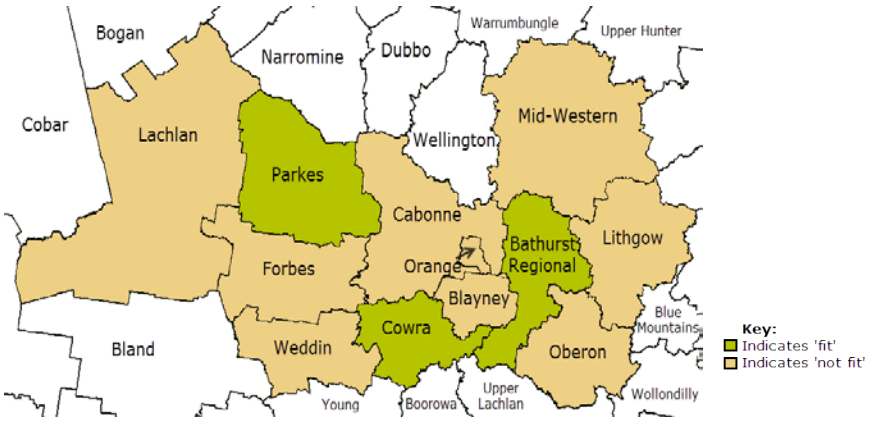
We find Narromine Shire Council (Narromine) and Wellington Council (Wellington) are not fit for the future. These councils do not meet the scale and capacity criterion although they meet the financial criteria overall. We find they are not fit as stand-alone councils primarily due to their low populations which are forecast to decline to 6,300 and 8,100 by 2031 respectively. Our analysis suggests the councils' relative size could restrict their regional capacity and place them at risk of becoming unsustainable.

As noted above, a potential merger between Dubbo, Wellington and Narromine was identified as an option to explore by the ILGRP because of the close functional inter-relationships between a regional centre (ie, Dubbo) and adjoining council areas (Narromine and Wellington).[67] The councils undertook some evaluation of a merger, however, did not pursue this option.

[67] ILGRP Final Report, p 85.

2.3.7 Central West

Figure 2.19 Central West Region



There are 12 councils in the Central West region as seen in Figure 2.19.

In the Central West region we find Bathurst Regional Council (Bathurst), Cowra Shire Council (Cowra) and Parkes Shire Council (Parkes) are fit for the future. These councils meet the scale and capacity criterion as well as the financial criteria overall. Bathurst, Cowra and Parkes were presented with options for mergers or to stand alone in a Central West JO, but neither option was preferred. The proposals submitted were consistent with the options identified.

We find, Blayney Shire Council (Blayney), Cabonne Shire Council (Cabonne), Forbes Shire Council (Forbes), Lachlan Shire Council (Lachlan), Lithgow City Council (Lithgow), Mid-Western Regional (Mid-Western), Oberon Council (Oberon), Orange City Council (Orange) and Weddin Shire Council (Weddin) are not fit for the future.

Blayney, Forbes, Lachlan and Oberon did not satisfy the scale and capacity criterion due to the councils' low and/or declining populations. These councils' populations are forecast to be 7,800, 8,750, 5,500 and 4,950 respectively by 2031. Our analysis suggests that these councils have insufficient scale to deliver services efficiently to the community and to partner effectively with government. They are unlikely to remain sustainable.

Cabonne and Orange did not satisfy the scale and capacity criterion because the councils did not demonstrate their proposals are at least as good as or better than the preferred merger option for these councils to merge with each other. We calculate, drawing on information in the business case provided by these councils, the merger could produce benefits of around $27 million over 20 years.

Lithgow and Mid-Western satisfy the scale and capacity criterion but did not satisfy the financial criteria overall. We note, in particular, their operating performance ratios will not reach break-even by the benchmark year. Mid-Western also did not satisfy the asset maintenance and infrastructure backlog ratios and Lithgow is not able to meet the building and asset renewal ratio and efficiency criterion.

Weddin submitted a Rural Council Proposal and met the majority of the Rural Council Characteristics as required for a Rural Council. The council projected that it would also meet all the financial criteria. However, we consider its assumption of an increase in FAGs in 2016-17 of $1.5 million is unrealistic. Our recalculation, based on removing the FAGs assumption, finds its operating performance ratio will likely be below benchmark in 2024-25 at around -0.4%. Further, the council forecasts no improvement in its infrastructure backlog ratio which remains around 4.4% by 2019-20, which does not meet the benchmark. We find the council does not meet the financial criteria overall.

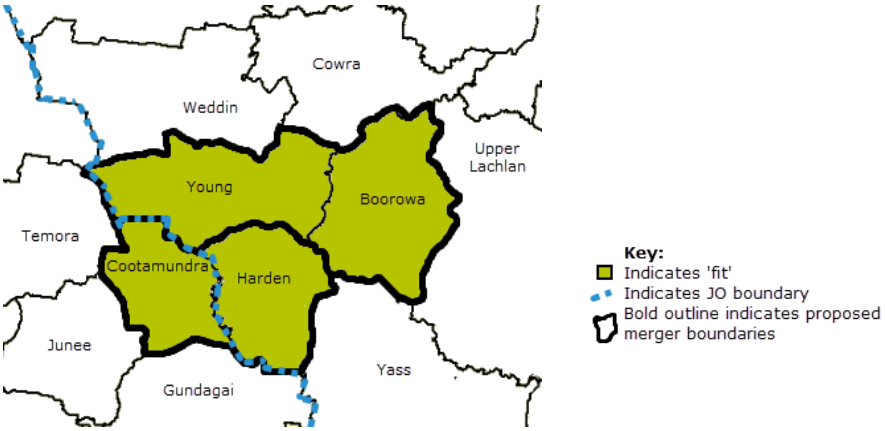
2.3.8 Tablelands

Figure 2.20 Tablelands Region

There are seven councils in the Tablelands region as seen in Figure 2.20. The region includes three councils; Young, Boorowa and Harden that are the subject of Merger Proposals. Cootamundra Shire Council is also included in this discussion on the Tablelands region as it has proposed a merger with Harden. We first discuss our findings on these Merger Proposals and the remaining councils in the following section.

Merger Proposals included in Tablelands - Boorowa and Young; Harden and Cootamundra

Figure 2.21 Boorowa/Young and Harden/Cootamundra Merger Proposals



The ILGRP indicated a preferred 'Hilltops' merger option between Young, Boorowa and Harden. Young and Boorowa submitted a three-way Merger Proposal without the endorsement of Harden. We have assessed the two-way Merger Proposal between Young and Boorowa based on the available information in the proposal.

Harden endorsed and submitted a Merger Proposal with Cootamundra from the Riverina region rather than with Young and Boorowa. Cootamundra was given options to stand alone within a Riverina JO or to merge with Junee Shire Council (Junee). Neither option was preferred by the ILGRP.

We find the Young-Boorowa Merger Proposal is fit for the future. We find that this merger satisfies the scale and capacity criterion and the financial criteria overall. Our reasons for this assessment are that:

- The proposed merger population is projected to be consistent with the ILGRP's rule of thumb of close to or above 10,000 for non-metropolitan council populations by 2031.
- The merger will provide better ability to employ a wider range of skilled staff, more effective regional collaboration and credibility for more effective advocacy than each council as stand-alone councils.
- The merger is superior to each council as stand-alone councils based on the efficiencies and cost savings highlighted in the business case. We calculate the merger would generate net present value benefits of $31 million over 20 years, based on the LKS Quaero's business case for the councils.
- It is the best option available to the councils, given the preferred option is unable to be proposed without Harden's consent.

Young and Boorowa's merger proposal is contingent on the inclusion of Harden. Further, Boorowa resolved to not support a two-way merger with Young. Therefore, our assessment of fit is dependent on Young and Boorowa resolving to merge in the absence of Harden. In the event agreement cannot be reached, we find the councils are deemed not fit, as they have not demonstrated scale and capacity as stand-alone councils.

We find the Cootamundra-Harden Merger Proposal is fit for the future as it satisfies the scale and capacity criterion and the financial criteria overall. Our reasons for this assessment are that:

- The community consultation supported the proposed merger and there are likely to be communities of interest.
- The proposed population is projected to be consistent with the ILGRP's rule of thumb of close to or above 10,000 for non-metropolitan council populations by 2031.
- The merger is superior to each council as stand-alone councils based on the efficiencies and cost savings highlighted in the business case. We calculate the merger would generate net present benefits of about $11 million over 20 years.
- The councils' proposal appears to be based on improving service delivery or the suite of services provided rather than reducing costs. This has not been captured in the business case, but would further benefit the community.

Young's next preferred option for a merger includes expanding the proposed 'Hilltops' merger to include Cootamundra. However, Cootamundra has rejected this option on the basis that it changes the focus of Cootamundra and the southern half of Harden away from the Riverina region. Based on the information provided by the councils we consider a four-way merger between Young, Boorowa, Harden and Cootamundra is likely to deliver larger gains to the community than the current two Merger Proposals.

Other Tableland Councils

Among the other councils in the Tablelands region, we find Wingecarribee Shire Council (Wingecarribee) is fit for the future, as it meets the scale and capacity criterion as well as the financial criteria overall. The ILGRP identified only one option for Wingecarribee - to remain a stand-alone council in the Tablelands JO, and the council's proposal was consistent with this option. The council has a proposed SV from 2016-17 of 41% over four years (around 30.8% above the rate peg) which enables it to just meet the benchmark for the operating performance ratio.

We find Goulburn Mulwaree Council (Goulburn), Upper Lachlan Shire Council (Upper Lachlan) and Yass Valley Council (Yass Valley) are not fit. The ILGRP identified only one option for Goulburn and Yass Valley - to remain stand-alone councils in the Tablelands JO. However, Upper Lachlan had the option to stand-alone or to merge with Goulburn with no ILGRP preference indicated for either option.

We find that while Goulburn's proposal to stand alone is consistent with the option identified for the council, it does not meet the financial criteria overall. In particular, its operating performance ratio of -4.3% in 2019-20 could affect its continued ability to provide services to its community. We find that Goulburn is not financially sustainable despite its current and proposed strategies for improvement.

Goulburn considered a merger with Upper Lachlan Shire. We find that Goulburn's forecast 2031 population of 33,550 represents 86% of a possible merger, which would provide strategic capacity to Upper Lachlan. The council notes it held discussions in relation to a possible amalgamation with all neighbouring councils but that each council decided to stand alone.

We find Upper Lachlan is not fit, as it does not meet the scale and capacity criterion although it meets the financial criteria overall. Its projected population in 2031 of 7,500 suggests the council may be at risk of becoming unsustainable which may affect its future strategic capacity. Further, the council's relative size means it is unlikely to be able to undertake major projects of regional or state significance.

Yass Valley's stand-alone proposal was consistent with the identified option and therefore meets the scale and capacity criterion, but it does not meet the financial criteria as it has a weak financial position. We note that even with a proposed SV of 37.2% above the rate peg over five years, its operating performance ratio falls below the benchmark in the assessment period. Its infrastructure backlog ratio also does not meet the benchmark by 2019-20. However, the council has adequate own source revenue relative to the 60% benchmark, and is funding asset maintenance to stabilise the infrastructure backlog, which provides a basis for future improvement.

2.3.9 Riverina

Figure 2.22 Riverina Region

There are 10 councils in the Riverina region as seen in Figure 2.22.

In the Riverina region we find Wagga Wagga City Council (Wagga) is fit for the future as a stand-alone council. The council was presented with two options - to merge with Lockhart Shire Council (Lockhart) or to stand alone in a Riverina JO, but neither option was preferred. Wagga and Lockhart did not undertake a robust or detailed analysis of a merger, but, as the proposals were consistent with the options identified we assessed them as meeting the scale and capacity criterion. However, Wagga has forecast operating deficits in the short term and only just meets the benchmark for the operating performance ratio by 2019-20 at 1.2%, which is assisted by a proposed SV in 2016-17 of 4.1% (6.6% including the rate peg). Additionally, it does not satisfy the infrastructure and service management criterion. While it meets the financial criteria overall, Wagga could make some improvements in its financial performance, particularly in relation to the management of its assets.

We find Coolamon Shire Council (Coolamon), Lockhart and Tumbarumba Shire Council (Tumbarumba) are fit as Rural Councils. These councils' proposals were consistent with the options presented, met the majority of the Rural Council Characteristics and met the financial criteria overall. However, should a Rural Council Model not be adopted by Government, these councils would likely be found not fit against the scale and capacity criterion.

We find Bland Shire Council (Bland), Gundagai Shire Council (Gundagai), Junee Shire Council (Junee), Temora Shire Council (Temora), and Tumut Shire Council (Tumut) not fit for the future.

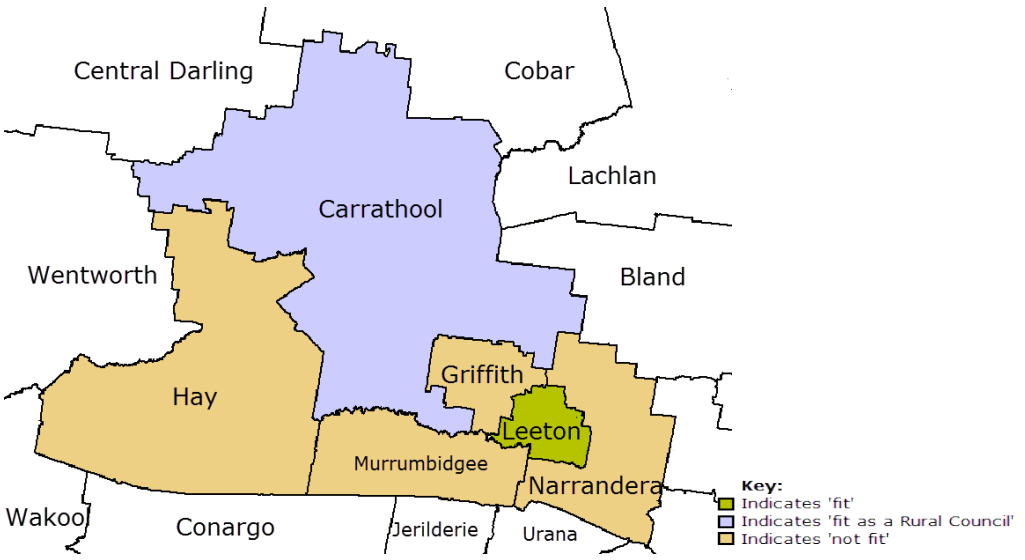
The preferred option for Gundagai and Tumut was to merge with each other. Tumut corresponded with Gundagai regarding a merger, but this was not progressed due to Gundagai's preference to stand alone. Gundagai submitted a Rural Council Proposal, but neither council demonstrated their proposal is as good as or better than the merger option. Our analysis suggests a merger of these councils could provide greater scale and capacity compared to the councils standing alone. While Tumut meets the financial criteria overall, Gundagai does not. In particular, Gundagai's operating performance ratio does not meet the benchmark by 2024-25.

Temora and Bland were presented with an option to merge or stand alone as councils in the Riverina JO. Junee was presented with an option to merge with Cootamundra or stand alone in the Riverina JO. Junee investigated the merger option with Cootamundra, but the councils identified the Bethungra Range as an impediment to efficiently providing services across the councils and a natural divide between the communities of interest. Temora, Bland and Junee each proposed to stand-alone, but do not meet the scale and capacity criterion. Each of these councils has a low population that is forecast to decline by 2031. Their capacity to undertake new functions or major projects as stand-alone councils in the future is likely to be limited by their declining populations. We find these councils meet the requirements of the financial criteria overall.

Cootamundra is discussed in the Tablelands section as it has proposed a merger with Harden.

2.3.10 Murrumbidgee

Figure 2.23 Murrumbidgee Region



There are six councils in the Murrumbidgee region as seen in Figure 2.23.

In the Murrumbidgee region, we find Leeton Shire Council (Leeton) is fit for the future as it meets the scale and capacity criterion and financial criteria overall. The council was presented with two options – a merger with Narrandera Shire Council (Narrandera) or to remain a stand-alone council in a Murrumbidgee JO. Neither option was preferred by the ILGRP. Leeton investigated a merger with Narrandera but did not pursue it as it considered there was little benefit based on the results of the business case it commissioned. It submitted a stand-alone proposal which was consistent with the identified options.

We find Carrathool Shire Council (Carrathool) is fit as a Rural Council. It meets most of the Rural Council Characteristics, has proposed some improvement strategies and met the financial criteria overall. Carrathool was presented with two options – to merge with Griffith or become a Rural Council in a Murrumbidgee JO. It ruled out the merger as a large majority of the community preferred the council to stand alone. However, should a Rural Council Model not be adopted by Government, Carrathool would likely be found not fit against the scale and capacity criterion.

We find Griffith City Council (Griffith), Murrumbidgee Shire Council (Murrumbidgee), Hay Shire Council (Hay) and Narrandera Shire Council (Narrandera) not fit for the future.

Griffith and Murrumbidgee do not meet the scale and capacity criterion as they did not sufficiently explore the preferred option for these councils to merge. The councils indicated a discussion on the merger was held, but no agreement was reached to explore the merger. Further Murrumbidgee's proposal to be a Rural Council did not satisfy the majority of the Rural Council Characteristics.

The ILGRP identified only one option for Hay, which was to be a Rural Council in a Murrumbidgee JO. Its Rural Council Proposal met most of the Rural Council Characteristics, but it does not meet the financial criteria overall. In particular, we consider the improvement to its operating performance ratio is based on optimistic assumptions. The council has a high dependence on FAGs and the Federal Roads to Recovery Grant to deliver a break even result by the benchmark year of 2024-25 for Rural Councils. The council assumes that these federal grants would not only continue, but increase in real terms in the future even though its population is forecast to decline. It forecasts a small operating surplus by 2024-25, but our adjusted estimates forecast a deficit of -0.4% which does not meet the benchmark.

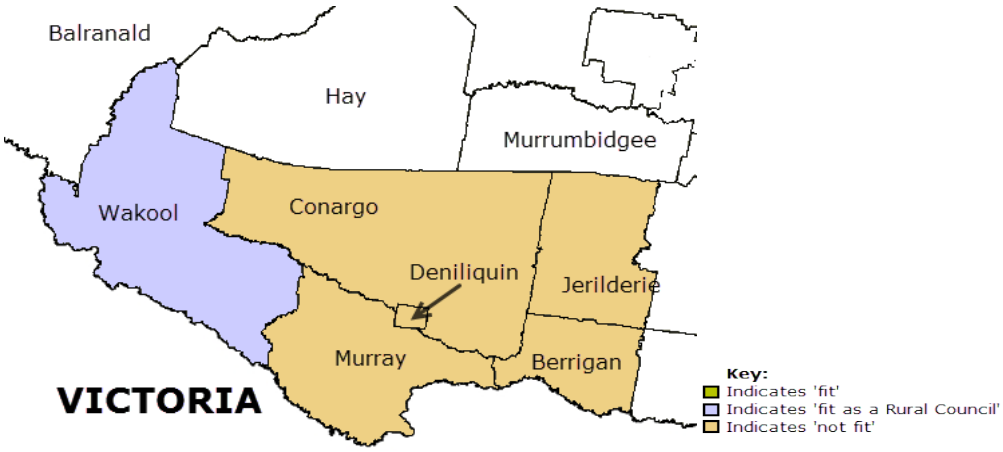
We find Narrandera does not meet the scale and capacity criterion as our analysis indicates its proposed improvements are not sufficient for achieving long term sustainability. In particular, its low population which is forecast to decline to 4,950 in 2031, is unlikely to be sufficient to support a stand-alone council and may affect its future strategic capacity.[68]

[68] NSW Department of Planning and Environment, *New South Wales State and Local Government Area Population Projections 2014*.

However, Griffith, Murrumbidgee and Narrandera meet the financial criteria overall, based on forecast modest surpluses to meet the benchmark for the operating performance ratio. This is assisted by an SV in 2017-18 and 2018-19 proposed by Murrumbidgee and by sustainability strategies and improvements proposed by Griffith and Narrandera. We note that each council has reviewed its asset management strategy to achieve the infrastructure and service management ratios, but faces challenges in meeting the efficiency benchmark largely due to declining populations in the area.

2.3.11 Mid-Murray

Figure 2.24 Mid-Murray Region



There are six councils in the Mid-Murray region as seen in Figure 2.24.

In the Mid-Murray region we find Wakool Shire Council (Wakool) fit as a Rural Council. The council meets most of the Rural Council Characteristics, has proposed strategies for improvement, which it forecasts will provide annual savings/revenue of $432,000 a year by 2019-20 and met the financial criteria overall. However, should a Rural Council Model not be adopted by Government, Wakool would likely be found not fit against the scale and capacity criterion.

We find Berrigan Shire Council (Berrigan), Conargo Shire Council (Conargo), Deniliquin Council (Deniliquin), Jerilderie Shire Council (Jerilderie) and Murray Shire Council (Murray) are not fit for the future. These councils do not meet the scale and capacity criterion although Berrigan and Conargo meet the financial criteria overall. Jerilderie does not meet the financial criteria overall.

The ILGRP preferred Berrigan and Jerilderie to merge together. Berrigan submitted a proposal to stand alone and Jerilderie submitted a Rural Council Proposal which were the alternative options presented by the ILGRP. We found neither proposal was as good as the merger option. When compared to the merger, Jerilderie is unlikely to be able to cost-effectively provide services to the community, given its small and declining population, which is forecast to be 1,250 in 2031. We consider a merged council is likely to have improved capabilities, a more robust revenue base and greater scope to undertake new functions and projects for the area. The SGS merger business case commissioned by Berrigan, calculated NPV savings between $1.4 million and $12.5 million (not including the $5 million government funding) from a merger.

The ILGRP's preferred option for Conargo, Deniliquin and Murray was to merge together. None of these councils submitted a Merger Proposal. Deniliquin and Murray submitted proposals to stand-alone, while Conargo submitted a Rural Council Proposal. These councils did not demonstrate their proposed option was at least as good as a merger. Our analysis of the information provided by the councils indicates there could be significant benefits of around $16 million over 20 years for a merger of Murray with Deniliquin. In particular, Conargo and Deniliquin's small and declining populations of 1,700 and 5,700 (2031) respectively suggests the councils are unlikely to provide services cost-effectively to the local communities, advocate credibly, and partner effectively with government when compared to a merged council.

2.3.12 Upper Murray

Figure 2.25 Upper Murray Region

There are four councils in the Upper Murray region as seen in Figure 2.25.

In the Upper Murray region, we find Albury City Council (Albury) and Greater Hume Shire Council (Greater Hume) are fit for the future. These councils meet the scale and capacity criterion as well as the financial criteria. Two options were identified for these councils – to stand-alone in an Upper Murray JO, or for Albury and Greater Hume to merge in-part or in full. Albury strongly opposes further amalgamations and this view appears to have influenced Greater Hume's proposal. Both Albury and Greater Hume submitted proposals to stand-alone and did not explore the merger option. Both councils' proposals are consistent with the identified options.

We find Corowa Shire Council (Corowa) and Urana Shire Council (Urana) are not fit for the future. These councils did not meet the scale and capacity criterion, although they met the financial criteria overall. The two options identified for Corowa and Urana were to merge or to stand-alone in an Upper Murray JO, but the merger of the two councils was preferred. The councils' proposals to stand-alone did not demonstrate they were at least as good as a merger.

We consider Corowa made an effort to explore merger options with neighbouring councils. In the absence of willing partners, Corowa did not undertake a business case for the merger option and resolved to stand-alone. Corowa's population is forecast to decline by 0.2% a year from 2011 to 2031. Our analysis shows a merged council would yield a modest improvement in scale and capacity relative to Corowa's current performance.

Urana's business case focused on the council becoming a Rural Council in a Riverina JO and it is currently a member of the pilot Riverina JO. Urana's population of 1,200 in 2011 is forecast to fall by a third to 800 by 2031. This is unlikely to be sufficient to support a stand-alone council. Urana proposes a cumulative SV of 63.1% above the rate peg over four years from 2016-17 to improve its financial sustainability. Its declining population means it will increasingly rely on rate increases to maintain its operations because of its small scale. We consider a merger with Corowa as preferred by the ILGRP would provide scale and capacity for Urana and would improve the system of local government in the area.

2.3.13 South East

Figure 2.26 South East Region

There are eight councils in the South East region as seen in Figure 2.26.

In the South East region we find Bega Valley Shire Council (Bega), Eurobodalla Shire Council (Eurobodalla) and Shoalhaven City Council (Shoalhaven) fit for the future. These councils were presented with only one option - to remain stand-alone councils in the South East JO - and the councils' proposals were consistent with this option.[69] Bega, Eurobodalla and Shoalhaven also meet the financial criteria overall. However, Shoalhaven meeting the sustainability criterion is contingent on the approval of an assumed rate increase of 21% (15.9% above the rate peg) over two years.

We find Bombala Council (Bombala), Cooma-Monaro Shire Council (Cooma), Palerang Council (Palerang), Queanbeyan City Council (Queanbeyan) and Snowy River Shire Council (Snowy River) not fit, as they do not meet the scale and capacity criterion. Further, Cooma and Snowy River do not meet the financial criteria overall.

Bombala and Cooma were presented with a preferred option to merge with each other, with a secondary option to stand alone in the South East JO (as a Rural Council for Bombala).[70] Snowy River was presented with the options to merge with Cooma/ Bombala or stand alone in the South East JO. These councils jointly commissioned a business case for a three-council merger, but decided not

69 We note Shoalhaven may not be part of a future South East JO as it is currently part of the pilot Illawarra JO with Kiama, Wollongong and Shellharbour.

70 We note Cooma has indicated it intends to seek State Government approval to join the Canberra Region JO (CBRJO) rather than the South East JO. The CBRJO currently has 12 member councils plus the ACT Government and excludes Shoalhaven and Bega.

to pursue it, preferring to stand alone and adopt a shared services option. Cooma and Snowy River submitted Council Improvement Proposals, while Bombala submitted a Rural Council Proposal.

We consider a merger between Bombala, Cooma and Snowy River could assist to improve regional collaboration, advocacy, and planning and enable more effective partnerships with state and federal government. Our analysis of the business case, using information provided by the councils, shows there could be benefits of $22 million over 20 years on a NPV basis. Additionally, each council's small population (below 10,000), may affect its longer term strategic capacity and financial sustainability as stand-alone councils. Cooma and Snowy River did not demonstrate that standing alone would be as good as, or better than, a merger. Bombala meets most of the Rural Council Characteristics, however we assess standing alone as a Rural Council is not as good as, or better than, the preferred merger with Cooma. As a result, for these reasons, we assess Cooma, Snowy River and Bombala as not meeting the scale and capacity criterion.

We find Bombala meets the financial criteria but Cooma and Snowy River do not. Both Cooma and Snowy River have assumed the approval of large SVs to assist in meeting the financial benchmarks, in particular the operating performance ratio benchmark. In both cases, we consider this may not be a reasonable assumption, based on the magnitude of the proposed SVs.

In relation to Palerang and Queanbeyan, we consider a merger would provide greater benefits for Palerang and Queanbeyan, than each council standing alone. Our analysis suggests that, using the information in the business case jointly commissioned by Palerang and Queanbeyan, a merger would provide benefits of $51 million in NPV terms over 20 years. We also assess a merger would improve regional collaboration, operational efficiencies and longer term financial sustainability for Palerang. Queanbeyan has proposed a 'Regional Services Model', which would involve the provision of back office functions for Palerang and a coordinating leadership role for neighbouring councils. However, this model was not supported by Palerang or acknowledged by other neighbouring councils. We also consider this model is unlikely to generate the same level of benefits as the preferred merger.

Both Palerang and Queanbeyan were assessed as meeting the financial criteria overall. However, we note Palerang meeting the sustainability criterion is based on the approval of an SV of 24% above the rate peg over five years (40% including the rate peg). In addition, Queanbeyan meeting the financial criteria is based on the assumption of transitioning to its Regional Services Model, which it has assumed would include significant efficiency gains and a revised organisational structure.

3 Monitoring and reporting of FFTF projections

This chapter sets out issues relating to the monitoring and reporting of councils' FFTF projections following our assessment process.

3.1 Monitoring and reporting process

Becoming a FFTF council is a process that will take time, particularly if structural change is proposed. There are also benefits from assessing a council's performance over time to ensure continued financial sustainability and effective and efficient service delivery.

As discussed in Chapter 1, most councils have proposed a range of strategies to improve their performance in their proposals. The assessment of whether a council is fit has been predicated on the assumption these strategies would be implemented. In some instances, these strategies will require significant change to implement new structures, approaches, and functions which may be challenging and require an extended transition period.

The NSW Government has indicated that strengthening the audit requirements for the local government sector will assist to identify trends and opportunities for improvement.[71] The Government has also noted it recognises the potential value in giving the Auditor-General responsibility for the audit of councils' financial statements to:

- improve quality, consistency, timeliness and financial management more generally, and
- ensure the provision of reliable data that can be used for sustainability assessments and benchmarking.

[71] OLG, NSW Government Response – *Independent Local Government Review Panel recommendation – Local Government Acts Taskforce recommendations*, September 2014, p 8.

OLG expects to implement this new regime following further consultation with the local government sector and legislative change.[72] OLG is currently developing a new performance measurement framework to help communities understand how well their council is performing.[73]

In response to our Consultation Paper, various stakeholders made a number of suggestions regarding how the auditing process for FFTF performance should be implemented. Stakeholders generally considered this should occur:

- after other sector reforms are implemented, including the Integrated Planning and Reporting (IP&R) Guidelines and legislative reforms, and
- with established performance guidelines, developed in consultation with the sector.[74]

Other stakeholders noted:

- auditing should not commence until there is a review of the most appropriate asset-related measures to report on
- there should be reporting of council skill levels, and
- any monitoring should have a positive focus, like the Promoting Better Practice Program.

3.1.1 Proposed monitoring and reporting process

Following the assessment process, the monitoring and reporting of councils' performance against their FFTF proposals could operate as follows:

- Councils would report their performance in their Annual Reports.[75]
- OLG would monitor councils' performance. Councils' FFTF projections and performance against these projections will be collected annually by OLG.[76] The performance of councils would be publicly reported each year by OLG.[77]
- The Auditor-General would be empowered to undertake performance audits of the NSW local government sector.[78]

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72 OLG, NSW Government Response – *Independent Local Government Review Panel recommendation – Local Government Acts Taskforce recommendations*, September 2014, pp 4-8.

73 OLG, *Local Government Performance Measurement Framework* at: http://www.olg.nsw.gov.au/strengthening-local-government/supporting-and-advising-councils/local-government-performance-measurement-framework, accessed on 7 October 2015.

74 A number of submissions including metropolitan and regional councils, some ROCs and an Engineering Association.

75 Councils are required to report their financial performance in their Annual Report. See: OLG, 2013, *Strengthening councils and communities: Discussion Paper*, November 2013, pp 4-5.

76 OLG has requested councils' provide their FFTF projections and financial performance against these projections in its financial data collection for 2014-15.

77 OLG undertakes reporting of council performance each year in the 'Your Council' report.

78 OLG, NSW Government Response – *Independent Local Government Review Panel recommendation – Local Government Acts Taskforce recommendations*, September 2014, p 8.

OLG is currently working with the Audit Office of NSW to facilitate the implementation of the audit function.[79] The scope of audits would need to be clearly defined to ensure the costs do not exceed the benefits.

The implications of the assessments and of a council not meeting its FFTF projections will be matters for the NSW Government.

[79] Ibid.

Appendices

A Terms of reference

NSW GOVERNMENT

Premier of New South Wales

Reference: A1172026

Dr Peter J Boxall AO
Chairman
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
SYDNEY NSW 1240

Peter

Dear ~~Dr Boxall~~

I write to request that the Independent Pricing and Regulatory Tribunal fulfil the role of the Fit for the Future Expert Advisory Panel, and undertake a review of NSW councils' 'fit for the future' proposals in accordance with the attached Terms of Reference.

Should you require further information please contact Mr David Tow, Executive Director of Cities Branch, Department of Premier and Cabinet on (02) 9228 4353 or david.tow@dpc.nsw.gov.au.

Yours sincerely

MIKE BAIRD MP
Premier

Terms of Reference for a review of local council Fit for the Future proposals by an Expert Advisory Panel

I, the Hon Mike Baird MP, Premier of New South Wales, pursuant to section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992* request that the Independent Pricing and Regulatory Tribunal act as the Expert Advisory Panel to review local council Fit for the Future proposals, in accordance with these terms of reference:

Introduction

Based on the recommendations of the Independent Local Government Review Panel (ILGRP), the NSW Government has agreed to an approach to local government reform that seeks to create councils that are strategic and Fit for the Future. A Fit for the Future council is one that:

1. Has the scale and capacity to engage effectively across community, industry and government;
2. Is sustainable;
3. Is efficient;
4. Effectively manages infrastructure and delivers services for communities.

All councils have been called upon to submit a Fit for the Future proposal by 30 June 2015 for assessment by the Expert Advisory Panel (except the eight councils in the Far West, where submitting a proposal is optional).

The Office of Local Government has prepared three templates and associated guidance for the use of councils in making their proposals:

> ***Template 1: Council Merger Proposal*** – where a group of councils have agreed to merge, broadly consistent with the scale and capacity recommendations of the ILGRP.
>
> ***Template 2: Council Improvement Proposal*** – where councils with demonstrated sufficient scale and capacity, using the Panel's recommendation as a starting point, identify the strategies and actions they will implement to ensure they are Fit for the Future against the sustainability, efficiency, and effective management of infrastructure and services criteria and associated measures and benchmarks.
>
> ***Template 3: Rural Council Proposal*** – for councils in Group C of the Panel's final report i.e. where the option of a Rural Council was presented with no preferred alternative or other small councils that want to adopt the options and can demonstrate they meet the Rural Council Characteristics.

The guidance documents supporting each template explain what is required from councils in preparing their proposal and in demonstrating they are Fit for the Future.

Task

The Expert Advisory Panel (the Panel) will assess the Fit for the Future proposals of NSW councils, and prepare a report to the Minister for Local Government with a recommendation on whether each council is Fit for the Future.

Procedure

The Panel is to:

1. Develop a methodology for assessing Fit for the Future proposals.
   The assessment methodology must:
   a. be consistent with the Government's local government reform agenda, as outlined in the Fit for the Future documentation
   b. include an assessment of the scale and capacity criteria as a threshold criterion
   c. include an assessment of the performance against the fit for the future measures and benchmarks, that takes into account:
      i. the material published in the template guidance
      ii. the relative importance of each measure in a council becoming Fit for the Future and relative robustness of the measure
      iii. the social and community context and outcomes for each council
   d. include an assessment of the consultation process undertaken by the council
   e. consider advice provided by the Ministerial Advisory Group
   f. identify timescales and approach to consultation
   g. be published for public consultation for a minimum of 28 days
   h. be finalised and made available to councils no later than week commencing 1 June 2015.

2. Undertake an assessment of whether each council is Fit for the Future, consistent with the published methodology.
   In undertaking this assessment the Panel must:
   a. operate with consistency, fairness and impartiality
   b. have in place an online portal for all councils to submit their Fit for the Future proposals
   c. publish all proposals and supporting documentation (subject to confidentiality requirements) received from councils online as soon as practicable after 30 June 2015
   d. ensure local government knowledge and expertise in the technical assessment of each proposal
   e. rely on the evidence provided by councils through the online submission process, as required by the relevant template and any additional relevant information
   f. give councils the opportunity to provide additional information. This may include the opportunity for councils to present in person.

3. Provide the Minister for Local Government and the Premier with a final report by 16 October 2015 identifying whether or not each council is Fit for the Future and the reasons for this assessment, to be publicly released following Cabinet approval.

B Fit for the Future financial criteria

This appendix outlines:

- a table with the FFTF financial criteria and benchmarks that were used to assess council proposals, and
- a discussion of the considerations we have taken into account in assessing proposals against these criteria.

Table B.1 Fit for the Future Financial Criteria

Criteria	Performance measure	Definition	Benchmark	Metropolitan/ regional councils	Rural councils[a]	Merger case[b]
Sustainability	Operating Performance Ratio	Net continuing operating result[a] (excl capital grants and contributions) / Total continuing operating revenue[a] (excl capital grants and contributions)	Greater than or equal to break-even average over 3 years	Must meet within 5 years	Plan to meet within 10 years	Must meet within 5 years for non-rural councils Plan to meet within 10 years for rural councils
	Own Source Revenue	Total continuing operating revenue[a] (excl all grants and contributions) / Total continuing operating revenue[a] (incl capital grants and contributions)	Greater than 60% average over 3 years	Must meet within 5 years	Plan to improve within 5 years and consideration of FAGs	Must meet within 5 years for non-rural councils Plan to improve within 5 years and consideration of FAGs for rural councils
	Building & Infrastructure Asset Renewal Ratio	Asset renewals (building and infrastructure) / Depreciation, amortisation and impairment (building and infrastructure)	Greater than 100% average over 3 years	Meet or improve within 5 years	Meet or improve within 5 years	Meet or improve within 5 years

Criteria	Performance measure	Definition	Benchmark	Metropolitan/ regional councils	Rural councils[a]	Merger case[b]
Infrastructure and service management	Infrastructure Backlog	Estimated cost to bring assets to satisfactory condition / Total written down value of infrastructure, buildings, other structures, depreciable land, and improvement assets	Less than 2%	Meet or improve/ inform within 5 years	Meet or improve/ inform within 5 years	Meet or improve/ inform within 5 years
	Asset Maintenance	Actual asset maintenance / Required asset maintenance	Greater than 100% average over 3 years	Meet or improve/ inform within 5 years	Meet or improve/ inform within 5 years	Meet or improve/ inform within 5 years
	Debt Service	Cost of debt service (interest expense and principal repayments) / Total continuing operating revenue[a] (excl capital grants and contributions)	Greater than 0% and less than or equal to 20% average over 3 years	Meet within 5 years	Meet within 5 years	Meet within 5 years

Criteria	Performance measure	Definition	Benchmark	Metropolitan/ regional councils	Rural councils[a]	Merger case[b]
Efficiency	Real operating expenditure per capita[b]	Operating expenditure[a] / Population[c]	A decrease in Real Operating Expenditure per capita over time	Must demonstrate operational savings (net of IP&R supported service improvements) over 5 years	Must demonstrate operational savings (net of IP&R supported service improvements) over 5 years but may not be practical in short term	Demonstrate operational savings (net of IP&R supported service improvements) over 5 years but may not be practical in short term

a Where applicable, excludes fair value adjustments, reversal of revaluation decrements, net result on sale of assets and net share/loss of interests in joint ventures.

b Expenditure is deflated by the CPI (for 2009 to 2011) and the Local Government Cost Index (2011 to 2014), as published by IPART.

c ABS, Regional Population Growth, Australia. The data should be averaged over 2 calendar years, except for 2013-14, where the data for the 2013 calendar year should be used.

Note: The benchmarks are to be applied as rolling averages. All measures, where applicable, should be consistent with the Accounting Code/TCorp measures. The measures should also be based on General Fund data and exclude Water and Sewer Funds.

Rural councils include rural councils classified in OLG Groups 8, 9, 10 and 11 and those councils which submit a Rural Council Proposal. For mergers, we have also considered whether meeting each of the benchmarks is practical in the short term for the new council.

Source: OLG, Completing Template 3: Rural Council Proposal, January 2015, p 15.

B.1 Considerations in assessing the financial criteria

This section sets out a discussion of the considerations we have used in assessing council proposals against each of the financial criteria.

B.1.1 Criterion 2: Sustainability

Table B.2 Sustainability criterion – measures and definitions

Measure	Definition
Operating Performance Ratio	Core measure of financial sustainability – indicates a council's capacity to meet ongoing operating expenditure requirements.
Own Source Revenue Ratio	Councils with higher own source revenue have a greater ability to control their own operating performance and financial sustainability.
Building & Infrastructure Asset Renewal Ratio	Measures whether a council's assets are deteriorating faster than they are being renewed – indicator of whether a council's infrastructure backlog is likely to increase.

Some considerations:

- The Operating Performance Ratio is a key measure councils should be aiming to meet over time. However, this measure is influenced by depreciation, which is an accounting measure of the estimated consumption of the service potential of an entity's asset base during a period. It can often represent about 25% of a council's annual operating expenses. Thus, changes to a council's approach in estimating depreciation may have a material effect on the Operating Performance Ratio.
- We have also taken into account the impact of interest income from works-in-kind agreements and voluntary planning agreements provided by developers to deliver infrastructure. Interest income from developer contributions may overstate a council's operating performance as this income cannot be used for council operations, but is included in operating performance figures.
- Depreciation is based on ex-ante estimates of an asset's useful life. As a result, it may not reflect ex-post consumption of an asset's service potential within periods or over time. However, accounting standards do require councils to regularly review assumed useful asset lives and the depreciation methodology and rates used based on actual asset performance, in order to enhance the reliability of annual depreciation estimates. There is nevertheless currently considerable difference in the approaches used to calculate depreciation between councils.

- The Own Source Revenue Ratio may be below the benchmark for different reasons in metropolitan and non-metropolitan areas. Metropolitan growth councils may be receiving capital grants from developers which adversely affect their performance in relation to this measure. For non-metropolitan councils, the legislated Federal Assistance Grants (FAGs) provide a large source of relatively stable and reliable income, and their exclusion may artificially reduce a council's measured relative performance. For this reason, we have considered the impact of FAGs in considering the Own Source Revenue performance of regional and rural councils in OLG Group 8 to 11.
- The Building & Infrastructure Asset Renewal Ratio does not take into account that councils may experience peaks and troughs in renewal needs over time, and it may not be prudent to bring forward renewal expenditure to meet the benchmark. In practice, renewal expenditure programs should be based on a sound Asset Management Plan. Further, councils should ensure the community supports and is willing to pay for the scale of renewals proposed by routinely seeking their views on service standards.

B.1.2 Criterion 3: Effective Infrastructure and Service Management

Table B.3 Infrastructure and service management criterion – measures and definitions

Measure	Definition
Infrastructure Backlog Ratio	Measures how effectively the council is managing its infrastructure. Increasing backlogs may affect the council's ability to provide services and remain sustainable.
Asset Maintenance Ratio	Measures whether the council is spending enough on maintaining its assets to avoid increasing its infrastructure backlog.
Debt Service Ratio[a]	Indicates whether the council is using debt wisely to share the life-long cost of assets and avoid excessive rate increases.

[a] We consider that debt is used wisely when it is used reasonably in conjunction with established, sound, Asset Management Plans.

Some considerations:

- The Infrastructure Backlog Ratio is difficult to measure objectively because condition assessments are subjective and should be based on the community's preferences regarding asset quality, cost and service levels, their willingness to pay, and a risk based assessment and approach to the provision of community infrastructure. We consider councils with a sound financial position should not be reporting a significant infrastructure backlog over the long term. Infrastructure provision by a council is a balance between the community's wants compared with its needs and the ability of the council to raise sufficient revenue to pay for assets.

- We have exercised care when assessing the Infrastructure Backlog Ratio because it is clear that there are widespread differences between councils in their approach to its determination.
- The Asset Maintenance Ratio has been used to inform our holistic assessment of the seven measures in the financial criteria. A council may spend on maintenance yet not renew its assets. As a result, the Infrastructure Backlog Ratio may increase even though the Asset Maintenance Ratio is technically being met.
- The Debt Service Ratio should be based on sound treasury management, which needs to distinguish between how debt is used and the extent of debt taken on by the council. A council that takes on debt to meet the benchmark is not necessarily in a better financial position than a council that does not take on debt where it may be able to fund its needs through recurring income and reserves. Debt should also be used to share the cost of long lived assets between current and future users to maintain inter-generational equity.

B.1.3 Criterion 4: Efficiency

Table B.4 Efficiency criterion – measures and definitions

Measure	Definition
Real Operating Expenditure (Opex) per capita	Indicates how well the council is using economies of scale and managing service levels to achieve efficiencies.

Some considerations:

- The Real Opex per capita ratio measures the council's performance over time. Due to differences in the level, standard and range of services provided, it is difficult to compare this ratio across councils.
- Councils should not reduce service levels or quality in order to decrease their expenditure and meet this benchmark.

Increases in this ratio are permissible, where it efficiently reflects the local community's desire for increased levels of service from their local council. Increases may also occur where the council's population is declining.

B.2 Methodological changes in asset maintenance and renewals

We note a number of councils are consulting with their community to determine if a lower standard of assets (such as roads) is acceptable. If so, under the OLG's IP&R Guidelines, councils may then maintain or renew assets to a 'satisfactory' condition (condition 3), rather than a 'good' condition (condition 2).

This altered approach to asset management effectively reduces both the costs and volume of asset maintenance and renewals over the medium term. This has the effect of improving a council's performance against the financial criteria by:

- Extending asset lives and reducing depreciation on a yearly basis. This improves performance against the Operating Performance Ratio and the Building & Infrastructure Asset Renewal Ratio.
- Reducing the expenditure required to bring assets to an acceptable standard, which decreases the council's Infrastructure Backlog Ratio.
- Possibly reducing required asset maintenance, which improves performance against the Asset Maintenance Ratio without increasing current expenditure.

As a result, many councils are showing improvements across a number of the ratios. In considering these changes, we have examined whether the assumptions used by the council are reasonable. Some councils have also had their altered approach to asset management externally reviewed by consultants. In undertaking the assessments, we have generally accepted these improvements, notwithstanding the fact they are largely a result of a changed approach to asset maintenance and renewal. This is because the new practices are likely to be acceptable to the community, more efficient, and consistent with the OLG's IP&R Guidelines.

C Council assessments

This appendix sets out tables summarising the assessment of each council as follows:

- Metropolitan Sydney councils:
  - Merger Proposals
  - Inner Metropolitan Sydney
  - Outer Metropolitan Sydney.
- Non-metropolitan councils
  - Merger Proposals
  - Hunter, Central Coast and Illawarra
  - Non-metropolitan proposals
  - Rural Council Proposals.

The appendix also includes detail on the assessment for each council against each criteria, which are set out in alphabetical order.

C.1 Metropolitan Sydney assessments

Table C.1 Merger Proposals

Councils	ILGRP preferred option	Assessment	Scale and capacity	Financial criteria overall	Sustainability	Infrastructure and service management	Efficiency
Randwick City and Waverley	**Merge to form a Global Sydney council**	Fit	✓	✓	✓	✓	✓
Auburn City Burwood City of Canada Bay	**Auburn to merge with Holroyd, Parramatta, Ryde (part) and The Hills (part);** **Burwood and Canada Bay to merge with Ashfield, Leichhardt, Marrickville and Strathfield**	Fit	✓	✓	✓	✓	✓

Note: Bold indicates an ILGRP preferred option.

Table C.2 Inner Metropolitan Sydney

Region	ILGRP preferred option	Council	Assessment	Scale and capacity	Financial criteria overall	Sustainability	Infrastructure and service management	Efficiency
Global City	**Amalgamate with Randwick City and Waverley Council**	City of Botany Bay	Not fit	×	✓	✓	✓	✓
		City of Sydney	Not fit as a Global City Council	×	✓	✓	✓	✓
		Woollahra Municipal	Not fit	×	✓	✓	✓	✓
Inner West	**Amalgamate with City of Canada Bay and Burwood**	Ashfield	Not fit	×	✓	✓	✓	×
		Leichhardt Municipal	Not fit	×	✓	✓	✓	✓
		Marrickville	Not fit	×	✓	✓	✓	✓
		Strathfield	Not fit	×	✓	✓	✓	✓

Region	ILGRP preferred option	Council	Assessment	Scale and capacity	Financial criteria overall	Sustainability	Infrastructure and service management	Efficiency
West Central	**Amalgamate with Auburn, City of Ryde (part) and The Hills (part)**	Holroyd City	Not fit	×	✓	✓	✓	✓
		Parramatta City	Not fit	×	✓	✓	✓	✓
Lower North Shore	**Amalgamate**	City of Ryde	Not fit	×	✓	✓	✓	✓
		Hunter's Hill	Not fit	×	✓	✓	✓	✓
		Lane Cove	Not fit	×	✓	✓	✓	✓
		Mosman Municipal	Not fit	×	✓	✓	✓	✓
		North Sydney	Not fit	×	✓	✓	✓	×
		Willoughby	Not fit	×	✓	✓	×	✓
Northern Suburbs	**Amalgamate**	Hornsby	Not fit	×	✓	✓	✓	✓
		Ku-ring-gai	Not fit	×	✓	✓	✓	✓
Northern Beaches	**Amalgamate**	Manly	Not fit	×	✓	✓	✓	✓
		Pittwater	Not fit	×	✓	✓	✓	✓
		Warringah	Not fit	×	✓	✓	✓	✓
South West	**Amalgamate**	Fairfield	Not fit	×	✓	✓	✓	✓
		Liverpool	Not fit	×	✓	✓	✓	✓
Southern	**Amalgamate**	Canterbury	Not fit	×	✓	✓	✓	✓
		Hurstville	Not fit	×	✓	✓	✓	✓
		Kogarah	Not fit	×	✓	✓	✓	✓
		Rockdale	Not fit	×	✓	✓	✓	✓
Bankstown	**No change**	Bankstown	Fit	✓	✓	✓	✓	✓

Note: Bold indicates an ILGRP preferred option.

Table C.3 Outer Metropolitan Sydney

Council	ILGRP preferred option	Assessment	Scale and capacity	Financial criteria overall	Sustainability	Infrastructure and service management	Efficiency
Blacktown City	**No change**	Not fit	✓	×	×	✓	✓
Blue Mountains City	**No change**	Fit	✓	✓	✓	✓	✓
Camden	**No change**	Fit	✓	✓	✓	✓	✓
Campbelltown City	**No change**	Not fit	✓	×	×	✓	✓
Hawkesbury	**No change**	Not fit	✓	×	×	✓	✓
Penrith City	**No change**	Fit	✓	✓	✓	✓	✓
Sutherland Shire	**No change**	Fit	✓	✓	✓	✓	✓
The Hills Shire	**No change**	Fit	✓	✓	✓	✓	✓
Wollondilly Shire	**No change**	Fit	✓	✓	✓	✓	✓

Note: Bold indicates an ILGRP preferred option.

C.2 Non-metropolitan councils

Table C.4 Merger Proposals

Councils	ILGRP preferred option	Assessment	Scale and capacity	Financial criteria overall	Sustainability	Infrastructure and service management	Efficiency
Young Shire and Boorowa	**Merge with Boorowa, Harden and Young**	Fit	✓	✓	✓	✓	✓
Cootamundra Shire and Harden Shire*	**Merge with Boorowa and Young**	Fit	✓	✓	✓	✓	✓

Note: Bold indicates an ILGRP preferred option. *The ILGRP did not have a preferred option for Cootamundra.

Table C.5 Hunter, Central Coast and Illawarra

Region	Council	ILGRP options	Assessment	Scale and capacity	Financial criteria overall	Sustainability	Infrastructure and service management	Efficiency
Hunter	Cessnock City	Council in JO	Fit	✓	✓	✓	✓	✓
	Dungog Shire	**Merge with Maitland** or Council in JO[a]	Not fit	×	×	×	✓	×
	Lake Macquarie City	**Amalgamate with Newcastle** or Council in JO[a]	Not fit	×	✓	✓	✓	✓
	Maitland City	**Merge with Dungog** or Council in JO[a]	Not fit	×	✓	✓	✓	✓
	Muswellbrook Shire	Council in JO	Fit	✓	✓	✓	✓	✓
	Newcastle City	**Amalgamate with Lake Macquarie** or Council in JO [a]	Not fit	×	✓	✓	✓	✓
	Port Stephens	Council in JO	Fit	✓	✓	✓	✓	✓
	Singleton	Council in JO	Fit	✓	✓	✓	✓	✓
	Upper Hunter Shire	Council in JO	Fit	✓	✓	✓	✓	✓
Central Coast	Gosford City	Amalgamate with Wyong or a multi-purpose JO (no separate water corporation until other options properly evaluated)	Not fit	×	✓	✓	✓	✓
	Wyong City	Amalgamate with Gosford or a multi-purpose JO (no separate water corporation until other options properly evaluated)	Not fit	×	✓	✓	✓	✓

Region	Council	ILGRP options	Assessment	Scale and capacity	Financial criteria overall	Sustainability	Infrastructure and service management	Efficiency
Illawarra	Kiama Municipal	Council in a JO (if future amalgamation – with Shoalhaven, noting its inclusion in South East-Tablelands region)	Not fit	✓	×	×	✓	×
	Shellharbour City	Council in a JO (amalgamate if future options need to be revisited)	Not fit	✓	×	×	✓	✓
	Wollongong City	Council in a JO (amalgamate if future options need to be revisited)	Fit	✓	✓	✓	✓	✓

a Possible boundary change included.
Note: Bold indicates an ILGRP preferred option. JO stands for Joint Organisation.
*The ILGRP did not include a table of options for the Hunter, Central Coast and Illawarra regions. Instead the ILGRP included a discussion of these councils in its report.

Table C.6 Non-metropolitan councils[80]

Region	Council	ILGRP options	Assessment	Scale and capacity	Financial criteria overall	Sustainability	Infrastructure and service management	Efficiency
Northern Rivers	Ballina Shire	Council in Northern Rivers JO	Fit	✓	✓	✓	✓	✓
	Byron Shire	Council in Northern Rivers JO	Fit	✓	✓	✓	✓	✓
	Lismore City	Council in Northern Rivers JO or merge with Kyogle	Fit	✓	✓	✓	×	✓
	Richmond Valley	Council in Northern Rivers JO or merge with Kyogle	Fit	✓	✓	✓	✓	✓
	Tweed Shire	Council in Northern Rivers JO	Not fit	✓	×	×	×	✓

80 This excludes Rural Council Proposals and councils in the Hunter, Central Coast and Illawarra.

Region	Council	ILGRP options	Assessment	Scale and capacity	Financial criteria overall	Sustainability	Infrastructure and service management	Efficiency
North Coast	Bellingen Shire	Council in North Coast JO	Not fit	✓	×	×	✓	✓
	Clarence Valley	Council in North Coast JO	Not fit	✓	×	×	×	✓
	Coffs Harbour City	Council in North Coast JO	Fit	✓	✓	✓	✓	✓
	Nambucca Shire	Council in North Coast JO	Fit	✓	✓	✓	✓	✓
Mid-North Coast	Gloucester Shire	Council in Mid-North Coast JO or merge with Great Lakes and/or Greater Taree	Not fit	×	×	×	✓	✓
	Great Lakes Shire	Council in Mid-North Coast JO or merge with Gloucester	Fit	✓	✓	✓	✓	✓
	Greater Taree City	Council in Mid-North Coast JO or merge with Gloucester	Not fit	✓	×	×	×	✓
	Kempsey Shire	Council in Mid-North Coast JO	Not fit	✓	×	×	×	✓
	Port Macquarie-Hastings	Council in Mid-North Coast JO	Fit	✓	✓	✓	×	✓
New England	Armidale Dumaresq	Council in New England JO or **merge with Guyra**	Not fit	×	×	×	✓	✓
	Glen Innes Severn	Council in New England JO	Fit	✓	✓	✓	✓	✓
	Inverell Shire	Council in Namoi JO	Fit	✓	✓	✓	✓	✓
	Tenterfield Shire	Council in New England JO	Not fit	✓	×	×	✓	✓
	Uralla Shire	Council in New England JO or **merge with Walcha**	Not fit	×	✓	✓	✓	✓

Region	Council	ILGRP options	Assessment	Scale and capacity	Financial criteria overall	Sustainability	Infrastructure and service management	Efficiency
Namoi	Gunnedah Shire	Council in Namoi JO	Fit	✓	✓	✓	✓	✓
	Gwydir Shire	Council in Namoi JO or merge with Moree Plains	Not fit	×	×	×	✓	✓
	Liverpool Plains Shire	Council in Namoi JO or merge with Gunnedah	Not fit	×	✓	✓	✓	✓
	Moree Plains Shire	Council in Namoi JO or merge with Gwydir	Fit	✓	✓	✓	✓	✓
	Narrabri Shire	Council in Namoi JO	Fit	✓	✓	✓	✓	✓
	Tamworth Regional	Council in Namoi JO	Fit	✓	✓	✓	✓	✓
Orana	Dubbo City	Council in Orana JO or merge with Wellington and/or Narromine	Fit	✓	✓	✓	✓	✓
	Narromine Shire	Council in Orana CC or merge with Dubbo	Not fit	×	✓	✓	✓	✓
	Warrumbungle Shire	Council in Orana JO	Not fit	✓	×	×	✓	×
	Wellington	Council in Orana JO or merge with Dubbo	Not fit	×	✓	✓	✓	✓

Region	Council	ILGRP options	Assessment	Scale and capacity	Financial criteria overall	Sustainability	Infrastructure and service management	Efficiency
Central West	Bathurst Regional	Council in Central West JO or merge with Oberon	Fit	✓	✓	✓	✓	✓
	Blayney Shire	Council in Central West JO or merge with Orange	Not fit	×	✓	✓	✓	✓
	Cabonne	Council in Central West JO or **merge with Orange**	Not fit	×	✓	✓	✓	✓
	Cowra	Council in Central West JO or merge with Weddin	Fit	✓	✓	✓	✓	✓
	Forbes Shire	Council in Central West JO; merge with Weddin	Not fit	×	✓	✓	✓	✓
	Lachlan Shire	Council in Central West JO or merge with Parkes	Not fit	×	✓	✓	✓	✓
	Lithgow City	Council in Central West JO	Not fit	✓	×	×	✓	×
	Mid-Western Regional	Council in Central West JO	Not fit	✓	×	×	×	✓
	Oberon	Council in Central West JO or merge with Bathurst	Not fit	×	✓	✓	✓	✓
	Orange City	Council in Central West JO or **merge with Cabonne** and/or Blayney	Not fit	×	✓	✓	✓	✓
	Parkes Shire	Council in Central West JO or merge with Lachlan	Fit	✓	✓	✓	✓	×
Tablelands	Goulburn Mulwaree	Council in Tablelands JO	Not fit	✓	×	×	✓	✓
	Upper Lachlan Shire	Council in Tablelands JO or merge with Goulburn-Mulwaree	Not fit	×	✓	✓	✓	✓
	Wingecarribee Shire	Council in Tablelands JO	Fit	✓	✓	✓	✓	✓
	Yass Valley	Council in Tablelands JO	Not fit	✓	×	×	✓	✓

Region	Council	ILGRP options	Assessment	Scale and capacity	Financial criteria overall	Sustainability	Infrastructure and service management	Efficiency
Riverina	Bland Shire	Council in Riverina JO or merge with Coolamon and/or Temora	Not fit	×	✓	✓	×	✓
	Junee Shire	Council in Riverina JO or merge with Cootamundra	Not fit	×	✓	✓	✓	✓
	Temora Shire	Council in Riverina JO or merge with Coolamon and/or Bland	Not fit	×	✓	✓	✓	✓
	Tumut Shire	Council in Riverina JO or **merge with Gundagai** and Tumbarumba	Not fit	×	✓	✓	✓	✓
	Wagga Wagga City	Council in Riverina JO or merge with Lockhart	Fit	✓	✓	✓	×	✓
Murrumbidgee	Griffith City	Council in Murrumbidgee JO or **merge with Murrumbidgee**	Not fit	×	✓	✓	✓	✓
	Leeton Shire	Council in Murrumbidgee JO or merge with Narrandera	Fit	✓	✓	✓	✓	✓
	Narrandera Shire	Council in Murrumbidgee JO or merge with Leeton	Not fit	×	✓	✓	✓	×
Mid-Murray	Berrigan Shire	Council in Mid-Murray JO or **merge with Jerilderie**	Not fit	×	✓	✓	✓	✓
	Deniliquin	Council in Mid-Murray JO or **merge with Conargo/Murray** and Wakool	Not fit	×	✓	✓	✓	✓
	Murray Shire	Council in Mid-Murray JO or **merge with D'quin/Conargo** and Wakool	Not fit	×	✓	✓	✓	✓
Upper Murray	Albury City	Council in Upper Murray JO or merge with Greater Hume (part or all)	Fit	✓	✓	✓	✓	✓
	Corowa Shire	Council in Upper Murray JO or **merge with Urana**	Not fit	×	✓	✓	✓	✓
	Greater Hume Shire	Council in Upper Murray JO or	Fit	✓	✓	✓	✓	✓

Region	Council	ILGRP options	Assessment	Scale and capacity	Financial criteria overall	Sustainability	Infrastructure and service management	Efficiency
		merge part or all with Albury						
South East	Bega Valley Shire	Council in South East JO	Fit	✓	✓	✓	✓	✓
	Cooma-Monaro Shire	Council in South East JO or **merge with Bombala** and Snowy River	Not fit	×	×	×	✓	✓
	Eurobodalla Shire	Council in South East JO	Fit	✓	✓	✓	✓	✓
	Palerang	Council in South East JO or **merge with Queanbeyan**	Not fit	×	✓	✓	✓	✓
	Queanbeyan City	Council in South East JO or **merge with Palerang**	Not fit	×	✓	✓	✓	✓
	Shoalhaven City	Council in South East JO	Fit	✓	✓	✓	✓	✓
	Snowy River Shire	Council in South East JO or merge with Bombala/Cooma-M	Not fit	×	×	×	✓	✓

Note: Bold indicates an ILGRP preferred option. JO stands for Joint Organisation.

Table C.7 Rural Council Proposals

Region	Council	ILGRP options	Assessment	Scale and capacity	Financial criteria overall	Sustainability	Infrastructure and service management	Efficiency
Northern Rivers	Kyogle[a]	Council in Northern Rivers JO or merge with Lismore or Richmond Valley	Not fit	×	✓	✓	✓	✓
New England	Guyra Shire	Council in New England JO or **merge with Armidale**	Not fit	×	×	×	✓	×
	Walcha Shire	**Merge with Uralla** or Rural Council in New England JO	Not fit	×	✓	✓	✓	✓
Orana	Bogan Shire	Rural Council in Orana JO or merge with Warren	Fit as a Rural Council	✓	✓	✓	✓	✓
	Coonamble Shire	Rural Council in Orana JO or merge with Gilgandra	Fit as a Rural Council	✓	✓	✓	✓	✓
	Gilgandra Shire	Rural Council in Orana JO or merge with Coonamble	Fit as a Rural Council	✓	✓	✓	✓	×
	Warren Shire	Rural Council in Orana JO or merge with Bogan	Fit as a Rural Council	✓	✓	✓	✓	×
Central West	Weddin Shire	Rural Council in Central West JO or merge with Forbes or Cowra	Not fit	✓	×	×	✓	✓
Riverina	Coolamon Shire	Rural Council in Riverina JO or merge with Bland and/or Temora	Fit as a Rural Council	✓	✓	✓	✓	✓
	Gundagai Shire	**Merge with Tumut** or Rural Council in Riverina CC	Not fit	×	×	×	✓	×
	Lockhart Shire	Rural Council in Riverina JO or merge with Wagga Wagga	Fit as a Rural Council	✓	✓	✓	✓	✓
	Tumbarumba Shire	Rural Council in Riverina JO or merge with Tumut/Gundagai	Fit as a Rural Council	✓	✓	✓	✓	✓

Region	Council	ILGRP options	Assessment	Scale and capacity	Financial criteria overall	Sustainability	Infrastructure and service management	Efficiency
Mid-Murray	Conargo Shire	**Merge with Deniliquin and Murray** or Rural Council in Mid-Murray JO	Not fit	×	✓	✓	✓	✓
	Jerilderie Shire	**Merge with Berrigan** or Rural Council in Mid-Murray JO	Not fit	×	×	×	✓	×
	Wakool Shire	Rural Council in Mid-Murray JO or merge with Murray/Conargo/Deniliquin	Fit as a Rural Council	✓	✓	✓	✓	✓
Murrumbidgee	Carrathool Shire	Rural Council in Murrumbidgee JO or merge with Griffith	Fit as a Rural Council	✓	✓	✓	✓	×
	Hay Shire	Rural Council in Murrumbidgee JO	Not fit	✓	×	×	✓	✓
	Murrumbidgee Shire	**Merge with Griffith** or Rural Council in Murrumbidgee JO	Not fit	×	✓	✓	✓	✓
Upper Murray	Urana Shire	**Merge with Corowa** or Rural Council in Upper Murray JO	Not fit	×	✓	✓	✓	✓
South East	Bombala	**Merge with Cooma-M** and Snowy R or Rural Council in South East JO	Not fit	×	✓	✓	✓	✓

[a] Kyogle submitted a Rural Council Proposal. However the ILGRP did not identify this as one of the options for the council. We assess Kyogle as not fit as a Rural Council not fit as a stand-alone council.

Note: Bold indicates an ILGRP preferred option. JO stands for Joint Organisation.

ALBURY CITY COUNCIL – CIP

FIT

Area (km^2)	306	Population 2011	49,450
OLG Group	4	(2031)	56,950
ILGRP Group	E	Merger 2011	59,500
		(2031)	66,900
Operating revenue (2013-14)	$72.5m	TCorp assessment	Moderate FSR Neutral outlook
ILGRP options (no preference)	Council in Upper Murray JO (all shaded) or merge with Greater Hume (part or all) (yellow).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council has a robust revenue base and is home to Albury, a large regional centre. Our analysis suggests this population is sufficient to enable the council to have the strategic capacity to meet the future needs of its community and be a capable partner in the regional area for government.
- The council's proposal to stand alone in a JO is consistent with the ILGRP's options for this council.
- The council indicates it is actively considering opportunities for an Upper Murray JO.
- The council rejected a proposal to merge and did not submit a merger business case. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the stand alone proposal.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance and own source revenue ratios by 2019-20.
- The building and infrastructure asset renewal ratio was 104% in 2014-15 and is forecast to fall to 71% in 2019-20, which is below the benchmark.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management, as it is forecast to meet the asset maintenance, infrastructure backlog and debt service benchmarks by 2019-20.

Efficiency – satisfies

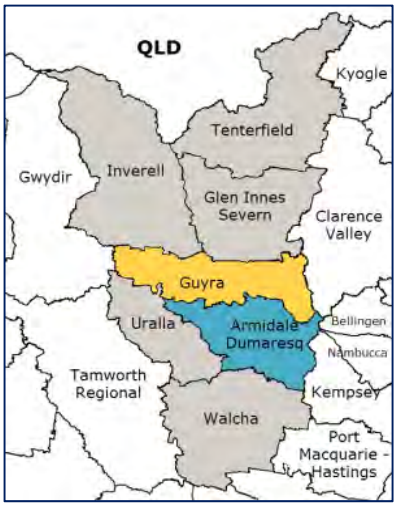
- The council satisfies the criterion for efficiency based on declining real operating expenditure per capita.

Other relevant factors

Social and community context	The council is unique given its position as an Evocity and border town. This gives it a combined population with its Victorian neighbour Wodonga of 90,000 as well as 7,000 local businesses. The council argues that Albury-Wodonga experiences high business confidence and strong public and private sector investment.
Community consultation	The council kept the community informed of the FFTF process via media releases, media coverage and presentations. The draft FFTF proposal was publicly available and the council invited feedback. It received no submissions on the draft FFTF proposal. The council did not conduct a robust consultation process on the ILGRP options. The community was informed of the council's decision to stand alone.
Water and/or sewer	The council operates water and sewer businesses that both generate surpluses. It meets the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework. It has a large water and sewerage infrastructure backlog of $24m as at 30 June 2014. However, it has 10 proposed capital works projects totalling $36.2m with timeframes between 2016 and 2020.
Submissions	We received one late submission in relation to Albury's proposal, which supported an Albury-Wodonga merger.

ARMIDALE DUMARESQ COUNCIL – CIP

NOT FIT



Area (km^2)	4,212	Population 2011	25,150
OLG Group	4	(2031)	31,650
ILGRP Group	E	Merger 2011	29,650
		(2031)	36,500
Operating revenue (2013-14)	$31.4m	TCorp assessment	Moderate FSR Neutral outlook

ILGRP options (preference in bold)

Merge with Guyra (yellow) or council in New England JO (all shaded)**.**

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion based on its forecast for a negative operating performance ratio by 2019-20.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils must meet, therefore the council is not fit.

Scale and capacity – does not satisfy

- The council's proposal to stand alone does not meet or only partially meets the elements of scale and capacity.
- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- Our analysis is consistent with the ILGRP's preferred option for Armidale to merge.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability based on its forecast for an operating performance ratio of -0.8% by 2019-20, which is below the benchmark.
- The council's forecast is based on depreciation declining and then remaining constant in nominal terms. We do not consider this is a reasonable assumption as it implies the asset base declines over time. Without this, the council's operating performance ratio would be worse.
- The council forecast it will meet the benchmark for the own source revenue ratio by 2019-20.
- The council has forecast the building and infrastructure asset renewal ratio will be 58.2% by 2019-20 which is below the benchmark.
- The council indicates it will apply for a permanent special variation from 2022-23 of 12.5% cumulative (10% above the rate peg). However, this is outside of the outlook period.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmark for the debt service ratio by 2019-20.
- The council has forecast the asset maintenance ratio will be 97.1% by 2019-20, which is close to the benchmark. Similarly, the council has forecast the infrastructure backlog will be 3.1% in 2019-20, which is close to the benchmark. We consider the council's forecast performance on these ratios to be reasonable in the context of the council's performance against the other ratios.

Efficiency - satisfies

- The council meets the criterion for efficiency based on a forecast decline in real opex per capita by 2019-20.

Other relevant factors	
Social and community context	The LGA's community of interest would centre on Armidale. The presence of the University of New England makes the LGA somewhat distinct from other LGAs.
Community consultation	The council did not provide evidence of consultation about its proposal.
Water and/or sewer	The council has not provided evidence that its water and sewer businesses pay, or would be able to pay dividends. Consequently, the existence of these businesses only affect the council's scale and capacity insofar as they enable the council to hire staff with a wider range of skills.
Submissions	Two submissions were received in relation to the council's proposal. One supports the council standing alone. The other is from Guyra Shire Council's General Manager. It refers to a resolution by Armidale Dumaresq council that the council submit an attachment to its proposal about merging with Uralla and Guyra councils. We note that Guyra Shire Council's General Manager requested that IPART should not consider the submission because stakeholders have not been given the opportunity to respond.

ASHFIELD CITY COUNCIL – CIP

NOT FIT

Area (km^2)	8	Population 2011	43,550
OLG Group	2	(2031)	53,400
ILGRP Group	Sydney Metro	Merger 2011	331,800
		(2031)	433,000
Operating revenue (2013-14)	$35.4m	TCorp assessment	Sound FSR Neutral Outlook

ILGRP options (preference in bold): **Merge with Burwood, Canada Bay, Leichhardt, Marrickville and Strathfield** (yellow) or combine as strong JO (all shaded)**.**

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria overall:	**Satisfies**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although it does not meet the efficiency criterion, the council satisfies the sustainability and infrastructure and service management criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 53,400 by 2031 compared with the forecast merger population of 433,000. Our analysis suggests the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case which showed a merger of Strathfield, Ashfield, Burwood, Canada Bay, Leichardt and Marrickville produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $396m over 20 years (including the full Government grant).
- In addition, our independent economic consultants have estimated net benefits from the merger of $194m over 20 years using public data (not including the Government grant).
- All analyses showed large gains to the local community from a merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP preferred option for Ashfield to merge with neighbouring councils.
- If standing alone is not a viable option, the council indicates its community's preference is for a merger with Leichhardt and Marrickville, rather than the full Inner West merger.

Sustainability – satisfies

- The council satisfies the sustainability criterion. It is forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure renewal ratio by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the infrastructure and service management criterion as it meets the asset maintenance and debt service benchmarks by 2019-20.
- The council has forecast the infrastructure backlog will be 3.6% in 2019-20, which is close to the benchmark. We consider the council's forecast performance on this ratios is reasonable in the context of the council's performance against the other ratios.

Efficiency – does not satisfy

- The council does not meet the efficiency criterion based on an increase in real operating expenditure per capita over time to 2019-20.

Other relevant factors	
Social and community context	Ashfield City Council indicates its LGA comprises distinct neighbourhoods with a high value placed on built heritage conservation and quality urban design. Local identity was identified as being important by 74% of respondents to the survey discussed below. An information brochure for its survey, discussed below, indicates Ashfield City Council has a history of working effectively with Leichhardt and Marrickville Councils, with 63% of respondents indicating a shared history of working effectively with Ashfield is important in amalgamation.
Community consultation	Ashfield City Council consulted the community on three options (stand alone, Inner West merger, Ashfield-Leichhardt-Marrickville merger). It distributed 22,000 information packs to households and ratepayers and received a total of 1,727 feedback forms. Based on first preferences, 54% prefer to stand alone, 27% prefer the smaller merger and 19% prefer an Inner West merger. However, we consider its information pack presents an incomplete assessment of costs and benefits.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received four submissions for Ashfield. One supported a merger with Burwood, Canada Bay and Auburn due to common demographics, natural boundaries and to improve planning such as for major projects (eg, WestConnex). Three submissions were against the merger proposal as they considered the council was performing well and were concerned about a potential loss of local focus and reduced services among a variety of other reasons.

AUBURN, BURWOOD & CITY OF CANADA BAY COUNCILS – MERGER PROPOSAL

FIT

	Auburn	Burwood	Canada Bay
OLG Group	3	2	3
Area (km^2)	33	7	20
Pop. current	77,800	34,200	80,050
(2031)	130,600	47,500	111,350
Proposed Mer Pop	192,050	192,050	192,050
(Pop 2031)	289,450	289,450	289,450
ILGRP Pop current	**356,700**	**331,800**	**331,800**
(Pop 2031)	**520,500**	**433,000**	**433,000**
Operating revenue (2013-14)	$62m	$38m	$74m
TCorp assessment	Sound FSR Negative outlook	Weak FSR Positive outlook	Moderate FSR Neutral outlook
ILGRP Option (preference in bold)	**Merge** with Parramatta and Holroyd, part of Ryde and boundary alteration with The Hills or combine as a strong JO.	**Merge** with Ashfield, Canada Bay, Marrickville, Leichhardt, Strathfield or combine as a strong JO.	**Merge** with Ashfield, Burwood Marrickville, Leichhardt, Strathfield or combine as a strong JO.

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The merger proposal from Auburn, Burwood and Canada Bay is fit. The merger provides significant benefits and efficiency gains for the local communities, and is better than each council standing alone.
- The merger is likely to be the best option currently available to the parties given neighbouring councils included in the ILGRP's preferred options for each of the councils did not wish to voluntarily join the proposal.
- Voluntarily negotiated merger agreements are likely to lead to desirable outcomes, according to the councils, including faster progress in achieving efficiencies when transitioning to a new council.
- The merger is expandable. The councils have informed us it would be possible and desirable for Strathfield Municipal Council and possibly Ashfield Council to be included in this proposal. The ability to expand the proposed merger might assist structural reform and the benefits to the local communities could be higher if other councils are included.
- The merged council satisfies the financial criteria overall. In particular, the operating performance ratio is forecast to improve from -0.4% in 2014-15 to 3.1% in 2019-20 for the combined councils, and 4% over the long term. This is primarily due to the efficiency savings from the merger contributing to a stronger financial position overall.

Scale and capacity - satisfies

- The enhanced scale of the merged council will enable it to advocate more effectively with governments on behalf of the local communities, and undertake more integrated planning and regional collaboration, resulting in better growth.
- The merged council's population nears 300,000 by 2031, which provides the council with enhanced scale to partner more effectively with governments on regionally significant projects such as major transport infrastructure.
- Auburn, Burwood and Canada Bay have provided estimates to IPART that the merger will produce ongoing savings of $20 million per year. Based on this and other data, we have estimated that the proposed merger, including the Government grant and merger

implementation costs, could provide net benefits to the local communities of $114 million over 20 years.

- There is a small shared border along the south side of the Parramatta River where significant prospective development is planned, and the communities share cultural similarities. The merging parties say the shared border would be enhanced with the inclusion of Strathfield in the proposal. The councils state there is a strong functional relationship between the councils.
- Auburn notes it prefers not to merge with Parramatta, as it has concerns that any increase in rates would be used to fund Parramatta's growth as a strategic centre and it has a lack of communities of interest with Parramatta. These issues were not stated as concerns under the proposed voluntary merger with Burwood and Canada Bay.
- The councils' business case states one of the strongest advantages of this merger proposal is that each council brings a relatively strong financial position to the new entity.
- Recent investment by each council in infrastructure and asset maintenance and renewal further supports the merged entity being in a strong position to deliver improved services to the communities.

Sustainability – satisfies

- The proposed merger council meets the sustainability criterion based on meeting all the benchmarks. It has forecast an operating performance ratio of 3.1%, a high own source revenue of 84.3% and a building and infrastructure asset renewal ratio over 100% by 2019-20.

Infrastructure and service management - satisfies

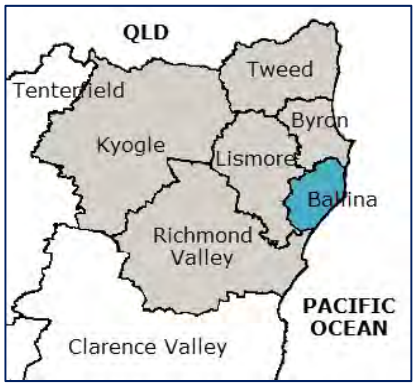
- The council meets the criterion for infrastructure and service management based on the proposed council meeting the benchmarks for infrastructure backlog ie, below 2%, by eliminating its backlog in 2019-20 and an asset maintenance ratio over 100%.

Efficiency - satisfies

- The merged council meets the criterion for efficiency based on forecasts of a reduction in real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The proposed merger has strong cultural synergies including: a younger population than the NSW average, cultural diversity and a positive multicultural identity, and large areas of public space throughout the merged LGA. Auburn Council stated the natural waterways of Parramatta and Duck River divided it from Parramatta.
Community consultation	All three councils have undertaken a number of community surveys and issued newsletters in relation to the ILGRP's options, and the proposed merger. 59% of the Burwood residents surveyed indicated a level of support for the proposed option (possibly including Strathfield). In addition, 71% of Auburn residents and 14% of Canada Bay residents surveyed indicated a level of support for the proposed option.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	123 submissions (including one early and one late submission) were received in relation to the Auburn, Burwood, Canada Bay FFTF merger proposal. The majority of submitters did not support the proposed merger citing that Auburn is not considered part of the inner west. The submissions also identified the merged councils do not reflect the different cultural diversity issues and the proposal was done without community consultation. The submitters also stated a merger would result in less representation, reduced services, a financially weaker council, higher rates and loss of local focus and identity. Four residents support the ILGRP option and eight residents supported some form of a merger with other Inner West councils but not Auburn.

BALLINA SHIRE COUNCIL – CIP



FIT

Area (km^2)	485	Population 2011	40,750
OLG Group	4	(2031)	44,750
ILGRP Group	G		
Operating revenue (2013-14)	$43.8m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP option	Council in Northern Rivers JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone. Hence the council has been assessed as satisfying the scale and capacity criterion.
- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewal ratios by 2019-20.
- The council has assumed a special variation of 17% over three years, starting in 2017-18 (8.9% above the rate peg). This is in addition to a currently approved permanent special variation of 11.0% (5.5% above the rate peg) in 2015-16 and 2016-17.
- We note the council's forecast for its operating performance ratio is to reach a slim surplus by 2019-20. This may place the council at risk of not meeting the benchmark if unforeseen circumstances require increased expenditure. However we consider the council has scope to adjust its financial plans to meet the ratios.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its reducing real opex per capita over the period to 2019-20.

Other relevant factors

Social and community context	The council is located on the north coast of NSW in close proximity to major population centres such as the Gold Coast and Brisbane. The main commercial centre is Ballina. Most residents drive to work as there are limited public transport options.
Community consultation	The council did not provide any information about community consultation on its proposal.
Water and/or sewer	The council achieved 100% compliance for sewer and 90% compliance for water with the best practice management framework.
Submissions	There were no submissions received in relation to Ballina's proposal.

BANKSTOWN CITY COUNCIL – CIP

FIT

Area (km^2)	77	Population 2011	190,850
OLG Group	3	(2031)	240,800
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$139m	TCorp assessment	Moderate FSR Positive Outlook

ILGRP options (preference in bold): **No change** or combine as a strong JO with Liverpool, Fairfield, Camden, Campbelltown, Wollondilly Councils (all shaded). The ILGRP noted that an alternative could be to merge with Canterbury as part of the South sub-region, but this was not included as an option.

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council's proposal to stand alone is consistent with the ILGRP preferred option for no change.
- The council has a robust revenue base and sound financial position. Its own source revenue ratio and operating performance are affected by high amounts of developer charges and large depreciation amounts due to an increasing asset base.
- The council demonstrates scope to undertake new functions and projects and the ability to employ a wide range of skilled staff.
- The ILGRP report included an alternative for Bankstown City Council to merge with Canterbury. In response to an enquiry from IPART, the council provided some evidence to suggest this could produce benefits if it is pursued further.
- Our independent consultants Ernst & Young calculated that a merger between Bankstown City Council and Canterbury City Council could produce benefits of $86m over 20 years, using publically available data.
- While this evidence suggests a merger may be a better alternative to the council's proposal to stand alone, our finding is based on the proposal being consistent with the ILGRP preferred option for no change.

Sustainability – satisfies

- The council meets the criterion for sustainability as it is forecast to meet the benchmarks for the operating performance ratio, building and infrastructure asset renewal ratio and own source revenue ratio by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2017-18, which we estimate to be 34.7% cumulative over 5 years (21.5% above the rate peg).
- The council provided evidence that the cost savings from a merger with a neighbouring council would obviate the need for the special variation.
- The council provided further evidence that a significant portion of their community supported a merger with Canterbury City Council instead of a rate increase.

Infrastructure and service management - satisfies

- The council meets the criterion for infrastructure and service management as it is forecast to meet the benchmarks for the asset maintenance ratio by 2019-20.
- The council's debt service ratio was 2.7% in 2014-15 and is forecast to reach 0.0% by 2019-20; without rounding, this is slightly above 0 and so technically meets the benchmark.
- The council does not meet the infrastructure backlog benchmark. It is taking steps to address its infrastructure backlog, but improvements in its backlog will be dependent on successful application and adoption of its proposed special variation.

- The council states it has adopted an Asset Management Strategy that will result in a reduction in the infrastructure backlog ratio. The council plans to accelerate its infrastructure spending from 2017 onwards, assuming successful application and adoption of a special variation, which would enable it to completely remove its current infrastructure backlog by 2024-25.

Efficiency - satisfies

- The council meets the criterion for efficiency based on the Real Operating Expenditure per Capita showing a declining trend.

Other relevant factors	
Social and community context	The council's proposal states there are a number of key arterial channels common to the Bankstown and Canterbury Local Government Areas, including the M5 Motorway, Canterbury Road and the south western rail corridor. It considers a merger or partial boundary adjustment would offer scope to improve regional planning for the area. The council notes with some concern the issue of its current relative scale and position being substantially reduced should implementation of the ILGRP's proposed mergers occur, resulting in councils of over 350,000 residents encircling the Bankstown Local Government Area. The council considers that an alternative boundary adjustment with Strathfield Municipal Council would improve regional planning. IPART has received a petition from 260 Strathfield residents potentially affected by the proposed boundary adjustment, who indicate they have not been consulted on the proposal and do not share communities of interest with Bankstown.
Community consultation	The council consulted with the community on Fit for the Future options. Initially (without being informed of the need for a rate increase) nearly 90% of residents were at least 'somewhat supportive' of the council standing alone. With the knowledge of the need for a rate increase to remain Fit for the Future, 54% of residents were still supportive of standing alone rather than merging with Canterbury Council.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were 94 submissions received on Bankstown City Council's proposal. The majority of these were form letters submitted by Strathfield residents opposed to the council's investigation of a boundary adjustment to take over the southern portion of Strathfield Municipal Council. The form letter (and variations of the form letter) raised issues including: • Lack of consultation on the proposed change. • Satisfaction with Strathfield is high, residents do not identify with Bankstown. • Rate increases, reduced representation and declining services if the change were implemented. Bankstown City Council received two petitions from Strathfield residents in relation to the boundary change with a total of 373 signatures raising similar issues to the form letter. Strathfield Municipal Council made a submission regarding the boundary change, stating that it would provide no benefit for residents and businesses, would result in a loss of representation for residents and was not supported by the community. One submission against a merger was received based on lack of evidence that residents would be better off under a merger. One late submission was received which argued that if a merger is inevitable, it should be between Canterbury and Bankstown to reflect the sense of community. In a meeting the council made a number of points: • There would be an impact on Bankstown if an amalgamation pattern along the lines of the ILGRP's preferred options was implemented, particularly if it is surrounded by councils assessed as not fit for the future. In this circumstance, Bankstown is of the opinion that, with a forecast population of 240,000 (in 2031), and surrounded by councils with populations over 450,000 (eg, Fairfield/Liverpool 528,850; Canterbury/Rockdale/Kogarah/Hurstville 491,600), it would not have relative scale and capacity. • Further, Bankstown raised concerns that if this outcome was to eventuate, it would potentially disadvantage Bankstown's community by not being a preferred partner with Government or an equal regional partner in the NSW Government's Plan For Growing Sydney. • Whilst Bankstown's preferred option is to stand alone, if the Government requires mergers, Bankstown has a willingness to actively contribute to and or participate in the Government's process to ensure it maintains a strong regional position. • In response to a request from IPART, the council provided further information indicating estimated cost savings of $9.7 million per annum from a possible merger with Canterbury. If such a merger occurred, the council said its modelling indicated it would not need to proceed with a proposed special variation to raise residential rates by 7.5% in real terms. It would still proceed with a business rate adjustment alongside an increase in residential minimum rates. • Bankstown provided a summary of its community consultation reports (phone poll) which indicated residential support of a merger was higher where it had the potential to offset rate increases.

BATHURST REGIONAL COUNCIL – CIP

	FIT		
Area (km^2)	3,819	Population 2011	39,950
OLG Group	4	(2031)	51,550
ILGRP Group	E	Merger 2011	45,150
		(2031)	56,500
Operating revenue (2013-14)	$50.8m	TCorp assessment	Moderate FSR, Negative Outlook
ILGRP options (no preference)	Council in Central West JO (all shaded) or merge with Oberon (yellow).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- The council states it met with Blayney, Oberon and Lithgow councils to discuss merger options and that a merger was not pursued because the other councils did not support a merger.
- We do not have sufficient evidence to evaluate the costs and benefits of a merger option compared to the stand alone proposal.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, the own source revenue and the building and infrastructure asset renewal ratios by 2019-20.
- The council meets the operating performance ratio with the inclusion of significant ongoing land sales forecast over the next 10-20 years.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the asset maintenance, infrastructure backlog and debt service benchmarks by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on its forecast for a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	The proposal did not contain any relevant social and community context information for this criterion.
Community consultation	Bathurst states in its proposal that it met with Blayney, Lithgow and Oberon councils to discuss merger options but a merger was not pursued because the other councils did not support a merger. The proposal did not provide any details of community consultation.
Water and/or sewer	Bathurst Regional Council states its water and sewerage operations meet the requirements of the NSW Government's Best Practice Management of Water Supply and Sewerage Framework. The water and sewer business operates on a break-even basis and the council estimates that it has an infrastructure backlog of $48 million. Bathurst has a number of significant capital projects planned over the next three years related to water mains and new water and sewer infrastructure for the town of Kelso ($10m) to be funded by grants or external funding.
Submissions	No submissions were received in relation to Bathurst Regional Council's proposal.

BEGA VALLEY SHIRE COUNCIL – CIP

FIT

Area (km^2)	6,277	Population 2011	33,150
OLG Group	4	(2031)	36,450
ILGRP Group	G		
Operating revenue (2013-14)	$45.6m	TCorp assessment	Sound FSR Neutral Outlook
ILGRP option	Council in South East JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's preferred option.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, the council has a robust revenue base and has demonstrated effective regional collaboration.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewal ratios by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management, as it is forecast to meet the asset maintenance, infrastructure backlog and debt service benchmarks by 2019-20.
- The council's recent asset management processes have assisted the council in understanding and planning for its assets into the future.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on declining real operating expenditure per capita.

Other relevant factors

Social and community context	As the ILGRP recommended that Bega Valley Shire become a council in the South East JO, the council's CIP does not address any social or community concerns.
Community consultation	Bega Valley Shire states over the past two years it has amended its structure, reviewed services and refocussed its Resourcing Strategy and has included the community in discussion of this process. Bega has not specifically indicated any community consultation undertaken in relation to its CIP submitted.
Water and/or sewer	Bega Valley Shire operates water and sewer businesses. It is substantially compliant with the NSW Government Best Practice Management of Water Supply and Sewerage Framework Guidelines and is working with NSW Office of Water to resolve the outstanding issues. Bega's water and sewer businesses reported a deficit (before capital) of $1.3m and $1.4m respectively in 2013-14. The reported estimated cost to bring assets to a satisfactory standard for water and sewer is $16.2m.
Submissions	No submissions were received relating to Bega Valley Shire's proposal.

BELLINGEN SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	1,611	Population 2011	12,900
OLG Group	11	(2031)	12,800
ILGRP Group	G		
Operating revenue (2013-14)	$17.6m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP option	Council in North Coast JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion based on its forecast for a negative operating performance ratio.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils must meet, therefore the council is not fit.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, it demonstrates good regional collaboration.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- Based on an initial analysis of total expenditure, the KPMG 'Optimising Service Delivery' report for MIDROC identified potential recurrent savings of $2m p.a. in service delivery for the council.

Sustainability – does not satisfy

- The council does not meet the criterion for sustainability based on its continuing operating deficits and relatively low building and infrastructure asset renewal ratio.
- Its operating performance ratio is forecast to be -7.2% in 2024-25.
- Its building and infrastructure asset renewal ratio was 40% in 2014-15 and is forecast to improve to 56.9% by 2019-20 which is remains below the benchmark.
- Its own source revenue ratio including and excluding FAGs is forecast to meet the benchmark.
- The council has limited options to improve its financial position and relies on the successful application for and adoption of a special variation from 2016-17 of 69% cumulative over 9 years (44% above the rate peg). This is included in the council's ratios.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council states it has revised the methodology for calculating the backlog ratio from the 2014-15 year onwards, which we consider to be reasonable.

Efficiency - satisfies

- The council meets the criterion for efficiency based on the Real Operating Expenditure per Capita showing a declining trend.

Other relevant factors	
Social and community context	Bellingen Shire Council has a small population base and a very large road and bridge network, large areas of non-rateable land (State Forests comprise 33%, National Parks 21%), below average SEIFA index ranking (ranked in the 50 most disadvantaged local government areas in the state.) It has an ageing population with 44.4% being over 50 and 62% of those employed earning less than $600/week. The area is prone to natural disasters that have major adverse cost impacts for Council (eg, 13 declared flood events since 2001 with $31m of damages). It has an abundance of natural assets (ocean, river and mountains) which has created a thriving tourism industry with more than 300,000 visitors each year.
Community consultation	The council has not provided any information on consultation with the community on Fit for the Future. It has however included some information on a community satisfaction survey, which showed that 26% were satisfied and 27% dissatisfied with council services.
Water/sewer	The council's water and sewer businesses operates on a better than break-even basis. The council states it currently achieves the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework and has no infrastructure backlog.
Submissions	We received one submission in relation to Bellingen's proposal, opposing any merger for Bellingen.

BERRIGAN SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	2,045	Population 2011	8,300
OLG Group	10	(2031)	7,800
ILGRP Group	D	Merger 2011	9,850
		(2031)	9,050
Operating revenue (2013-14)	$12.2m	TCorp assessment	Moderate FSR, Neutral Outlook

ILGRP options (preference in bold): **Merge with Jerilderie** (yellow) or Council in Mid-Murray JO (all shaded)**.**

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- When compared to the merger, the council's forecast population of 7,800 in 2031 means it is unlikely to provide services cost-effectively to the local communities, advocate credibly and partner with government.
- A merged council is likely to have improved capabilities, a more robust revenue base, greater scope to undertake new functions and projects, better regional collaboration and integrated planning.
- The council submitted a business case undertaken by SGS for a merger with Jerilderie. The business case showed the merger of Jerilderie and Berrigan could deliver benefits to the local community of between $1.4m and $12.5m over 10 years (using a discount rate of 5.5%, not including the $5m Government funding).

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, the debt service and the asset maintenance ratios by 2019-20.

Efficiency - satisfies

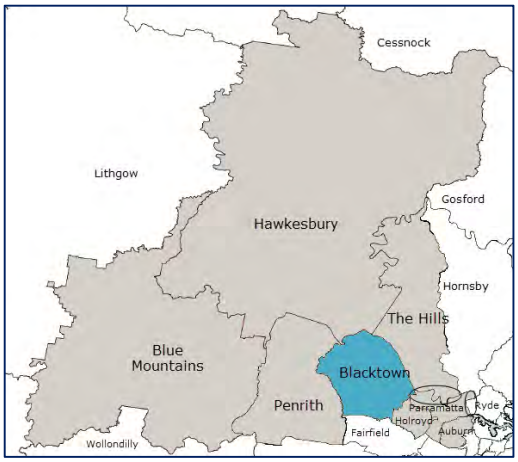
- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period.

Other relevant factors

Social and community context	The council notes that due to its location on the Murray, its social and economic orientation is south to Victoria and that ties with neighbouring NSW LGAs are limited. It states this is confirmed by ABS Travel to Work Data and SGS modelling. The main towns in Berrigan are Finley, Tocumwal and Berrigan.
Community consultation	The council conducted a telephone survey of 350 residential and 101 business residents in Berrigan Shire in January 2015. 53% of residents opposed the merger with Jerilderie (20% strongly), 15% neither supported nor opposed it and 26% supported the merger (4% strongly).

Other relevant factors	
Water and/or sewer	The council notes that it does not currently achieve the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework. The council postponed the implementation of its IWCMP to 2015-16 and receives 35% of its water revenue from consumption charges. In 2014-15 it met the 50% benchmark. It reported a water and sewer backlog of $2.6m in 2013-14 but notes that there are no water and sewer infrastructure assets that are currently not fit for purpose or unfunded.
Submissions	There were no submissions received in relation to Berrigan's proposal.

BLACKTOWN CITY COUNCIL – CIP



NOT FIT

Area (km^2)	240	Population 2011	312,350
OLG Group	3	(2031)	473, 500
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$246m	TCorp assessment	Moderate FSR Neutral Outlook

ILGRP options (preference in bold)

No change or combine as strong JO with Auburn, Holroyd, Parramatta, part Ryde, The Hills, Hawkesbury, Penrith, Blue Mountains (all shaded)**.**

Possible boundary adjustments with The Hills and Hawkesbury to facilitate NW Growth Centre.

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- However, the council does not satisfy the sustainability criterion. It does not meet the benchmarks for operating performance ratio, the own source revenue ratio or the building and infrastructure asset renewal ratio.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, it has scope to undertake major projects. The council has the largest population in NSW, which is forecast to increase by 2.1% pa up to 2031. The council is forecast to deliver an additional $2.5 billion worth of infrastructure to facilitate development in the North West Growth Centre over the long term.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – does not satisfy

- The council does not meet the criterion for sustainability based on its growing operating deficits.
- The operating performance ratio is forecast to decline from -5.6% to -8.4% by 2019-20. The deficit is forecast to further increase by 2024-25. We estimate that adjusting this ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately two percentage points to -10.4% in 2019-20.
- Our analysis indicates the trend in growing operating deficits will have a significant impact on the council's financial sustainability, and ability to address asset renewals, in the long term.
- A factor adding to the council's poor operating performance is its depreciation expense, which is forecast to grow because of the accumulation of new assets to support population growth. Blacktown's depreciation rates are based on weighted average useful asset lives of approximately 60 years, which is reasonable. The accumulation of new assets is normal for a growth council. Accounting standards require councils to regularly review assumed useful asset lives and the depreciation methodology and rates used. This enables the reliability of annual depreciation estimates to be enhanced based on past actual asset performance.
- The council does not meet the own source revenue ratio benchmark. However, we consider this ratio is impacted by relatively high developer contributions, which are paid to fund local infrastructure provision.
- The council does not meet the building and infrastructure asset renewal ratio. The ratio is forecast to remain at around 40% in 2019-20. While a significant driver of this performance is depreciation and a growing asset base, the council considers it is able to meet renewal requirements.

- The council forecasts a significant asset renewal gap of around $140m by 2025-26 which is expected to increase further to $626m by 2035. This reinforces the need for the council to re-assess and improve its operating performance.
- Given its scale and capacity and revenue raising ability we consider that there are many options for Blacktown to become fit in future years. This includes exploring revenue and cost-reduction opportunities, refinements to asset management planning, and efficient use of debt for capital and infrastructure projects.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog and asset maintenance ratios by 2019-20.
- The council does not meet the debt service ratio benchmark. The council has a "no debt" policy.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on declining real opex per capita over time.

Other relevant factors	
Social and community context	Blacktown City Council is the largest local government area by population in NSW and the fourth largest in Australia, with an estimated resident population in 2014 of over 332,000. It consists of 48 suburbs, with distinct socio-economic diversity between long-established residential areas, including some of Australia's most disadvantaged urban areas, together with several identified urban renewal areas and new residential developments with very different needs and expectations. The council has an economy measured at $13 billion per annum (2.8% of the NSW Gross State Product). There are around 110,000 local jobs, 18,000 businesses within the 16 industrial estates and major commercial centres in the LGA.
Community consultation	The council exhibited its draft CIP for stakeholder comment its stakeholders for around 4 weeks. It did not provide details on the extent of stakeholder feedback.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions received in relation to Blacktown's proposal.

BLAND SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	8,558 km^2	Population 2011	6,000
OLG Group	10	(2031)	5,050
ILGRP Group	D		
Operating revenue (2013-14)	$20m	TCorp assessment	Weak FSR Neutral Outlook
ILGRP options (no preference)	Council in Riverina JO (all shaded) or merge with Coolamon and/or Temora (both yellow)		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – does not satisfy

- The council only meets one element of scale and capacity (Effective Regional Collaboration). The council either fails to meet or partially meets all other elements.
- The council does not have a robust revenue base or sufficient scale to undertake new functions or major projects. Its financial position means it would not have the resources to cope with complex and unexpected change.
- The council's population is declining and is forecast to be 5,050 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with Government.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- The council opposed a merger with either Coolamon or Temora. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the stand alone proposal. However, the merger is likely to better enable the provision of more cost-effective services to the local communities, advocating credibly and managing strategic issues in the region.

Sustainability –satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.
- The council's projected operating performance depends on the successful application for and adoption of a special variation from 2016-17 of 53.9% cumulative over 5 years (40.1% above the rate peg). However, our analysis indicates the council could break even via a smaller special variation.

Infrastructure and service management – does not satisfy

- The council does not satisfy the criterion for infrastructure and service management based on not meeting the benchmarks for the infrastructure backlog and asset maintenance ratio which was 95.6% in 2014-15 and is forecast to be 71.5% by 2019-20.
- The council meets the debt service ratio benchmark.
- The council's forecasts for the infrastructure and service management ratios appear cautious and based on conservative assumptions (eg FAGs remaining frozen and a slow timetable for implementing improvements such as user pays). Our analysis suggests the council would be able to renew its infrastructure more quickly than its forecasts suggest.

	Efficiency - satisfies • The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the period to 2019-20.
Other relevant factors	
Social and community context	Bland Shire Council is located on the northern fringes of the Riverina region of New South Wales. Its major centre of West Wyalong is located on the junction of the Newell and Mid Western Highways and has communities located at Barmedman, Tallimba, Ungarie, Weethalle, Wyalong, Kikoira, Naradhan and Mirrool.
Community consultation	Bland sought the community's views on a potential merger with Temora and Coolamon: • the response rate was 9.3%, and • 84% of respondents opposed a merger.
Water and/or sewer	Bland's water and sewerage business does not pay dividends so it would only affect the council's scale and capacity insofar as it allows the council to employ specialist staff.
Submissions	We received one submission relating to Bland's proposal. It opposes any mergers noting that: • Bland, Narrandera and Coolamon are well-managed, and • the risks of merging are greater than expected benefits (ie, merged council would not be more economically sustainable).

BLAYNEY SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	1,528	Population 2011	7,200
OLG Group	10	(2031)	7,800
ILGRP Group	E	Merger 2011	46,600
		(2031)	54,050
Operating revenue (2013-14)	$11.2m	TCorp assessment	Moderate FSR, Positive Outlook
ILGRP options (no preference)	Blayney in Central West JO (all shaded) or merge with Orange (yellow).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council's population is forecast to be 7,800 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- Based on the business case submitted by Cabonne and Orange on a merger between the two councils, our analysis suggests the merger could produce benefits to the local communities of $25m over 20 years. Morrison Low noted that the inclusion of Blayney in this merger would be expected to generate even higher benefits.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratio by 2019-20.

Efficiency – satisfies

- The council satisfies the efficiency criterion based on its forecast decline in real opex per capita over the period to 2019-20.

Other relevant factors

Social and community context	Blayney Shire Council is close to two large centres, Bathurst and Orange. Blayney considers the council has connections with both cities and the community is likely to be divided over the most suitable merger partner. Blayney is a small rural shire, while Bathurst and Orange are urbanised city centres.
Community consultation	Blayney undertook a community survey. 86% of respondents to the survey supported the stand-alone option. Blayney states its community wants to retain local democracy, representation and services. Blayney's questionnaire did not provide detailed information on the merger.
Water and/or sewer	Blayney manages sewerage services. Blayney notes the sewerage business meets the NSW Government Best Practice Management guidelines and achieves a break-even performance.
Submissions	There were no submissions received in relation to Blayney's proposal.

BLUE MOUNTAINS CITY COUNCIL – CIP

FIT

Area (km^2)	1,432	Population 2011	78,550
OLG Group	7	(2031)	97,300
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$92.8m	TCorp assessment	Weak FSR Neutral Outlook
ILGRP options (preference in bold)	**No change** or combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, The Hills, Hawkesbury, Penrith, and Blacktown (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the criteria for sustainability, infrastructure and service management and efficiency.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- The council has entered into an agreement to form a strategic alliance with Hawkesbury City Council and Penrith City Council. The agreement is aimed at sharing expertise in project management and design and improving economies of scale.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio and the own source revenue ratio by 2019-20.
- The council has an approved special rate variation of 40.3% over four years (28.5% above the rate peg). This is the primary reason for the improvement in the council's financial performance over time, allowing it to just meet the benchmark for the operating performance ratio by 2019-20.
- The council forecasts improvement in its building and infrastructure asset renewal ratio to 76.9% by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the infrastructure and service management criterion based on its forecast to meet the benchmark for the debt service ratio by 2019-20 and for its asset maintenance ratio to be very close to the benchmark by 2019-20.
- The council does not meet the benchmark for the infrastructure backlog ratio by 2019-20.

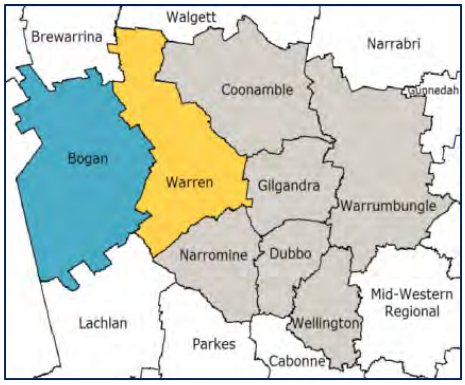
Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real opex per capita to 2019-20.

Other relevant factors

Social and community context	The LGA contains a number of reasonably large towns, rather than being centred on a single urban area, and many of its residents work in the Sydney metropolitan area. Nevertheless, the geographical characteristics of the LGA make it distinct.
Community consultation	While there is no evidence of community consultation about the CIP, the council notes its consultation with the community about the 2013-2014 'Resourcing Strategy' (the CIP's antecedent).
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions received in relation to Blue Mountains' proposal.

BOGAN SHIRE COUNCIL – RURAL COUNCIL PROPOSAL



FIT AS A RURAL COUNCIL

Area (km^2)	15,015	Population: 2011	3,000
OLG Group	9	(2031)	2,850
ILGRP Group	C		
Operating revenue (2013-14)	$10.5m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options (no preference)	Rural Council in Orana JO (all shaded) or merge with Warren (yellow).		

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall. The council satisfies the criteria for sustainability, infrastructure and service management and efficiency.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's strategies for improvement include resource sharing within the JO, reviewing services and realising limited opportunities to raise additional revenue.
- The council states it did not explore the merger option with Warren due to community opposition to this alternative. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the Rural Council proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on Government adopting the Rural Council Model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If the Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio in 2024-25.
- In addition, the council meets the benchmark for the own source revenue with FAGS and is close to meeting this benchmark without FAGs.
- The council also meets the building and infrastructure asset renewal ratios.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management as it is forecast to meet the benchmarks for the infrastructure backlog ratio in 2019-20 and the debt service ratio in 2016-17. While the council is not forecast to meet the benchmark for the asset maintenance ratio, its forecast demonstrates improvement.
- The council states it intends to devote additional revenue to address the infrastructure backlog and infrastructure maintenance. Even if these surpluses do not eventuate, the backlog is relatively low and the council would have some capacity to finance infrastructure by borrowing.

	Efficiency - satisfies • The council satisfies the criterion for efficiency based on a small, forecast decline in real opex per capita over the outlook period. In practice, the council might struggle to meet the benchmark, given the forecast decline in its population.
Other relevant factors	
Social and community context	The council considers the community of interest centres around Nyngan. As the population in the LGA is sparse and distances are great, this is a reasonable assertion.
Community consultation	Principally, the council consulted with the public via a survey and a public meeting. It is unclear how many people provided survey responses. However, the council states: • 95% of respondents oppose a merger between the council and Warren Shire councils • 98% of respondents oppose Bogan Shire Council becoming a Rural Council if decision-making and control is vested in a JO based in Dubbo, and • 98% of respondents would prefer the status quo.
Water and/or sewer	According to the council, its water and sewerage business recovers its costs and has an infrastructure backlog of $330,000.
Submissions	There were no submissions received in relation to Bogan's proposal.

BOMBALA SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

NOT FIT

Area (km^2)	3,763	Population	2011	2,500
OLG Group	9		(2031)	2,200
ILGRP Group	B	Merger- Cooma-Monaro	2011	12,650
			(2031)	12,950
		Merger- Cooma-Monaro and Snowy River	2011	20,400
			(2031)	21,600
Operating revenue (2013-14)	$8.6m	TCorp assessment	Moderate FSR Neutral Outlook	

ILGRP options (preference in bold): **Merge with Cooma-Monaro** and Snowy River (both yellow) or Rural Council in South East JO (all shaded).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is as good an option to achieve the scale and capacity objectives for the region.
- The proposed Rural Council Proposal is not as good as the ILGRP's preferred option to merge with Cooma-Monaro. When compared to the merger, the council's small and declining population of 2,200 in 2031 means it is unlikely to cost-effectively provide services to the local communities.
- The efficiency strategies the council proposes could be realised in addition to the merger gains under the merger alternative.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- The council submitted a business case assessing the costs and benefits of merging Bombala, Cooma-Monaro, and Snowy River councils. Our assessment of the business case suggests the merger could generate benefits to the community of $22m over 20 years (including the Government grant).

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2024-25 and the building and infrastructure asset renewal and own source revenue ratios by 2019-20. In its financial planning, the council relies on the successful application and adoption of a special variation from 2016-17 of 30.7% cumulative over 3 years (23.0% above the rate peg).

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council changed its methodology for measuring the infrastructure backlog ratio, which accounts for much of the improvement.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

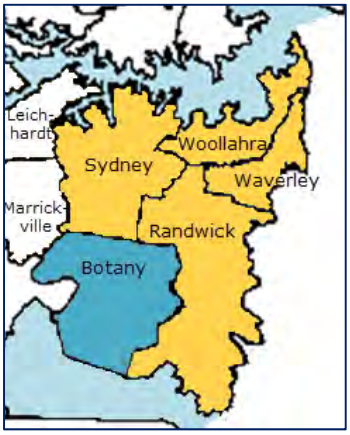
Other relevant factors	
Social and community context	The council refers to the geographic boundaries and relative isolation of the LGA contributing to a strong sense of place and the development of a cohesive and connected community where the council and community work together for social and economic benefit. This is reflected in the high level of volunteerism in the community: 33.5% compared to 16.9% for the state average. Economically, the main industries in the neighbouring LGAs do not show a clear overlap. By employment the main industries are: • In Bombala LGA: predominantly agriculture, forestry and fishing, followed by manufacturing, retail, accommodation and food services. • in Cooma-Monaro LGA: retail trade, public administration, health care and social assistance, agriculture, forestry and fishing. • In Snowy River LGA: predominantly accommodation and food services, followed by arts and recreation services, retail trade and construction, and agriculture, forestry and fishing.
Community consultation	A 2014 postal survey by the council received replies from 18% of the adult population. Survey results showed: • 52% of respondents preferred the council standing alone • 28% of respondents preferred a merger, and • in the case of a forced merger, 84% of respondents preferred merging with Cooma-Monaro and Snowy River over the other option of Bega Valley. The council held public meetings in March and June 2015. On both occasions, the attendees voted to stand alone as a rural council.
Water and/or sewer	Bombala Council states its water and sewer businesses do not yet meet the NSW Government Best Practice Management of Water Supply and Sewerage Framework. The businesses break-even, but have a combined infrastructure backlog of $13.1m.
Submissions	We received five submissions in relation to Bombala. All submissions support the council standing alone. They raised concerns about the social and economic impacts of a merger including job losses. Additionally, they added there is no evidence the residents will be better off, merged councils are financially weaker, road maintenance may be impacted, and Forestry Corp and National Parks should pay rates.

BOOROWA SHIRE COUNCIL

REFER TO YOUNG AND BOOROWA SHIRE COUNCILS – MERGER PROPOSAL

THE COUNCIL OF THE CITY OF BOTANY BAY – CIP

NOT FIT



Area (km^2)	22	Population 2011	41,500
OLG Group	2	(2031)	56,050
ILGRP Group	Sydney Metro	Merger 2011	487,600
		(2031)	653,250
Operating revenue (2013-14)	$57.4m	TCorp assessment	Moderate FSR, Neutral Outlook

ILGRP options (preference in bold): **Merge with Randwick, Waverley, Woollahra and Sydney** (all shaded) or combine as strong JO.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council did not meet the criterion for scale and capacity.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council has not demonstrated its stand-alone option is at least as good as a merger with any combination of the councils in the Global Sydney Council group. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 56,050 by 2031 compared with the forecast merger population of 653,250. Our analysis suggests the council does not have sufficient scale and capacity to effectively partner with governments compared to the merger.
- The council submitted a business case which showed a merger of Marrickville, Botany Bay and Rockdale produces net benefits of $83m over 9 years. Based on this model, our analysis suggests a merger between Marrickville, Botany Bay and Rockdale produces benefits of $251m over 20 years. However, the council did not wish to pursue this option and it was not an option identified by the ILGRP. We did not investigate the further regional impacts of this proposed merger.
- Randwick City Council submitted a business case which showed a merger with Woollahra Council, Waverley Council, Council of the City of Botany Bay and Council of the City of Sydney produces net benefits. Based on this model, our analysis suggests the merger could produce benefits of $416m over 20 years (including the Government grant).
- In addition, our independent economic consultants Ernst and Young estimated net benefits from the merger of $283m over 20 years using public data (not including the Government grant).
- Using information provided by councils, our analysis also suggests a merger with Randwick, Waverley and Woollahra councils produces net benefits of $384m over 20 years.
- These analyses, whilst producing different numbers because of different inputs and underlying methodologies, showed large gains to the local community from a merger.
- Our analysis is consistent with the ILGRP's preferred option for Botany Bay to merge with neighbouring councils.
- We note the council considers a merger would disrupt its relationship with Port Botany and Sydney Airport. The council states these facilities and its relationship with these stakeholders differentiates it from other councils.

Sustainability - satisfies

- The council meets the criterion for sustainability based on a positive and increasing operating performance ratio and continued improvement in own source revenue.
- The council's building and infrastructure asset renewal ratio meets the benchmark by 2019-20.

Infrastructure and service management - satisfies

- The council meets the criterion for infrastructure and service management based on re-aligning its funding towards renewals, which reduces its infrastructure backlog from 7.8% in 2014-15 to 1.7% in 2019-20.
- The council meets the asset maintenance ratio benchmark by 2019-20.
- However, the council's 'no debt' policy inequitably burdens current ratepayers. We note the council's debt position presents an opportunity to leverage its balance sheet for future growth by reconsidering its 'no debt' policy stance, if necessary.

Efficiency - satisfies

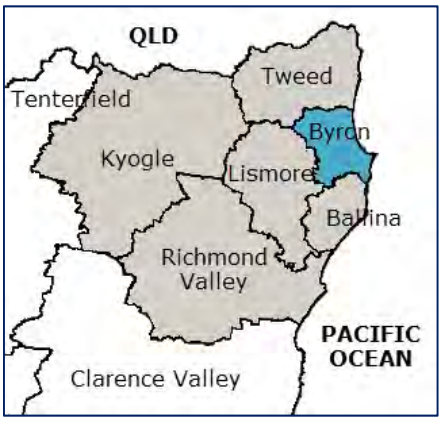
- The council meets the criterion for efficiency based on strategies for continuous improvement that are expected to lead to a fall in real opex per capita over time.

Other relevant factors	
Social and community context	The council observes that residents in the area of Botany Bay are culturally and linguistically diverse, and there are areas of significant socio-economic disadvantage that make this community different from other Eastern Suburb communities. Further, Botany supports key infrastructure including the Port and Sydney Airport, which the council considers presents it with unique challenges relative to other councils. However, the ILGRP notes that council boundaries should not unnecessarily divide areas with strong economic (and social) inter-relationships, and the Airport precinct and the Sydney CBD have a strong economic relationship.
Community consultation	Botany informed its community about the FFTF report through community days, and sought community views through focus groups, surveys, their websites, briefings and mailed information packs. Feedback from surveys and focus groups indicates that most respondents preferred their councils to stand alone. However, the council's mail out in June 2013 included a simple tick the box question of whether residents wanted the council to remain independent or merge. The information provided to residents mainly highlights the losses to the community without providing genuine regard to the benefits. The council's information to residents also selectively quotes modelling from the Parliamentary Budget Office about the costs of mergers, which may not reflect a balanced argument.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	Three submissions were received on Botany Council's proposal. One submission was concerned about the impact of mergers on NGOs, which are funded differently by councils. We also received two confidential submissions.

BURWOOD COUNCIL

REFER TO AUBURN, BUWOOD AND CANADA BAY CITY COUNCILS – MERGER PROPOSAL

BYRON SHIRE COUNCIL – CIP



FIT

Area (km^2)	567	Population	2011	30,700
OLG Group	4		(2031)	(36,200)
ILGRP Group	G			
Operating revenue (2013-14)	$48.9m	TCorp assessment		Weak FSR Negative Outlook
ILGRP option	Council in Northern Rivers JO (all shaded).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone. Hence the council has been assessed as satisfying the scale and capacity criterion.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewal ratios by 2019-20.
- In achieving these results, the council relies on efficiency savings as well as the successful application for and adoption of a special variation from 2016-17 of 22.5% cumulative over 4 years (13.0% above the rate peg).
- The council assumes it will receive a special variation of 3% above the rate peg under the streamlined process for rate pegging for councils found to be 'Fit For The Future.' While this policy has not been formally implemented, the council may still submit a special variation proposal consistent with its plan.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its reducing real opex per capita over the period to 2019-20.

Other relevant factors

Social and community context	The council is located on the far north coast of NSW, within 150km of Brisbane. The principal economic driver is tourism, with 1.4 million visitors each year. Agriculture and related products also contribute to the local economy.
Community consultation	The council did not provide any information about community consultation on its proposal.
Water and/or sewer	The council achieved 100% compliance for sewer and water with the best practice management framework.
Submissions	We did not receive any submissions for this council.

CABONNE COUNCIL – CIP

NOT FIT

Area (km^2)	6,021	Population	2011	13,200
OLG Group	11		(2031)	16,450
ILGRP Group	E	Merger	2011	52,600
			(2031)	62,700
Operating revenue (2013-14)	$30.1m	TCorp assessment		Sound FSR Neutral Outlook

ILGRP options (preference in bold): Council in Central West JO (all shaded)or **merge with Orange City Council** (yellow).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- The council did not demonstrate its proposal was at least as good as the ILGRP preferred merger option. When compared to the merger, the council's forecast population of 16,450 in 2031 means it is unlikely to provide services cost-effectively to the local communities, advocate credibly and partner effectively with government.
- A merged council is likely to have improved capabilities, a more robust revenue base, greater scope to undertake new functions and projects, better regional collaboration and integrated planning.
- The council submitted a business case for a merger with Orange. Based on this model, our analysis suggests the merger could produce net benefits of $27m over 20 years (including the Government grant).

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratio by 2019-20.

Efficiency – satisfies

- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period.

Other relevant factors

Social and community context	The community and social context of the two councils are vastly different, Orange is an urban/city council, while Cabonne provides rural services to dispersed small villages and communities.
Community consultation	A survey was undertaken in 2013 with 93% of the 1,650 respondents opposed to a merger with Orange. Cabonne also notes more recent consultations were undertaken, including through community meetings, newsletters, radio interviews, and television and newspaper ads, which also resulted in strong community opposition to a merger and the formation of a community led anti-amalgamation group. This consultation appears to have been fairly extensive. Cabonne states its consultation was conducted in a balanced way.

Other relevant factors	
Water and/or sewer	Cabonne operates its sewer business on a break even basis, while its water business operated at a loss in 2013-14. It plans to increase water charges by 10% a year and notes there is a high cost of servicing its dispersed community. It meets the requirements of the NSW Government's Best Practice Management of Water Supply and Sewerage Framework and estimates its infrastructure backlog is $730,000 for water and $182,000 for sewer.
Submissions	Fifteen submissions were received in relation to the council's proposal. All oppose a merger citing risks that job losses, reduced representation, reduced services, a lack of community support, financial weakness, differing demographics, a loss of social connection and a lack of evidence that a merger would produce benefits. One late submission was received that did not support the merger.

CAMDEN COUNCIL – CIP

	FIT		
Area (km^2)	206	Population 2011	58,450
OLG Group	6	(2031)	162,350
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$64.9m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options (preference in bold)	**No change** or combine as a strong JO with Liverpool, Fairfield, Bankstown, Campbelltown, and Wollondilly (shaded area).		

Assessment Summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- The council satisfies the criterion for sustainability based on its operating performance ratio being close to the benchmark and our assessment that its performance is adversely affected by its high growth.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, it has a robust revenue base and scope to undertake new functions and major projects.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council's forecast performance against the financial ratio benchmarks by 2019-20 is not strong, however we consider they are within an acceptable range given its prospective high growth.
- Camden is the fastest growing council in NSW based on the DP&E forecasts, with population growth of 178% from 2011 to 2031, compared to a Sydney average of 36%.
- The council has forecast it will be below the benchmark for the operating performance ratio, own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20. However, our analysis suggests the failure to meet these benchmarks is not a result of any underlying weakness in Camden's financial performance. Rather, Camden's particularly high forecast growth requires the council to deliver significant amounts of infrastructure and services to new areas before additional rate income and other revenues can be realised for that growth. The council has forecast its operating performance ratio will improve over the period to 2019-20 to be close to the benchmark. Over the long term, as Camden's growth rates moderate to more normal levels, it would be likely to meet the operating performance benchmark based on current data.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on a low infrastructure backlog ratio and a debt service ratio that meets the benchmark by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real opex per capita to 2019-20.
- Camden's operating expenditure per capita is significantly lower than other councils and is forecast to fall to $84 by 2019-20. The council states this is because most of its expenditure is on capital.

Other relevant factors	
Social and community context	Camden notes its population is one of the fastest growing areas in NSW and it faces challenges in managing new developments and providing the associated infrastructure to meet its forecast growth.
Community consultation	No details of community consultation were included in the proposal.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions received in relation to Camden's proposal.

CAMPBELLTOWN CITY COUNCIL – CIP

	NOT FIT		
Area (km^2)	312	Population 2011	151,150
OLG Group	7	(2031)	215,750
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$126.3m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP options (preference in bold)	**No change** or combine as a strong JO with Liverpool, Fairfield, Camden, Bankstown and Wollondilly Councils (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it satisfies the criteria for infrastructure and service management and efficiency, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion based on its forecast for a negative operating performance ratio by 2019-20 and financial assumptions which do not include new capital expenditure despite high population growth.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, it has a robust revenue base, scope to undertake new functions and major projects and the ability to employ a wide range of skilled staff.
- The council provides extensive evidence of regional collaboration and effective advocacy and working with other levels of government.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- The Government has declared the Campbelltown/Macarthur CBD as a Regional City Centre and there is clear evidence of a number of significant projects that have been implemented and planned for the region. The council states that it attempts to align its own policies and project parameters with those of other levels of government.

Sustainability – does not satisfy

- The council does not meet the criterion for sustainability based on its forecast for an operating performance ratio of -2.4% by 2019-20. Additionally, the council does not expect to reach an operating surplus by 2024-25, with revised information provided by the council projecting that the operating performance ratio will remain between -3.0% and -3.5% over the period 2020-21 to 2024-25 (single year basis).
- Campbelltown notes its modelling assumes no significant new capital expenditure over the outlook period and that its focus is on eliminating the infrastructure backlog and annual maintenance gap. Campbelltown's need to undertake additional new capital expenditure to meet population growth will be mitigated to some extent, as a number of infrastructure projects will likely be delivered by other government agencies and developers. However, it is likely additional capital expenditure will be required to meet population growth, which would have an adverse impact on its operating performance ratio through increased depreciation and operating expenditure on labour, contracts and materials.

- The council is an area of reasonable growth. The population is forecast to increase from 151,150 in 2011 to 215,750 in 2031 using the DP&E forecasts. This is an increase of 43% and an average annual increase of 1.8%, slightly above the overall Sydney average of 1.6% pa. The council's LTFP has forecast a higher annual population growth rate of around 3% pa and a population of 211,256 by 2025.
- Growth in Campbelltown may be bolstered over the long run by the Glenfield to Macarthur Priority Urban Renewal Corridor initiative and the Greater Macarthur Land Release Preliminary strategy. These developments, if progressed, will provide scope for significant additional dwellings. The timing of most of the potential housing development is uncertain, with additional preparatory work required before much of the development could proceed. For these reasons, and the timing of recent announcements on the strategy, Campbelltown's financial forecasts do not include the substantive part of these potential developments. These developments will require additional infrastructure spending. The funding mechanism for the additional infrastructure is uncertain, but it is expected Campbelltown will draw on state government funding and voluntary planning agreements to fund this infrastructure.
- The council has forecast it will meet the benchmark for the own source revenue ratio by 2019-20, but the building and infrastructure asset renewal ratio is forecast to remain significantly below the benchmark over the period to 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the infrastructure and service management criterion, as it meets the infrastructure backlog and debt service benchmarks by 2019-20 and is close to meeting the asset maintenance benchmark.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real opex per capita to 2019-20.

Other relevant factors	
Social and community context	The City of Campbelltown includes a large culturally diverse population, with residents from more than 40 different countries. It is recognised as a major economic and social growth entity in Metropolitan Sydney and its LGA has characteristics of rural, developing and established areas. The Campbelltown/Macarthur regional centre has grown into a hub which offers services and facilities to serve the Macarthur region. The environment is characterised by a diversity of land uses and built forms ranging from dense urban developments along the Southern Rail Line to bushland environments along the Georges River corridor.
Community consultation	The council has not provided any information on consultation with the community on Fit for the Future.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions received in relation to Campbelltown's proposal.

CANADA BAY CITY COUNCIL

REFER TO AUBURN, BUWOOD AND CANADA BAY CITY COUNCILS – MERGER PROPOSAL

CANTERBURY CITY COUNCIL - CIP

NOT FIT

Area (km^2)	34	Population	2011	145,100
OLG Group	3		(2031)	181,850
ILGRP Group	Metropolitan Sydney	St George merger	2011	390,300
			(2031)	497,500
		Bankstown Merger	2011	335,950
			(2031)	422,650
Operating revenue (2013-14)	$96.8m	TCorp assessment	Moderate FSR Neutral Outlook	

ILGRP options (preferences in bold).

Merge with Hurstville, Kogarah and Rockdale (yellow) or combine as a strong Joint Organisation, also including Sutherland (grey) **and** adjust Rockdale boundary at airport.

The ILGRP Report also stated that an alternative could be to amalgamate with Bankstown (but this was not included as a final option in the table addressing the council's region.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under a merger option. In addition a merger option would provide significant further benefits such as delivering infrastructure in accordance with the South Subregion plan, and managing the Georges River catchment.
- The council's population is forecast to be 181,850 by 2031 compared with the forecast merger population of 497,500. Our analysis suggests that the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case which showed that a merger of Canterbury, Kogarah, Hurstville and Rockdale produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $280m over 20 years (including the full Government grant).
- In addition, our independent consultants Ernst and Young estimated net benefits from the merger of $172m over 20 years using publically available data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- We note the ILGRP report included an alternative for Canterbury City Council to merge with Bankstown. Bankstown provided evidence to suggest this merger could produce benefits if it is pursued further.
- Our independent consultants Ernst and Young calculated a merger between Bankstown City Council and Canterbury City Council could produce net benefits of $86m over 20 years, using public data.
- Our analysis is consistent with the ILGRP's preferred option for Canterbury to merge with neighbouring councils.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council's improvement in financial performance is driven by a special variation of 24.2% over 3 years approved in 2014 for sustainability and asset renewal purposes (16% above the rate peg).

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management. It meets the benchmarks for the infrastructure backlog and debt service ratios and shows improvement in the asset maintenance ratio over the outlook period.

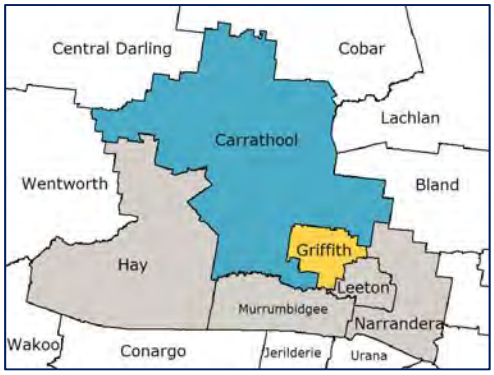
Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over time.

Other relevant factors	
Social and community context	Canterbury has a culturally diverse population. Around 70% of its residents speak a language other than English at home. Similarly, Kogarah, Rockdale and Hurstville LGAs are also culturally diverse. Around 50% to 60% of residents in these LGAs also speak a language other than English at home.
Community consultation	Canterbury commissioned Qdos Research to gauge the community's views about the proposed amalgamation. This involved two focus group meetings in December 2014. The Qdos report indicated that the community's views were mixed: • Most people would not prefer a merger, but noted that there is no "passion" to their opposition, because they do not identify themselves as residents of a municipality. Qdos noted that losing Canterbury City Council in its current form is not a particular concern for residents. • However, most residents noted some negative aspects of a merger eg, more bureaucracy and potential cuts to services or facilities. Qdos also conducted community surveys earlier in March 2014. This included a phone survey (450 respondents) and an online survey (944 completed surveys). • Overall, the surveys found that residents are more likely to identify themselves as part of the St George area, rather than the Bankstown LGA. However, 60% selected Canterbury to be a stand-alone council as their first preference. • The remaining 40% of first preferences were almost evenly split between a merger with St George councils and Bankstown council. However, 54% of second preferences were in favour of a merger with St George councils, compared with 31% for Bankstown City Council.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 14 submissions about the council's proposal. Most did not support the merger because it may lead to loss of local representation and services, and potentially higher council rates. Seven submissions stated that Canterbury is performing well and should not change. Four submissions supported some form of a merger to improve services. One submission supported dividing Canterbury between Marrickville, St George area and Bankstown. Also, the Hurlstone Park Association (representing 120 members) considers that its suburb shares greater economic and social links with Marrickville, and that the boundary should be changed to reflect this. One late submission was received which argued that if a merger is inevitable, it should be between Canterbury and Bankstown to reflect the sense of community.

CARRATHOOL SHIRE COUNCIL - RURAL COUNCIL PROPOSAL

FIT AS A RURAL COUNCIL



Area (km^2)	14,820	Population 2011	2,700
OLG Group	9	(2031)	2,200
ILGRP Group	C	Merger 2011	28,100
		(2031)	27,650
Operating revenue (2013-14)	$11.6m	TCorp assessment	Weak FSR Neutral Outlook

ILGRP options (no preference): Rural Council in Murrumbidgee JO (all shaded) or merge with Griffith (yellow).

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall. It satisfies the sustainability and infrastructure and service management criteria. It does not satisfy the efficiency criterion.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include resource sharing within the JO, reviewing services and realising limited opportunities to raise additional revenue.
- The council states it has discussed the merger with its community and approached Griffith City Council about the merger. However, both its community and Griffith City Council preferred to stand alone. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the Rural Council proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on Government adopting a Rural Council model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio in 2023-24. The council also meets the building and infrastructure asset renewal ratios.
- The council expects to improve its own source revenue ratio from 40% in 2014-15 to 44% in 2019-20. With FAGs, the ratio increases from 62.0% in 2014-15 to 73.9% by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management as it meets the infrastructure backlog, asset maintenance and debt service ratios.

Efficiency – does not satisfy

- The council does not satisfy the criterion for efficiency based on our estimate of increasing real opex per capita over time. This is largely due to relatively static real operating expenditure forecasts, and a declining population. The council forecasts the real opex per capita will increase from $3,776 to $3,980 between 2014-15 and 2019-20.

Other relevant factors	
Social and community context	The council has a small population spread over a relatively large area. There are only five town centres to support rural-based local industries – Hillston, Goolgowi, Merriwagga, Carrathool and Rankins Springs.
Community consultation	The council used online media and newspapers to inform its community about the FFTF process. The council also undertook an online and reply-paid survey. The response rate for the surveys was 25% (sample was not specified), and 98% of respondents indicated their preference for Carrathool Shire Council to be a stand-alone council. Only 0.6% of the responses were in favour of a merger with Griffith City Council.
Water and/or sewer	The council's compliance with the NSW Government Best Practice Management frameworks is 70%. The council proposes to adopt strategies which would improve drinking water infrastructure, and a joint project to develop an integrated water cycle management plan with the Riverina and Murray ROC. The council also proposes strategies to improve long term sustainability by increasing fees for its rural supply network, and reducing maintenance costs through upgrade works.
Submissions	There were no submissions received in relation to Carrathool's proposal.

CESSNOCK CITY COUNCIL – CIP

	FIT		
Area (km^2)	1,963	Population 2011	52,500
OLG Group	4	(2031)	66,400
ILGRP Group	Hunter		
Operating revenue (2013-14)	$64.8m	TCorp assessment	Moderate FSR Negative Outlook

ILGRP option

The ILGRP did not present a table of options for the Hunter region. Instead, it included a discussion of these councils in its report.

IPART's methodology paper presented the option for Cessnock as 'Council in Joint Organisation', based on discussion in the ILGRP report and a map indicating no suggested merger. There was no specified JO, but Cessnock Council currently participates in the Hunter pilot JO.

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future - FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- However, we note the council has a relatively robust revenue base, engages in the Hunter ROC and the Hunter Pilot JO, and has provided some examples of large projects and collaborations with the State and Federal Governments.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building infrastructure and asset renewal ratio by 2019-20.
- However, it appears the council is forecasting wage rises below the award rate, so this might prevent the council from realising the projected operating performance.

Infrastructure and service management - satisfies

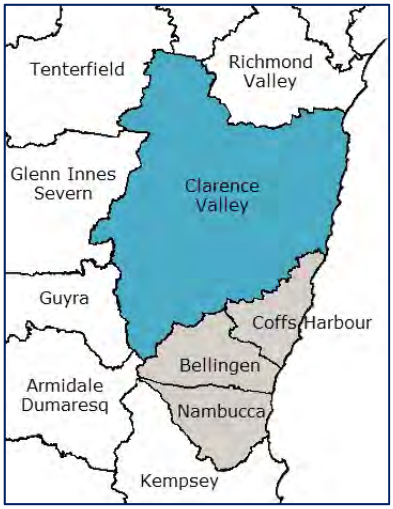
- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a declining real opex per capita over the period to 2019-20.
- The council plans to improve its operating performance ratio by undertaking a review of its operations to identify where operating expenses may be reduced and revenue increased. It is likely this will impact service delivery to some extent given the planned reduction to staff.

Other relevant factors	
Social and community context	The council has not added additional information on the social and community context.
Community consultation	The council has not indicated it has undertaken any community consultation in regards to its Fit for the Future proposal.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received one early submission in relation to Cessnock's proposal, regarding the lack of road maintenance.

CLARENCE VALLEY COUNCIL – CIP



	NOT FIT		
Area (km^2)	10,440	Population 2011	51,043
OLG Group	4	(2031)	56,250
ILGRP Group	G		
Operating revenue (2013-14)	$75.5m	TCorp assessment	Weak FSR Negative Outlook
ILGRP option	Council in the North Coast JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. The council does not meet the criterion for sustainability including the benchmark for the operating performance ratio.
- It also does not satisfy the criterion for infrastructure and service management but does meet the efficiency criterion.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not propose another option for this council, Clarence Valley Council was not required to demonstrate how it met each of the elements of scale and capacity. It therefore did not provide sufficient information on the other elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- We note Clarence Valley has a weak financial position and faces challenges in meeting current and future infrastructure requirements.

Sustainability – does not satisfy

- The council does not meet the criterion for sustainability based on its continuing operating deficits and a relatively low building and infrastructure asset renewal ratio. The own source revenue ratio is greater than the benchmark.
- The operating performance ratio was -26.6% in 2014-15 and is forecast to remain in deficit at -5.7% by 2019-20.
- The building and infrastructure asset renewal ratio was 38% in 2014-15 and is forecast to improve to 72% by 2019-20.
- The council's improvement proposal relies on the successful application for and adoption of a special variation from 2016-17 of 47% cumulative over 5 years (34% above the rate peg).
- The council had its infrastructure assets independently re-valued which resulted in reduced depreciation expense (from $48m in 2012-13 to $34m in 2013-14). This has improved its operating performance ratio from 2012-13.
- The council states in the past it has not been funding its depreciation as part of its budget process, which has resulted in a significant infrastructure backlog.

Infrastructure and service management - does not satisfy

- The council does not meet the criterion for infrastructure and service management based on its forecast infrastructure backlog and asset maintenance ratios not meeting their respective benchmarks. The debt service ratio remains within the benchmark range.
- The infrastructure backlog was 6.4% in 2014-15 and is forecast to improve to 4.9% by 2019-20.
- The asset maintenance ratio was 64.7% in 2014-15 and is forecast to be 79.9% in 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on the real operating expenditure per capita showing a declining trend.

Other relevant factors	
Social and community context	The Clarence Valley Council area is located in the Northern Rivers region of NSW, about 300 kilometres south of Brisbane. It is predominantly rural, with expanding residential areas and some industrial and commercial land uses. Agriculture, forestry and fishing are important industries. Recently, tourism has become a major industry, especially along the coast. Settlement is based around the regional centre of Grafton and the townships of Iluka, Maclean, and Yamba and some 44 small villages and localities along the coast and inland.
Community consultation	The council did not provide details of community consultation for it submission. It has included the need for the SRV in its Operational Plan and is currently in the process of consulting the community on this.
Water and/or sewer	The council currently meets the Best Practice Management Framework for its sewerage business, and almost meets it (90%) for its water business. Both are run on a break-even basis. The council's sewerage backlog was $3.1m, or 1.3% of the WDV of the sewerage assets in 2013-14, and its water supply infrastructure backlog was $9.8m, or 2.5% of the WDV of the water supply assets.
Submissions	We received 12 submissions relating to Clarence Valley's FFTF proposal, which raised other issues such as opposition to further rate increases and that council is not meeting community needs. One late submission was received.

COFFS HARBOUR CITY COUNCIL – CIP

FIT

Area (km^2)	1,174	Population 2011	71,798
OLG Group	5	(2031)	88,100
ILGRP Group	G		
Operating revenue (2013-14)	$94.6m	TCorp assessment	Weak FSR Negative Outlook
ILGRP option	Council in the North Coast JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not propose another option for this council, Coffs Harbour was not required to demonstrate how it met each of the elements of scale and capacity. We consider the council currently meets or partially meets most of the elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio and the own source revenue ratios by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately one percentage point to 0.7% in 2019-20, which is still above the benchmark.
- The building and infrastructure asset renewal ratio shows improvement from 59.2% in 2014-15 to 91.2% in 2019-20, which is close to but below the benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog and debt service ratios by 2019-20.
- Its asset maintenance ratio is forecast to improve from 80.2% in 2014-15 to 94% in 2019-20, which is close to the benchmark.

Efficiency - satisfies

- The council meets the criterion for efficiency based on the Real Operating Expenditure per Capita showing a declining trend.

Other relevant factors

Social and community context	Coffs Harbour is a major regional city on the mid north coast. The LGA's economy is driven by tourism, retail, manufacturing, construction, government services, education and the health industry. The city's extensive coastlines have presented climate change issues. Traffic congestion is also a growing concern according to the council's proposal.
Community consultation	The council engaged with the community in preparing its strategic action plan, but did not directly address the Fit for The Future requirements. Key priorities for the community include the local workforce, climate change, transport and enhancing cultural facilities.
Water and/or sewer	The council states it water and sewerage businesses meet the Best Practice Management Framework. However they do not operate on a break-even basis. Over the last ten years, capital expenditure for the water and sewer business has been in excess of $300m, funding for which includes borrowing of $221m. Although the businesses have an accounting deficit, they have positive cash flows, low maintenance capital requirements over the next ten years and a low gearing ratio.
Submissions	There were no submissions received in relation to Coffs Harbour's proposal.

CONARGO SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

NOT FIT

Area (km^2)	8,500	Population:	2011	1,600
OLG Group	8		(2031)	1,700
ILGRP Group	B	Merger	2011	16,100
			(2031)	16,150
Operating revenue (2013-14)	$6.6m	TCorp assessment		Sound FSR Neutral Outlook

ILGRP options (preference in bold): **Merge with Deniliquin and Murray** (yellow) or Rural Council in Mid-Murray JO (all shaded).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- The proposed Rural Council Proposal is not as good as the ILGRP's preferred option to merge with Deniliquin and Murray. When compared to the merger, the council's small and static population of 1,700 in 2031 means it is unlikely to provide services cost-effectively to the local communities and advocate credibly.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2024-25 and the building and infrastructure asset renewal ratios by 2019-20.
- The council's own source revenue ratio excluding FAGs increases from 41% in 2014-15 to 51% by 2019-20, which is below the benchmark. The inclusion of FAGs will increase the ratio to 77% by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the infrastructure and service management criterion. It is forecast to meet the benchmark for the infrastructure backlog, asset maintenance debt service ratios over the outlook period to 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real opex per capita to 2019-20.

Other relevant factors

Social and community context	The council produces around 14% of Australia's rice and is primarily focused on agriculture. Its population is dispersed between six main villages – Conargo, Blighty, Pretty Pine, Wanganella, Mayrung and Booroorban.
Community consultation	The council conducted a survey, with 96% of responses (469) indicating they support Conargo to remain separate from other councils. The council has also cited high levels of community satisfaction with current levels of service.
Water and/or sewer	The council does not have a water/sewer business.

Other relevant factors	
Submissions	We received two submissions relating to Conargo which raised concerns over any potential merger for Conargo. They indicated that the council currently meets ratepayers expectations and that evidence should be provided to indicate where (if at all) the council has not met its obligations. Both submissions questioned whether there are advantages to merging with Deniliquin.

COOLAMON SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

FIT AS A RURAL COUNCIL

Area (km^2)	2,482 km^2	Population: 2011	4,250
OLG Group	9	(2031)	3,950
ILGRP Group	C		
Operating revenue (2013-14)	$10.7m	TCorp assessment	Sound FSR Negative Outlook
ILGRP options (no preference)	Rural Council in Riverina JO (all shaded) or merge with Bland and/or Temora (yellow).		

Assessments summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall as the council meets the criteria for sustainability, infrastructure and service management and efficiency.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include resource sharing within the Riverina Eastern Regional Organisation of Councils. REROC demonstrates its success in increasing the scale and capacity of its member organisations on a range of measures and plans to become the pilot JO for the region.
- The council indicated it sought to commence merger negotiations with its neighbouring councils. However, these councils did not wish to participate in a merger. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the Rural Council proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on Government adopting a Rural Council model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2023-24 and the building and infrastructure asset renewal and own source revenue ratios by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on a declining real opex ratio over the outlook period to 2019-20.

Other relevant factors	
Social and community context	The council states the geographical spread across the northern and southern regions is a key issue. There is a considerable disparity between the north and south with different communities of interest. The northern region of the shire (Ardlethan and Beckom) is more closely affiliated with Temora or Griffith, while in the southern region of the shire the communities are more closely associated with the regional centre in Wagga Wagga. The council notes it is focused on providing services within these communities, rather than requiring them to travel to a regional centre.
Community consultation	The council held community information sessions on the Fit for the Future Process. The council also conducted a community survey of 283 residents, with 97% of respondents supporting the council remaining a stand-alone council. Where survey respondents were asked to choose a merger partner, the most popular merger partners were Bland and Narrandera. The information provided to the community did not appear to outline any potential benefits of a merger.
Water and/or sewer	The council does not supply water, but is responsible for the management of the Coolamon and Ganmain Sewerage Networks. The council does not meet the NSW Best Practice Management Framework, but states it is a willing participant in the JO/REROC working party to address this issue. Coolamon Shire estimates its 2013-14 sewer backlog is $100,000. It does not currently operate its sewer services on a breakeven basis but expects to address this over 2016-2020 by increasing fees and charges.
Submissions	We received one submission for Coolamon. It opposes mergers for reasons that include: the council's good performance (including collaboration with the private sector); potential risks outweighing potential benefits and the complementary nature of Bland, Narrandera and Coolamon Councils.

COOMA-MONARO SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	5,208	Population	2011	10,150
OLG Group	11		(2031)	10,750
ILGRP Group	D	Merger with Bombala	2011	12,650
			(2031)	12,950
		Merger with Bombala and Snowy River	2011	20,400
			(2031)	21,600
Operating revenue (2013-14)	$17.5m	TCorp assessment	Weak FSR Neutral Outlook	

ILGRP options (preference in bold): **Merge with Bombala** and Snowy River (both yellow) or Council in South East JO (all shaded).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.
- The council does not satisfy the financial criteria overall. Although the council satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion because its forecast to meet the operating performance ratio benchmark includes the assumed approval of a large proposed special variation which may be unreasonable.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is as good an option to achieve the scale and capacity objectives for the region.
- Most of the efficiency strategies from the council improvement proposal could be realised in addition to the merger gains under the merger alternative.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- Our analysis of KPMG's business case submitted by Cooma-Monaro, for a merger of Cooma-Monaro, Bombala and Snowy River Councils, suggests the merger generates benefits to the local communities of $22m over 20 years (including the Government grant). This represents larger benefits than the three councils' share services arrangement and suggests merging is likely to be better than Cooma-Monaro's stand-alone proposal.

Sustainability - does not satisfy

- The council does not satisfy the sustainability criterion.
- The operating performance ratio is forecast to steadily improve from -25% in 2014-15 to 1% by 2024-25. The council relies on the successful application for and adoption of a special variation from 2016-17 of 65.0% cumulative over 9 years (40.1% above the rate peg). Our analysis indicates this assumption is unreasonable as the council's average residential rates were higher than the OLG Group 11 average in 2013-14, the council has not yet commenced consultation on the special variation and the planned increase is relatively large in terms of size and duration.
- Without the special variation, we estimate the ratio would improve at a slower rate to -8% by 2024-25. This is below the benchmark.
- The council forecasts a small improvement in the building and infrastructure asset renewal ratio from 43.8% in 2014-15 to 44.6% in 2019-20. However, this remains well below the benchmark.
- The own source revenue ratio is above the benchmark in 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	Cooma-Monaro Council states the town of Cooma is the 'capital of the Snowy Mountains', being the social and commercial hub of the region. The council indicates residents of the smaller villages feared their voice would be lost under a merger and influencing Council for the betterment of their community would become even harder.
Community consultation	Cooma-Monaro Shire Council undertook formal and informal community consultation but did not complete a survey. During the consultation process, residents raised issues including the potential loss of local representation, lack of understanding of the needs of small villages if the councils were to merge, concerns about job losses and questioned the potential for shared services given the distances. However, some residents believe the merged entity would have improved purchasing power, more credibility to advocate and more influence.
Water and/or sewer	Cooma-Monaro Shire Council supplies water and wastewater services to its community and its water supply business currently meets the NSW Government's Best Practice Management Framework. The council states the water and sewer businesses break-even but the infrastructure backlog is about $35m. We consider the council's water business would affect scale and capacity insofar as it allows the council to employ specialist staff.
Submissions	We did not receive any submissions relating to Cooma-Monaro Council's Council Improvement Proposal.

COONAMBLE SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

FIT AS A RURAL COUNCIL

Area (km^2)	10,765	Population 2011	4,250
OLG Group	9	(2031)	3,750
ILGRP Group	C		
Operating revenue (2013-14)	$14.7m	TCorp assessment	Sound FSR Negative Outlook
ILGRP options (no preference)	Rural Council in Orana JO (all shaded) or merge with Gilgandra (yellow shade).		

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall as the council meets the criteria for sustainability, infrastructure and service management and efficiency.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and declining population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include resource sharing within the JO and reviewing services.
- The council states it considered the merger option, although it appears this option was not explored in detail due to the response by the community and Gilgandra. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the Rural Council proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on Government adopting a Rural Council Model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2024-25 and the building and infrastructure asset renewal and own source revenue ratios by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on a declining real opex ratio over the outlook period to 2019-20.

Other relevant factors	
Social and community context	The council's community of interest centers on Coonamble, which is distant from other regional centres such as Gilgandra (around 1 hr away) and Walgett (around 1 hr 15 mins away).
Community consultation	Coonamble Shire Council states it consulted via the Mayor's newspaper columns, radio interviews and community group meetings. The council surveyed the community to gauge its views about different options for the council. According to the council, the survey response was overwhelmingly for Coonamble Shire Council to remain a stand-alone council within the ORANA JO. The council, however, did not cite statistics resulting from the survey.
Water and/or sewer	According to the council, its water and sewerage business breaks even and has an infrastructure backlog of $885,000.
Submissions	There were no submissions received relating to Coonamble Shire Council's proposal.

COOTAMUNDRA SHIRE COUNCIL AND HARDEN SHIRE COUNCIL – MERGER PROPOSAL

	FIT	
	Harden Shire Council:	Cootamundra Shire Council:
Area (km^2)	1,907	1,510
OLG Group	9	10
Population 2011	3,700	7,550
(2031)	3,200	6,600
Proposed merger		
2011	11,250	11,250
(2031)	9,800	9,800
Operating revenue (2013-14)	$9.6m	$11.0m
TCorp assessment	Moderate FSR Negative Outlook	Moderate FSR Neutral Outlook
ILGRP options	**Merge with Boorowa and Young** (yellow) **or** rural council in Tablelands JO (bolded outline including Harden) (preference in bold).	Council in Riverina JO (bolded outline including Cootamundra) or merge with Junee (orange) (no preference).

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The merger proposal for Cootamundra Shire Council (Cootamundra) and Harden Shire Council (Harden) meets the criterion for scale and capacity.
- Scale and capacity is a threshold criterion which councils must pass in order to be deemed Fit for the Future (FTFF).
- The councils' merger proposal also satisfies the financial criteria overall. It satisfies the criteria for sustainability, infrastructure and service management and efficiency.

Scale and capacity – satisfies

- The merged councils will have enhanced scale, better scope to undertake new functions and major projects, an ability to employ a wider range of skilled staff, improved knowledge creativity and innovation, and more effective regional collaboration.
- The merger is therefore better than each council standing alone.
- Our analysis of the councils' business case indicates the merger could produce benefits to the local communities of $11m over 20 years (including the Government grant).
- In addition, the proposed merger between Cootamundra and Harden has the support of the respective councils, which reduces the risk associated with change management, and the support from their respective communities.
- For Cootamundra, the merger is the best available option, given Junee and other neighbouring councils did not wish to pursue a merge. Therefore, it is maximising outcomes subject to constraints.
- Harden withdrew from merger discussions with Young and Boorowa, and pursued the Cootamundra option instead, for a number of reasons, including:
  - concerns about forecast job losses in the consultant's report on the proposed merger with Young and Boorowa, which it considers are inadequately justified
  - it considers the other merger councils were less focused on the creation of a brand new organisation, and
  - it receives proportionally more representation on the new council than with a 'Hilltops' merger.

- The available evidence suggests merging with Young and Boorowa may produce a better outcome for Harden's local community.
- However, the Harden-Cootamundra proposal is consistent with the government's Fit for the Future reform process that provides support for voluntarily negotiated mergers. Hence, we have assessed the proposal as fit.
- Young and Boorowa submitted a business case on a 3 way 'Hilltops' merger with Harden, prepared by LKS Quaero. Young has indicated it supports a four-way merger between Young, Boorowa, Harden and Cootamundra. However, Cootamundra has rejected this option on the basis that it changes the focus of Cootamundra and the southern half of Harden away from the Riverina region. Our analysis of this 'Hilltops' councils' business case (ie, Young-Boorowa-Harden) suggests merging four councils, including Cootamundra, could produce further benefits of $42 million to the local communities over 20 years. These benefits are in addition to the benefits from completing the current two merger proposals.

Sustainability - satisfies

- The proposed merger satisfies the criterion for sustainability as the councils forecast they will be above the benchmarks for the operating performance ratio by 2024-25 and the own source revenue by 2019-20.
- In their merger proposal, the councils rely on the successful application for and adoption of a special variation from 2017-18 of 21.6% cumulative over 4 years (11.2% above the rate peg).
- The building and infrastructure asset renewal ratio was 90.5% in 2014-15 and is forecast to increase above the benchmark for two years before declining to 74.1% by 2019-20. However, the councils state that over the same period their internally restricted reserves are projected to increase, and would correct this trend from year five onwards.
- The councils estimate merger efficiency savings over five years at $4.5m, with $1.2m of these savings resulting from a non-cash efficiency saving due to an adjustment to depreciation expenses. Ongoing cash benefits from merging are estimated at close to $900,000 pa by 2019-20.

Infrastructure and service management - satisfies

- The proposed merger satisfies the criterion for infrastructure and service management based on the councils' forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The councils appear to be funding future maintenance requirements and reducing their backlog. However, the councils note issues related to the reliability of estimates from their asset management processes, and that resources (ie, staff) through re-deployment following the merger are expected to be directed towards asset management.

Efficiency - satisfies

- The proposed merger meets the criterion for efficiency based on declining real opex per capita over time.
- The councils' merger business case identifies ongoing savings from reduction in costs from the governance and management of between $400,000 and $550,000. In addition, the councils identify a number of savings from reducing duplication or rationalising assets. These efficiency savings are estimated to be about $3.4m over five years to 2019-20 (or about $60 per person per year).

Other relevant factors	
Social and community context	Cootamundra chose not to pursue a possible merger with Junee because both councils consider the topography of the Bethungra Range reduces the efficiencies from merging these councils. Cootamundra and Junee's desktop analysis concluded only marginal benefits would occur from the merger (including any government financial support). Cootamundra and Harden consider they have strong community links, with the towns being just 38 kilometres apart (30 minutes drive), with common landform and primary industries.
Community consultation	The councils informed their communities of the FFTF process and proposed merger through four public meetings each, an information brochure (allowing feedback), a website displaying the business case, and media releases to ratepayers. Feedback on the proposed merger proposal was predominately positive.
Water and/or sewer	Harden is the sole water provider in its area and Cootamundra provides water to the town. They have not forecast additional savings or costs for these activities for the merged entity.
Submissions	No submissions were received on Cootamundra and Harden's merger proposal.

COROWA SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	2,407	Population	2011	11,300
OLG Group	11		(2031)	11,250
ILGRP Group	D	Merger	2011	12,500
			(2031)	12,050
Operating revenue (2013-14)	$18.6m	TCorp assessment		Moderate FSR Negative Outlook

ILGRP options (preference in bold): Council in Upper Murray JO (all shaded) or **merge with Urana Shire Council** (yellow)**.**

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy in order to be assessed as Fit for the Future.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – does not satisfy

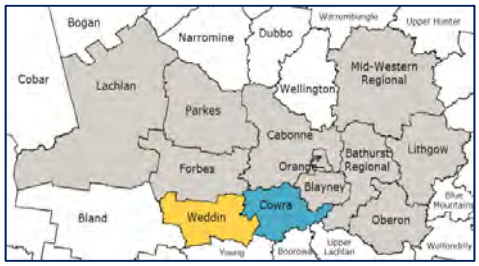
- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- In the absence of willing merger partners, Corowa has not undertaken a business case or explored a merger that establishes the stand-alone position is at least as good as the merger option.
- Corowa's proposal does not address all of the elements of scale and capacity in detail. However, where we have been able to gather information on some elements of capacity, our analysis indicates a merger would generally benefit both councils, even though for some elements the improvement for Corowa is modest.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- The merger with Urana would provide greater scale and capacity for the system of local government in the area.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.
- The council was granted special variations in 2013-14 and 2014-15. We observe the council's rates were 36% lower than the OLG Group 11 average prior to the first of these. The council plans to apply for two consecutive special variations:
  - Commencing in 2016-17 of 31.1% cumulative over 4 years (20.7% above the rate peg). The council consulted on this special variation as part of FFTF and claims it has community support.
  - Commencing in 2020-21 of 40.3% cumulative over 5 years (27.1% above the rate peg). It does not appear to have consulted on this special variation.
- The council estimates its planned special variation would generate an additional $13m in rate income over the ten year period to 2024-25. It indicates its operating performance ratio would break even in 2017-18 and then rise to 4% by 2024-25 without the planned special variations. Based on this, the council meets the benchmark from 2017-18, with or without the additional special variations.

	Infrastructure and service management - satisfies • The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20. **Efficiency - satisfies** • The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the period to 2019-20.
Other relevant factors	
Social and community context	Corowa Shire has a population of around 11,000 people. Within Corowa Shire, the main towns are Corowa (population of 5,600), Howlong (population 2,553) and Mulwala (population 2,028). The unemployment rate (4.7%) is relatively low in Corowa Shire, with manufacturing, agriculture and tourism being key industries. Agriculture, forestry and fishing accounts for around 12% of employment and manufacturing accounts for around 19% of employment. Agriculture comprises a mix of dryland and irrigated cropping, grazing and small areas of forestry. Major employers in Corowa Shire include the munitions factory at Mulwala and the Riverlea piggery and stockfeed plant. Corowa Shire is regarded as a retirement destination and, as a consequence, has a high pensioner base.
Community consultation	Corowa had a web page for FFTF information, community information sessions were held in five towns, there was media commentary, and an information pack and survey were distributed to all households. The information pack explained the FFTF process and stated that Corowa had resolved to submit a CIP having failed to secure amalgamation partners. The survey was distributed to residents and non-resident ratepayers by Australia Post, and was available from council offices. There were 283 survey responses. The survey found over 60% of respondents showed some level of support for Corowa considering amalgamation opportunities. Over 70% of respondents were supportive of Corowa submitting a FFTF proposal to stand alone.
Water and/or sewer	Corowa operates its water and sewerage operations on a break-even basis. However, Corowa does not achieve the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage and it does not pay a dividend. The current water and sewerage infrastructure backlog is over $19m. There are three capital projects valued at $3.7m planned for the period 2015-16 to 2017-18. Corowa reported an operating surplus of $1.6m on its water and sewerage operations in 2013-14 (source OLG).
Submissions	There were no submissions received in relation to Corowa's proposal.

COWRA SHIRE COUNCIL – CIP



FIT

Area (km^2)	2810	Population 2011	12,500
OLG Group	11	(2031)	11,200
ILGRP Group	D	Merger 2011	16,250
		(2031)	14,450
Operating revenue (2013-14)	$19m	TCorp assessment	Sound FSR Negative Outlook
		TCorp assessment (2015)	Moderate FSR Positive Outlook

ILGRP option (no preference): Council in Central West JO (all shaded) or merge with Weddin (yellow).

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council demonstrates it meets most of the elements of sale and capacity, and appears to have a revenue base that is robust and the ability to attract skilled staff, which together shows the council, has the ability to cope with complex and unexpected changes.
- The council's proposal is consistent with the ILGRP's option to stand alone.
- The council has not provided analysis of the alternative merger option. Instead it appears to have relied on analysis undertaken by Weddin to inform its decision to submit a CIP. We do not have sufficient evidence to evaluate the costs and benefits of a merger option compared to the stand alone proposal.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewal ratios by 2019-20.
- In June 2015, TCorp provided Cowra Shire with an updated Financial Sustainability Rating that observed there was a clear improvement in projected outcomes, in particular for its operating position over the next 10 years.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the asset maintenance, infrastructure backlog and debt service benchmarks by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on its forecast for a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	The Shire has one town, Cowra, and a number of small villages. Cowra is a strong service centre for the shire and surrounding areas including Canowindra and Grenfell, but no specific communities of interest were identified.
Community consultation	The council has not outlined any specific community consultation in relation to the councils Improvement Proposal. However council's minutes of the 25 May 2915, state the proposal will be on public exhibition. No submissions were received following this process.
Water and/or sewer	The council operates and water and sewer businesses. The council states it meets the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework. We note Cowra Shire reported a deficit before capital of $1.1m for water and a surplus for sewer of $418,000 as well as an infrastructure backlog for water and sewer of $6.8m.
Submissions	There were no submissions received in relation to Cowra's proposal.

DENILIQUIN COUNCIL – CIP

NOT FIT

Area (km^2)	143	Population	2011	7,300
OLG Group	4		(2031)	5,700
ILGRP Group	D	Merger Murray and Conargo	2011	16,100
			(2031)	16,150
		Merger Murray and Wakool	2011	18,550
			(2031)	17,650
Operating revenue (2013-14)	$11.1m	TCorp assessment	Moderate FSR, Negative Outlook	

ILGRP options (preference in bold): **Merge with Conargo/Murray** and Wakool (yellow), or council in Mid-Murray JO (all shaded).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- The council has not demonstrated its proposal to stand alone is as good as the ILGRP identified merger option. When compared to a merger, the council's forecast population of 5,700 in 2031 (based on DP&E data) means it is unlikely to provide services cost-effectively to the local communities, advocate credibly and partner effectively with government.
- The council submitted a business case by LKS Quaero for a merger between Wakool, Murray and Deniliquin Councils, but did not identify an NPV estimate. Based on this model, our analysis suggests a merger could produce net benefits of $26m over 20 years (including the full government grant of $11m).
- Our analysis also suggests a potential Murray and Deniliquin merger could produce net benefits of $16m over 20 years (including a Government grant of $5m).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Deniliquin to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmark for the operating performance ratio by 2019-20.
- The council's own source revenue ratio is forecast to be 53.2% by 2019-20 which is slightly below the benchmark. Its building and infrastructure asset renewal ratio is also below the benchmark. However, we consider this is acceptable in the context of its sound operating position.
- The council's building and infrastructure asset renewal ratio is forecast to be 79.2% by 2019-20, which is below the benchmark. However, its performance during the period exceeds 100% in some years based on the cyclical nature of its renewal expenditure program.
- The council's improvement in its financial position is partly due to an approved special variation of 4.5% in 2015-16 (including the rate peg) which remains in the rate base for three years to fund tourism promotion.

- The council has assumed FAGs funding is frozen until 2017-18, after which it assumes they are indexed at 3% per annum. We note the council's declining population may affect the size of its grant in future years.

Infrastructure and service management - satisfies

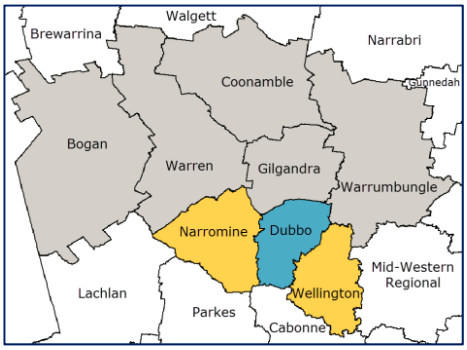
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period.

Other relevant factors	
Social and community context	Deniliquin township is 750km west of Sydney, 200km west of Albury and 250km southwest of Wagga Wagga. It is 80km north of the Victorian border. It is the headquarters of the Murray Irrigation Ltd which irrigates Berriquin, Deniboota, Denimein and Wakool – these areas produce 50% of Australia's rice and 75% of NSW tomatoes.
Community consultation	The council's proposal indicates that it completed its first Community Strategic Plan in 2012 with community consultation at that time identifying a strong desire for mergers as a key priority to ensure the long term sustainability for the region. Deniliquin councillors have been supportive of the concept of mergers as an opportunity to improve regional strength.
Water and/or sewer	The council states it currently achieves the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework. The council's proposal indicates it operates its services on a break even basis, however there is an estimated $0.25m water and sewerage infrastructure backlog.
Submissions	There were no submissions received in relation to Deniliquin's proposal.

DUBBO CITY COUNCIL - CIP



	FIT			
Area (km^2)	3,425	Population	2011	40,250
OLG Group	4		(2031)	46,500
ILGRP Group	E	Narromine merger	2011	47,100
			(2031)	52,800
		Wellington merger	2011	49,100
			(2031)	54,600
		All combined	2011	55,950
			(2031)	60,900
Operating revenue (2013-14)	$56.4m	TCorp assessment	Moderate FSR Neutral Outlook	

ILGRP options (no preference): Council in Orana JO (all shaded) or merge with Wellington and/or Narromine (yellow).

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future - FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- We consider the council currently meets or partially meets most of the elements of scale and capacity.
- The council has explored the alternative merger options with Narromine and Wellington councils. An evaluation of the financial statements of Dubbo City, Narromine and Wellington councils was undertaken to examine the performance of the merged entity. However, the council decided to submit a stand alone proposal.
- The council's proposal is consistent with the ILGRP's option to stand alone.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.
- Improvement in its operating performance ratio is driven by a more accurate assessment of its depreciation expenses ($6.2m reduction), and cost-saving initiatives ($1m pa). The council plans to apply for a four-year special variation in 2016, of 1% above the rate peg each year (or 4.4% cumulative).
- The council has revised its infrastructure renewal requirements, and plans to increase its renewal expenditure using operational cost savings.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2016-17 of 14.8% cumulative over 4 years (4.1% above the rate peg).

Infrastructure and service management - satisfies

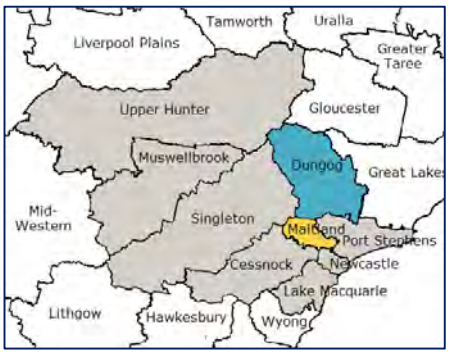
- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council plans to meet the asset maintenance ratio by better targeting asset maintenance expenditure consistent with its IP&R documents.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors	
Social and community context	The council is classified as a Regional Town/City by OLG, and its population is expected to grow by around 10% by 2031. The LGA capital of Dubbo is the only city in the Orana region, and its cultural and business facilities help service the communities in the other Orana and neighbouring LGAs.
Community consultation	The council has exhibited the draft proposal (along with supporting materials) for 28 days. The council broadly publicised its draft proposal, including an online exhibition, online self-selected poll and media promotions. The poll results showed that 83% of the voters were not in favour of merging with another council (151 of 182 votes), and that 81% were in favour of the council being part of the Orana JO (87 of 110 votes). The council interpreted the low number of responses as evidence of satisfaction with the existing council structure.
Water and/or sewer	The council's water utility function achieved 100% compliance of the NSW Government Best Practice Management requirements for 2013-14. The council has identified around $18m worth of capital works for its utility function and numerous strategies to improve its performance.
Submissions	We received one confidential submission relating to the council's proposal.

DUNGOG SHIRE COUNCIL – CIP



NOT FIT

Area (km^2)	2,252	Population 2011	8,550
OLG Group	10	(2031)	8,800
ILGRP Group	Hunter	Merger 2011	78,450
		(2031)	109,300
Operating revenue (2013-14)	$11.7 m	TCorp assessment	Weak FSR Negative Outlook

ILGRP options (preference in bold)

The ILGRP report includes a map which indicates that Maitland and Dungog are a preferred merger option. We have therefore approached the assessment of these councils as if the merger was the ILGRP's preferred (ie bolded) option.

Our approach to Hunter Councils is reflected in the table in our Methodology Paper and indicates the preferred option that Maitland and Dungog:

Merge or council in Hunter JO (all shaded).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council does not meet the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF).
- The council does not satisfy the financial criteria overall. Although the council meets the criterion for infrastructure and service management, it does not satisfy the criteria for sustainability and efficiency.
- The council does not satisfy the sustainability criterion because its forecast to meet the operating performance ratio benchmark includes the assumed approval of a large proposed special variation which may be unreasonable.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all FTFF councils should meet, therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 8,800 by 2031 compared with the forecast merger population of 109,300. Our analysis suggests that the council does not have sufficient scale to cost-effectively delivery services to its community and to partner effectively with governments compared to the merger.
- The council has a small revenue base with limited ability to increase revenue.
- The council has limited staff and capacity to provide additional or improved services.
- The council faces significant challenges in overcoming its infrastructure backlog.
- The council submitted a business case which showed a net cost of $6.1m over 8 years. Based on this model, our analysis of the business case suggests that the merger could produce benefits of $5.3m over 20 years, which includes the $5m Government grant.
- Our analysis is consistent with the ILGRP's preferred option for Dungog to merge.

Sustainability – does not satisfy

- The council does not meet the sustainability criterion. It is forecast to meet the benchmarks for the operating performance ratio by 2024-25, the own source revenue ratio (by including FAGs) and the building and infrastructure asset renewal ratio by 2019-20. However, these results are dependent on a successful application for and adoption of a large special variation which we

consider is not a reasonable assumption.

- For councils within OLG groups 8-11 we have assessed the own source revenue ratio with the inclusion of FAGs.
- The operating performance ratio was -13.1% in 2014-15 and is forecast to reach 20.0% by 2024-25, which is above the benchmark. However, the forecasts are based on a successful application for and adoption of a special variation from 2016-17 of 108.2% cumulative over 6 years (92.2% above the rate peg). We do not consider this to be a reasonable assumption as the council has not yet commenced community consultation on the proposed rate increase.
- The council has forecast it will meet the benchmarks for the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20, based on figures which include the proposed special variation.

Infrastructure and service management – satisfies

- The infrastructure backlog was 8.6% in 2014-15 and is forecast to reach 1.9% by 2019-20. The council states it has reviewed and amended the methodology for calculating the infrastructure backlog and this is the primary reason for the reduction.
- The asset maintenance ratio was 103% in 2014-15 and is forecast to be 100% by 2019-20.
- While the council reports that it meets the infrastructure and service management benchmarks, these are dependent on the council implementing the above mentioned strategies.

Efficiency – does not satisfy

- Real opex per capita was $830 in 2014-15 and is forecast to be $854 in 2019-20. The expenditure increases in 2015-16, but declines in the remaining years.
- The council states outsourcing and resource sharing in several areas where the organisation has skill gaps will be essential; however these are not currently budgeted in forward financial projections.

Other relevant factors	
Social and community context	Dungog Council states it is better off standing alone with a special variation and consulting with the community in regard to service levels. The recent flood events have strengthened the views of some councillors who oppose the merger option. The business case indicates that the corporate values of both councils are largely shared between the organisations and they have adopted very similar styles in expressing their respective vision and associated themes.
Community consultation	At the time of submitting its CIP, Dungog Council stated it had not undertaken community consultation due to the natural disasters which occurred in April 2015. The proposed financial modelling has not been discussed in detail with the council or the community. However, the council has since undertaken community consultation and has forwarded a letter outlining some of the comments made by residents at the community meetings. It did not outline any proposed actions from these meetings.
Water and/or sewer	The council does not have a water/sewer business. The council's water and sewer businesses were transferred to Hunter Water in 2008, which the council states has left it without any major external revenue generators to support the other activities of the council.
Submissions	Six submissions have been received relating to Dungog's proposal. Issues raised included lack of community consultation in relation to council's proposal, the possible special variation, poor management of council and lack of ability to adopt change. Two late submissions were received.

EUROBODALLA SHIRE COUNCIL – CIP

FIT

Area (km^2)	3,427	Population 2011	37,100
OLG Group	4	(2031)	40,650
ILGRP Group	G		
Operating revenue (2013-14)	$60.8m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP option	Council in South East JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, the council has a robust revenue base and has demonstrated effective regional collaboration and advocacy.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewal ratios by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management, as it is forecast to meet the asset maintenance and debt service benchmarks by 2019-20.
- The infrastructure backlog was 15.3% in 2014-15 and forecast to improve to 9.8% by 2019-20. This is nonetheless still below the benchmark.
- The council states it is proposing to undertake an independent audit of its asset management position, including depreciation and revaluation, which will improve its ability to plan and address the infrastructure backlog and asset renewals. The council will also explore opportunities for more cost effective borrowing and debt management to address the provision of infrastructure.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on declining real operating expenditure per capita.

Other relevant factors

Social and community context	As the ILGRP identified Eurobodalla could become a council in the South East JO, the council's proposal does not address any social or community concerns.
Community consultation	Eurobodalla undertook community consultation to inform the development of its Integrated Planning and Reporting documents. The council has also developed a dedicated FFTF website and invited community members to information sessions about the revised 2013/17 Delivery Program and 2015/16 Operational Plan. Eurobodalla states it will continue to involve the community in refining and implementing Council's Improvement Proposal.
Water and/or sewer	Eurobodalla operates water and sewer businesses and states it has achieved the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework Guidelines. The council's proposal states that its sewer fund paid a dividend to the general fund during 2013-14. Eurobodalla has identified strategies to improve the performance of its water and sewer operations in the 2016-17 to 2019-20 years.

Other relevant factors	
Submissions	We received four submissions in relation to Eurobodalla. The submissions raised concerns about the management of the council and that council assumes it is FFTF as the ILGRP did not outline other options and limited community consultation. Concerns were also identified about the council's inconsistency in financial reporting. We received two late submissions which raised concerns about the council's management and the FFTF process.

FAIRFIELD CITY COUNCIL – CIP

NOT FIT

Area (km^2)	102	Population 2011		196,500
OLG Group	3		(2031)	239,900
ILGRP Group	Sydney Metro	Merger	2011	384,600
			(2031)	528,850
Operating revenue (2013-14)	$143.6m	TCorp assessment		Sound FSR, Neutral Outlook

ILGRP options (preference in bold): **Merge with Liverpool City** (yellow) or Council in JO with Bankstown, Camden, Campbelltown, Liverpool City and Wollondilly (shaded area).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger.
- The council provided documentation to support its proposal to stand alone rather than merge with Liverpool City, which included comparisons of each councils' different financial and demographic positions. However, it did not calculate a net present value or provide sufficient financial analysis for a possible merger to demonstrate its proposal to stand alone would deliver benefits to the community as good as or better than the preferred merger. The efficiency improvements in the council's proposal can be realised under a merger option. In addition a merger option could provide significant further benefits.
- The council's population is forecast to be 239,900 by 2031 compared with the forecast merger population of 528,850. Our analysis suggests that a merged council will have enhanced scale to better partner effectively with governments compared to the stand alone option.
- Our independent consultants Ernst and Young estimated net benefits from a merger with Liverpool of $131m over 20 years using publically available data (not including the Government grant).
- Our analysis is consistent with the ILGRP's preferred option for Fairfield to merge.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately one percentage point to 0.6% in 2019-20, which is still above the benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on decreasing real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council considers that it has very different strategic directions from Liverpool City. It suggests that its low socio-economic demographic, high refugee intake and strategic objectives aimed at providing services to its residents are not compatible with Liverpool City's regional infrastructure demands and high population growth. The council states if required to merge with Liverpool City, the merged council's focus would shift to growing the Liverpool CBD, which would undermine Fairfield's current growth strategies and social objectives.
Community consultation	The council conducted an independent survey which shows 91% of respondents (of 2,000 surveyed) were opposed to a merger.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	IPART received 12 submissions regarding Fairfield's proposal. The majority of these opposed the merger on the basis that it would not deliver benefits to the community, would result in job losses, higher rates and reduced levels of service. The submissions supporting the merger suggested that the council is not currently meeting the needs of its residents, there would be a potential cost saving and there is a community of interest between the councils. Fairfield City Council met with IPART to present its proposal, and made the following points: • The council's preferred option is to remain stand-alone and it believes it has demonstrated it has the required Scale and Capacity. • Fairfield says it is the third largest Council in metropolitan Sydney, with a greater population growth projection than a number of other councils not recommended for amalgamation, namely Bankstown (pop. 200,357) and Sutherland (pop. 225,070). As a demonstration of the scale of Fairfield City, it has a population of 203,109, similar to these other non-release area councils that are not recommended for amalgamation. • The council provided evidence to suggest it does not share communities of interest (close functional interactions or economic and social links, as stated by the ILGRP), with Liverpool City Council. This is due to differences in the socio-economic backgrounds of the populations and the priorities of the councils, including Liverpool's urban release priorities. • Fairfield City Council said it is financially sustainable and meets all Fit For the Future financial benchmarks within the set timeframe. It provided examples of its strategic capacity, including a significant works program, whilst keeping rates affordable for its disadvantaged community. • When asked its preference if required to merge, the council restated its position was to 'stand-alone' but its proposal included an option of boundary adjustments with Holroyd, Liverpool and Penrith, to acknowledge particular linkages that do exist. It also supports a Strategic Alliance with neighbouring councils.

FORBES SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	4,640	Population	2011	9,450
OLG Group	11		(2031)	8,750
ILGRP Group	F	Merger	2011	13,200
			(2031)	12,000
Operating revenue (2013-14)	$25.1m	TCorp assessment		Sound FSR Negative Outlook

ILGRP options (no preference): Combine as a Central West JO (all shaded) or merge with Weddin (yellow).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- Our assessment against the strategic capacity elements suggests the council has limited strategic capacity, particularly in relation to advanced skills in strategic planning.
- The council's population is forecast to be 8,750 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio and the own source revenue ratio by 2019-20.
- The building and asset renewal ratio was 48.2% in 2014-15 and is forecast to be 46.7% by 2019-20. This is below the benchmark and does not meet the requirement for rural councils to demonstrate improvement within five years. According to the council, its assets meet required service levels, so there is no requirement for asset renewal expenditure to be at the level needed to meet the benchmark. As the council's infrastructure backlog ratio meets the corresponding benchmark, we consider this is a reasonable assumption.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratio by 2019-20.

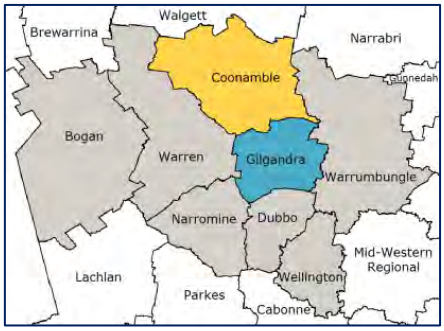
Efficiency – satisfies

- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period.

Other relevant factors	
Social and community context	Forbes Shire Council states a merger with Weddin Shire Council would not benefit either community, as it would result in a loss of identity and the potential for long-term job losses and increased rates for both communities. Forbes Shire Council considered a separate boundary adjustment with a small community, Eugowra, within Cabonne Council. Eugowra considers it has a closer affinity with Forbes Shire Council than Cabonne due to a closer physical proximity (Eugowra is located 36km from Forbes) and a community of interest which dates back to the gold rush era. Forbes Shire has indicated it is open with Cabonne to this boundary adjustment, but to date has not pursued this adjustment due to an inability to agree on a mutually beneficial adjustment.
Community consultation	Forbes Shire Council consulted on its proposal with the community through public meetings, and the provision of factsheets, a website, and media releases. Forbes Shire does not indicate that specific consultation was undertaken in relation to the options to be considered and does not provide any indication of the results of this consultation.
Water and/or sewer	Forbes Shire Council operates water and sewer businesses. For 2013-14 Forbes Shire reported a deficit (before capital) for water of $324,000 and a surplus for sewer of $276,000. Forbes has adopted a 5-year pricing policy to bring the water operations into an operating surplus. Forbes reports the cost to bring its water and sewer assets to a satisfactory standard is $7.9m, with the majority of this infrastructure backlog related to its sewer assets.
Submissions	There were no submissions received in relation to Forbes' proposal.

GILGANDRA SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

FIT AS A RURAL COUNCIL



Area (km^2)	4,669	Population	2011	4,500
OLG Group	9		(2031)	4,000
ILGRP Group	C			
Operating revenue (2013-14)	$17.6m	TCorp assessment		Weak FSR Neutral Outlook
ILGRP options (no preference)	Rural Council in Orana JO (all shaded) or merge with Coonamble (yellow).			

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall as the council meets the criteria for sustainability and infrastructure and service management. The council does not meet the criterion for efficiency.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include resource sharing within the JO and reviewing services.
- While the council did not explore the merger option with Coonamble in detail, the council's proposal outlines a qualitative assessment of the advantages and disadvantages of this option. The council's proposal does not contain information about the community's opinion of a merger or the council's proposal to stand-alone. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the Rural Council proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on Government adopting a Rural Council Model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2024-25 and the building and infrastructure asset renewal and own source revenue ratios by 2019-20.

Infrastructure and service management - satisfies

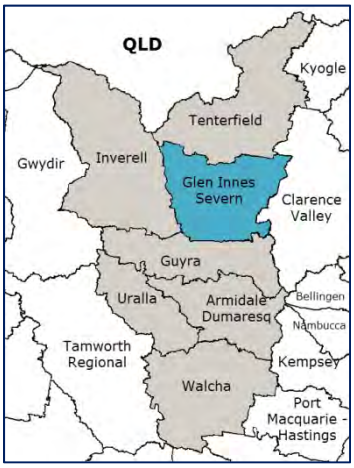
- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency – does not satisfy

- The council does not satisfy the criterion for efficiency as it forecasts an increase in real opex per capita. Real opex per capita was $4,120 in 2014-15 and is forecast to be $5,020 in 2019-20. The forecast is consistent with a declining population and reflects the council's proposal, which acknowledges the difficulty meeting this benchmark due to the local population characteristics.

Other relevant factors	
Social and community context	The council's community of interest centres on the town of Gilgandra, which is distant from other regional centres such as Coonabarabran and Narromine (both around 1 hour away).
Community consultation	The council provided LGA residents with information about the FFTF process and requested feedback. The proposal, however, does not contain information about feedback the council may have received.
Water and/or sewer	According to the council, its water and sewerage business breaks even and has an infrastructure backlog of $500K.
Submissions	We received one submission in relation to Gilgandra's proposal. The submission suggests the council should reduce its size and rely on contractors to a greater extent.

GLEN INNES SEVERN SHIRE COUNCIL – CIP



FIT

Area (km^2)	5,487	Population 2011	8,900
OLG Group	10	(2031)	(8,100)
ILGRP Group	F		
Operating revenue (2013-14)	$19.8m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP option	Council in New England JO (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although it does not satisfy the infrastructure and service management criterion, it satisfies the sustainability and efficiency criteria.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- Hence we have assessed the council as meeting the scale and capacity criterion.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- Notwithstanding this, the council's population is forecast to be 8,100 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - does not satisfy

- The council satisfies the infrastructure and service management criterion. The council forecasts it will meet the benchmarks for the asset maintenance and debt service ratios by 2019-20. Its forecast the infrastructure backlog ratio does not meet the benchmark by 2019-20. The council acknowledges the backlog could take as long as 20 years to clear.

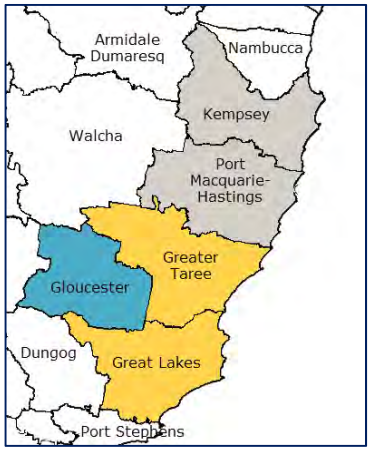
Efficiency - satisfies

- The council meets the criterion for efficiency based on a forecast decline in real opex per capita by 2019-20.

Other relevant factors

Social and community context	The LGA's community of interest would centre on the town of Glen Innes, which is distant from other regional centres in New England. Inverell is around 50 minutes to the west. Armidale and Tenterfield are around an hour from Glen Innes.
Community consultation	The council's consultation process consisted of advertising the CIP and inviting the community to comment.
Water and/or sewer	The council operates water and sewer businesses and has resolved to increase corresponding fees to enable dividends to be paid. However, these businesses have infrastructure backlogs.
Submissions	We received two submissions in relation to Glen Innes' proposal. The first suggested the council's financial position is tenuous. The second was from Guyra Shire Council requesting that IPART ignore Glen Innes's proposed boundary adjustment due to the effect on Guyra.

GLOUCESTER SHIRE COUNCIL – CIP



NOT FIT

Area (km^2)	2,996	Population:	2011	5,000
OLG Group	10		2031	4,850
ILGRP Group	F	Mergers:	2031	43,350 with Great Lakes 56,750 with Great Taree 95,250 all three councils
Operating revenue (2013-14)	$10.2m	TCorp assessment		Very weak FSR Negative Outlook
ILGRP options (no preference)	Council in Mid-North Coast JO (all shaded) or merge with Great Lakes and/or Greater Taree (both yellow).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion because its forecast to meet the operating performance ratio benchmark includes the assumed approval of a large proposed special variation which may be unreasonable.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity - does not satisfy

- The council's population is forecast to decline 4,850 by 2031 based on DP&E data. While the council forecasts population growth of 1.8% over the next 10 years, the population is likely to remain below 10,000, which the ILGRP considers may place a council at risk of becoming unsustainable. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments compared to the merged entity. Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- The council's current financial position also restricts its regional capacity, and a merged council would have a more robust revenue base.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- The council engaged Morrison Low to undertake a business case for the suggested merger with Great Lakes Council, which showed a negative NPV from the merger. Based on this model, our analysis suggests the merger could produce net benefits of $11m over 20 years (including the Government grant).

Sustainability - does not satisfy

- The council does not satisfy the criterion for sustainability. Its forecast for a positive operating performance ratio by 2024-25, which is largely dependent on a successful application and adoption of a large special variation which we consider may not be a reasonable assumption because it could have a high impact on ratepayers.
- We approved a special variation of 44.3% over 3 years to begin in 2015-16 (33.6% above the rate peg). The council relies on the successful application for and adoption of a special variation from 2018-19 of 44.3% cumulative over 3 years (36.6% above the rate peg). Together, these special variations result in a cumulative increase in rates of 108% over 6 years (92% above the rate peg).

	• The council meets the benchmarks for the own source revenue and the building and infrastructure asset renewal ratios by 2019-20. **Infrastructure and service management – satisfies** • The council satisfies the benchmarks for the infrastructure backlog and the debt service ratios. It shows considerable improvement in the asset maintenance ratio but does not meet the benchmark. • The council changed its asset condition assessment methodology to a risk-based approach. This led to a significant improvement in the backlog ratio from 2013-14 to 2014-15 and has contributed to the operating performance ratio improvement through lower depreciation costs. **Efficiency - satisfies** • The council meets the criterion for efficiency based on forecast decreases in real operating expenditure per capita over time.
Other relevant factors	
Social and community context	Gloucester Shire is a small rural area with its economy mainly based on retail and services (43%), farming (20%) and manufacturing (14%) as well as tourism industries. It includes the World Heritage listed Barrington Tops NP. It has an older demographic than the State average. Morrison Low compared Gloucester and Great Lakes communities, noting similar features such as demographics, a well-developed focus on environmental protection, and many aligned policies. Differences include the councils' approach to infrastructure: Gloucester focuses on maintaining the core elements, whilst Great Lakes aims to manage its environment to produce quality lifestyle opportunities through appropriate development. Morrison Low suggests merging unequal sized councils presents a risk of a perceived takeover by the larger council, in this case Great Lakes.
Community consultation	The council consulted its community via: • an information brochure included in the rate notices and handed out at local events • its website • local radio and newspaper • staff information and workshops with councillors. It undertook a survey which showed: • 81% of respondents preferred the council to remain independent (with 11% unsure), • 55% of respondents disagreed that Gloucester should merge with Great Lakes Council (with 25% unsure). Comments related to retaining a local focus and losing representation in a merger, needing to be realistic about the financial situation and potential benefits, and that rural councils require different treatment to Sydney councils.
Water and/or sewer	The council does not have a water/ sewer business.
Submissions	There were no submissions received in relation to Gloucester's proposal.

GOSFORD CITY COUNCIL – CIP

NOT FIT

Area (km^2)	1,029	Population 2011	168,300
OLG Group	7	(2031)	(189,050)
ILGRP Group	Central Coast	Merger 2011	322,650
		(2031)	(386,900)
Operating revenue (2013-14)	$168.3m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP option (no preference)	Gosford (blue) to merge with Wyong (yellow) or form a multi-purpose JO (no separate water corporation until other options properly evaluated).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The ILGRP noted that the Central Coast would benefit from strong governance. It stated that 'an amalgamation warrants further investigation, but if that option is rejected or deferred indefinitely, then a JO *should* be established and should assume responsibility for water along with other strategic functions' [emphasis added].
- Gosford's proposal is not consistent with the objectives for the Central Coast. The council ruled out both a merger and a multi-purpose Central Coast JO with Wyong. In particular, its proposal not to join a JO does not promote the objectives of strong governance for the Central Coast.
- The council's population is forecast to be 189,050 by 2031 compared to the forecast merger population of 386,900. Our analysis indicates the council does not have sufficient scale and capacity to effectively partner with governments compared to the merger.
- The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- Wyong submitted a business case from Third Horizon. Based on this model, our analysis suggests the merger produces net benefits of $101m over 20 years (including the full Government grant).
- In addition our independent economic consultants Ernst and Young have estimated gains from the merger of $196m over 20 years using public data (not including the Government grant).
- All analyses showed large gains to the local community from a merger. Variances in calculations result from different inputs and underlying methodologies.
- The council noted its SGS business case showed net benefits from a Gosford/Wyong merger. IPART requested a copy of this business case, but the council did not provide it.

Sustainability – satisfies

- The council satisfies the sustainability criterion based on its forecast to meet the benchmarks for the operating performance ratio and own source revenue ratio by 2019-20.
- The council's strategies for improvement rely on a number of assumptions including the potential application for and adoption of a single year special variation in 2017-18 of 12.0% cumulative (9.5% above the rate peg). The council has not yet resolved to proceed with this special variation. The council states rate increases under the proposed special variation are half that expected under a merger with Wyong (around 21.5% including the rate peg).
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 reserves would reduce this ratio by approximately two percentage points in 2019-20, however the council would still meet the benchmark.

- The council's building and infrastructure asset renewal ratio improves from 69.5% in 2014-15 to 88.2% in 2019-20, which does not meet the benchmark. However, the council has forecast it will meet the benchmark by 2022-23.

Infrastructure and service management - satisfies

- The council meets the infrastructure and service management criterion based on its forecast to meet the benchmarks for the asset maintenance ratio and the debt service ratio by 2019-20.
- The council's infrastructure backlog ratio is forecast to reduce to 3.5% by 2019-20, but does not meet the benchmark. The council notes a review of its Special Schedule 7 by Jeff Roorda & Associates identified its asset backlog was overstated as a higher 'Condition 2' standard was used for most of its asset base.

Efficiency - satisfies

- The council meets the efficiency criterion based on a decrease in real operating expenditure per capita from 2014-15 to 2019-20. It has assumed an operational efficiency dividend of 0.5% per annum. It notes a targeted 10% operational efficiency dividend could not be met in 2014-15 due to the recent storm clean up in April 2015.

Other relevant factors	
Social and community context	The council's proposal stated there are very different socio-economic backgrounds between the far north and far south coast of the Central Coast area.
Community consultation	The council undertook online and face to face surveys. The survey outcome was that 38% of respondents ranked the shared services model as the preferred option and another 47% ranked it as the next preferred option. (The other options were 'no change' and 'amalgamation with Wyong Shire Council').
Water and/or sewer	The council indicated its water and sewerage operation fully complies with the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework. Its water and sewerage rates are set by an IPART Determination on a full cost recovery basis until 30 June 2017. No dividends were paid in the last two financial years.
Submissions	We received four submissions in relation to Gosford's proposal. Three supported a merger. One (from the Federal MP) opposed the merger. In a meeting the council discussed a number of issues from implementing a merger with Wyong along the lines of the ILGRP's preferred options. For example, it considered there would be a financial impact on ratepayers from rate harmonisation in a merger with Wyong. Additionally, it considered the councils had a different focus given Wyong was undergoing greenfield growth with Gosford undergoing brownfield growth.

GOULBURN MULWAREE COUNCIL – CIP

NOT FIT

Area (km^2)	3,221	Population	2011	28,350
OLG Group	4		(2031)	33,550
ILGRP Group	G	Merger	2011	35,750
			(2031)	39,050
Operating revenue (2013-14)	$30.8m	TCorp assessment		Moderate FSR Negative Outlook

ILGRP option: Council in Tablelands JO (note that the option was identified for Upper Lachlan Shire to consider a merger with Goulburn-Mulwaree).

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. The council does not meet the criterion for sustainability, in particular the benchmark for the operating performance ratio.
- The council satisfies the criteria for infrastructure and service management and efficiency.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not propose another option for Goulburn Mulwaree, it was not required to demonstrate how it met each of the elements of scale and capacity.
- Hence we have assessed the council as meeting the scale and capacity criterion.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability based on its forecast operating performance ratio not meeting the benchmark.
- The council has forecast its operating performance ratio to be -4.3% in 2019-20 which is below the benchmark. It meets the own source revenue benchmark.
- The council's building and infrastructure asset renewal ratio was 41.4% in 2014-15 and is forecast to improve to 70.4% by 2019-20, which remains below the benchmark.
- In its proposal, the council considers an application for a special variation of 46.6% cumulative over 4 years (36.0% above the rate peg) which would assist in meeting the ratios. The council has indicated it is not sure when the proposed special variation would commence although this will be included as part of the 2016-17 budget preparations. It has indicated a preference to see the benefits of its other reforms before proceeding with an application.

Infrastructure and service management - satisfies

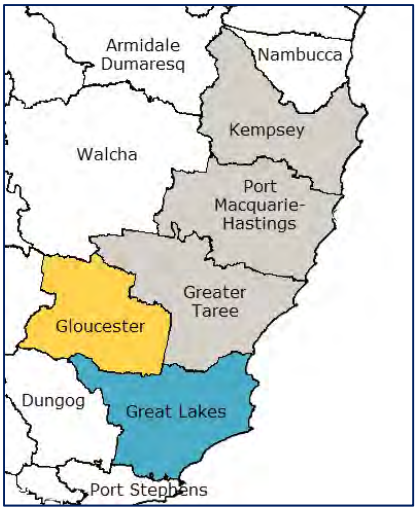
- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- Improvements in these ratios reflect the council's updated approach to asset maintenance and renewal, in which the council plans to increase its expenditure on asset maintenance in line with risks, revenue and community expectations of service levels.

Efficiency - satisfies

- The council meets the efficiency criterion based on a decrease in real operating expenditure per capita from $1,220 in 2014-15 to $1,040 in 2019-20.

Other relevant factors	
Social and community context	The council is located along the Sydney to Melbourne transport corridor and is also within the Sydney Drinking Water Catchment. It is a major regional centre with the city of Goulburn comprising 70% of the LGA's population. It has an ageing population, with 12% of the community over 70 years old. The council has highlighted high welfare dependency, limited local education opportunities and lower socio-economic demographic as challenges for the LGA.
Community consultation	The council notes it recently surveyed residents. According to the council, 91% of respondents said that they were aware of the Local Government reform process. Of these respondents, 67.7% believed that an amalgamation with Upper Lachlan Council would not provide a positive outcome for Goulburn Mulwaree, while 71.5% were opposed to the idea of an amalgamation with any other neighbouring councils.
Water and/or sewer	The council achieved 100% compliance for sewer and water with the NSW Government Best Practice Management of Water Supply and Sewerage Framework Guidelines. The council's reported backlog was $4.4m in 2013-14, which is forecast to be eliminated following a $40m upgrade to the council's wastewater treatment plant and major works at the Goulburn Water Filtration Plant.
Submissions	There were no submissions received in relation to Goulburn Mulwaree's proposal.

GREAT LAKES COUNCIL – CIP



FIT

Area (km^2)	3,380	Population	2011	35,750
OLG Group	4		(2031)	38,500
ILGRP Group	G	Merger	2011	40,750
			(2031)	43,350
Operating revenue (2013-14)	$63.5m	TCorp assessment		Moderate FSR Neutral Outlook
ILGRP options (no preference)	Council in Mid-North Coast JO (all shaded) or merge with Gloucester (yellow).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- We consider the council currently meets or partially meets most of the elements of scale and capacity.
- We note that the council is currently participating in the Hunter pilot JO and the OLG has allowed it to join the Hunter JO rather than the Mid-North Coast JO.
- The council engaged Morrison Low to undertake a business case for the ILGRP option to merge with Gloucester, which resulted in a negative NPV of -$1m over 8 years. On this basis, both councils decided not to pursue the merger.
- Our analysis of this business case suggests the merger would generate benefits of $11m over 20 years (including the Government grant). While this evidence suggests a merger may be a better alternative to the council's proposal to stand alone, our finding is based on the proposal being consistent with the ILGRP option to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio and the own source revenue ratio by 2019-20.
- Although the council's forecast to meet the operating performance ratio benchmark in 2019-20 is marginal, further improvement in the ratio is forecast to 2024-25.
- While the building and infrastructure asset renewal ratio is slightly below the benchmark in 2019-20, it peaks at around 128% in 2015-16.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2016-17 of 20.7% cumulative over 4 years (10.3% above the rate peg).

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on maintaining its asset maintenance ratio at the benchmark level and having an asset backlog ratio which meets the benchmark.
- The council undertook community consultation in 2014 to determine the community's preferences regarding asset quality, cost and service levels. Feedback from this consultation resulted in a reduction in asset service levels and the required cost to bring assets to a satisfactory condition, thereby improving the infrastructure asset backlog ratio.
- The debt service ratio is forecast to meet the benchmark in 2019-20.
- The council states it historically received $3m-$5m in grants and contributions for capital purposes, but given the variability and uncertainty of approval surrounding these, it has conservatively included $1.17m of grants and contributions annually from 2016-17.

	Efficiency - satisfies • The council satisfies the criterion for efficiency based on forecast decreases in real operating expenditure per capita over time.
Other relevant factors	
Social and community context	Morrison Low compared Great Lakes and Gloucester communities, noting similar features such as demographics, a well-developed focus on environmental protection and many aligned policies. Differences include the councils' approaches to infrastructure: Gloucester focuses on maintaining the core elements and Great Lakes refers to managing its environment with quality lifestyle opportunities.
Community consultation	Great Lakes Council's proposal has not outlined details of any community consultation undertaken on Fit for the Future. In 2014, it consulted its community on asset service levels to inform its Asset Management Plans.
Water and/or sewer	The council does not have water/sewer businesses.
Submissions	We received 5 submissions regarding Great Lakes Council's proposal. All support amalgamation stating discontent with the current council and believing there would be benefits from a merger. Two of these submissions supported a merge with Port Stephens Councils. One late submission was received which raised concerns about council management.

GREATER HUME SHIRE COUNCIL – CIP

FIT

Area (km^2)	5,939	Population 2011	10,050
OLG Group	11	(2031)	b/w 9,950 - 11,348
ILGRP Group	E	Merger 2011	59,500
		(2031)	66,900
Operating revenue (2013-14)	$29.8m	TCorp assessment	Moderate FSR Negative Outlook

ILGRP options (no preference): Council in Upper Murray JO (all shaded) or merge part or all with Albury (yellow).

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council's proposal to stand alone in a JO is consistent with the ILGRP's options for this council.
- The council demonstrates effective regional collaboration and is participating in the Riverina JO pilot. A future JO based on REROC would supplement the council's scale and capacity.
- The council rejected a proposal to merge and did not submit a merger business case. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the stand alone proposal.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance and the building and infrastructure asset renewal ratio by 2019-20.
- The own source revenue ratio was 42.5% in 2014-15 and is forecast to reach 56.6% by 2019-20 without the inclusion of FAGs, which is below the benchmark. We note the inclusion of FAGs will increase the ratio to 76.4% by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management, as it is forecast to meet the asset maintenance, infrastructure backlog and debt service benchmarks by 2019-20.

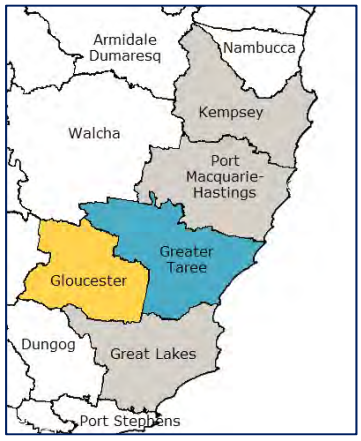
Efficiency – satisfies

- The council satisfies the criterion for efficiency based on declining real operating expenditure per capita.

Other relevant factors

Social and community context	The council does not believe its residents' vision and community values are compatible with all or part of the shire merging with a large regional city. The council states it is heavily influenced by agricultural production, which is unlikely to be a focus of a regional centre as diversified as Albury.
Community consultation	The council has consulted with its community and reports that overwhelming support exists to remain stand-alone. However, the council's survey does not appear to provide more than yes / no questions, but there is insufficient information in the proposal to tell if they explored the pros and cons of the potential ILGRP alternatives.
Water and/or sewer	The council delivers water and sewerage services to urban populations across the shire in Culcairn, Jindera and villages in the south of the shire. But, water to Henty, Holbrook and villages in the north and east of the shire is supplied by Riverina Water. An independent review of its water and sewer business found it mostly complied with NSW Government's Best Practice requirements. The council's sewer business only operates on a break-even basis, but its water supply business does not.
Submissions	There were no submissions received in relation to Greater Hume's proposal.

GREATER TAREE CITY COUNCIL – CIP



NOT FIT

Area (km^2)	3,731	Population 2011		48,100
OLG Group	4		(2031)	51,900
ILGRP Group	G	Merger	2011	53,100
			(2031)	56,750
Operating revenue (2013-14)	$52.3m	TCorp assessment		Very weak FSR Negative Outlook
ILGRP options (no preference)	Council in Mid-North Coast JO (all shaded) or merge with Gloucester (yellow).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it satisfies the efficiency criterion, the council does not satisfy the infrastructure and service management criterion.
- It also does not satisfy the sustainability criterion as a result of its forecast for a negative operating performance ratio by 2019-20.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- The council currently meets or partially meets most of the elements of scale and capacity.
- The council's 2031 forecast population represents 91% of the suggested merged entity's forecast population. The suggested merged entity would not greatly increase scale and capacity compared with Greater Taree as a stand-alone council.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability because it does not meet the operating performance ratio benchmark by 2019-20. The operating performance ratio was -24.2% in 2014-15 and will improve to -2.3% by 2019-20.
- The council meets the benchmark for own source revenue by 2019-20.
- The building and infrastructure asset renewal ratio is forecast to be 75.9% by 2019-20, which is below the benchmark.
- In its financial planning, the council assumes the successful application for and adoption of a special variation from 2016-17 of 63.2% cumulative over 6 years (47.2% above the rate peg).

Infrastructure and service management – does not satisfy

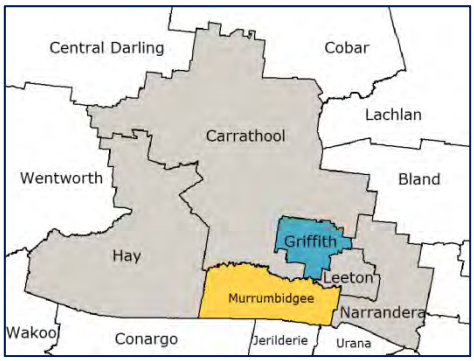
- The council does not satisfy the criterion for infrastructure and service management based on its forecasts of a high infrastructure backlog ratio.
- The infrastructure backlog ratio was 24.1% in 2014-15 and is forecast to improve to 11.8% by 2019-20, which remains above the benchmark. According to the Long Term Financial Plan, it would not meet the benchmark by 2024-25.
- The council meets the benchmark for the asset maintenance and debt service ratios.
- The council intends to change its approach to asset service levels. It will consult the community in the coming months proposing the 'satisfactory condition' of a road is less than condition 1 or 2.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita over the outlook period.

Other relevant factors	
Social and community context	The council has not included much information on the social and community context in regards to this proposal other than stating it is in the growth corridor of NSW. It has suggested border changes such that Greater Taree would include the communities currently to the north of the Great Lakes LGA which it considers are strongly connected with the Mid-North coast
Community consultation	The council has not indicated it undertook community consultation regarding its Fit for the Future application.
Water and/or sewer	The council does not supply water/sewerage services.
Submissions	We received one submission regarding Greater Taree's submission, stating the council is not Fit for the Future.

GRIFFITH CITY COUNCIL - CIP



NOT FIT

Area (km^2)	1,637	Population	2011	25,400
OLG Group	4		(2031)	25,450
ILGRP Group	D	Merger	2011	27,750
			(2031)	27,250
Operating revenue (2013-14)	$31.3m	TCorp assessment	Sound FSR Negative Outlook	

ILGRP options (preference in bold): **Merge with Murrumbidgee** (yellow) or council in Murrumbidgee JO (all shaded).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy in order to be assessed as Fit for the Future.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is as good an option to achieve the scale and capacity objectives for the region.
- The council did not demonstrate the stand alone proposal is at least as good as the ILGRP's preferred option to merge with Murrumbidgee.
- Our analysis indicates the merger is a superior outcome for managing strategic issues along the Murrumbidgee River, such as agriculture and other primary industries. The merger will also further promote the close economic and social ties between the two councils.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- The merger with Murrumbidgee would provide greater scale and capacity for the system of local government in the area.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the period to 2019-20.

Other relevant factors

Social and community context

Griffith City is a major service centre for the agricultural sector and its facilities service a broader region of 60,000 residents. Around two thirds of the population in 2011 lived in the main town of Griffith in the LGA. Griffith has a large poultry and winery industry.

Baiada Poultry is expanding in Griffith and plans to expand its workforce by another 600 workers. Also, Griffith has 12 wineries, which are amongst the largest in NSW. These wineries export more than $800m worth of wine to the international market each year. We note that Griffith also shares similar agricultural industries with Murrumbidgee, including grain and horticulture.

Other relevant factors	
Community consultation	The council stated it implemented a new community engagement strategy to inform its draft FFTF proposal. This included an online forum and use of social media. The council has not provided more details about how it has consulted with its community, or the community's feedback on its proposal.
Water and/or sewer	The council's water utility is compliant with the NSW Government Best Practice Management Frameworks. The utility business is forecast to achieve surpluses for the next 10 years. It has a 30-year capital expenditure program and substantial capital reserves to ensure long term sustainability. The council does not have any asset backlogs.
Submissions	There were no submissions received in relation to the council's proposal.

GUNDAGAI SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

NOT FIT

Area (km^2)	2457	Population	2011	3,750
OLG Group	9		(2031)	3,450
ILGRP Group	B	Merger	2011	15,000
			(2031)	14,100
Operating revenue (2013-14)	$6.7m	TCorp assessment		Moderate FSR Negative Outlook

ILGRP options (preference in bold): **Merge with Tumut Council** (yellow) or Rural Council in Riverina JO (shaded area).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.
- The council meets the criterion for infrastructure and service management. However, the council does not meet the criteria for efficiency or sustainability. As a result, the council does not satisfy the financial criteria overall.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all FFTF councils should meet, therefore the council is not fit.

Scale and capacity - does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is as good an option to achieve the scale and capacity objectives for the region.
- The proposed Rural Council Proposal is not as good as the ILGRP's preferred option to merge with Tumut. When compared to the merger, the council's small and declining population of 3,450 in 2031 means it is unlikely to cost-effectively provide services to the local communities and advocate to or partner with government.
- Our analysis indicates the merger is likely to be a better outcome for managing strategic issues in the region.

Sustainability - does not satisfy

- The council does not satisfy the criterion for sustainability. It meets the own source revenue and the building and infrastructure asset renewal ratios by 2019-20. However, it does not meet the operating performance ratio based on our calculations.
- The operating performance ratio projected with the councils forecast was -19.0% in 2014-15 and is forecast to reach 4.0% by 2024-25. The council's long term financial plan projects income in 2015-16 to be $13.1m, while income for 2013-14 was $7.1m. The council forecasts an increase in revenue of approximately 40% from 2013-14 to 2015-16, which may be optimistic and is not supported by detailed figures.
- We have calculated the operating performance ratio with income growth at 35%. Our calculations indicate the operating performance ratio is forecast to be -2.6% in 2015-16 and -1.2% in 2024-25.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - does not satisfy

- The council does not meet the criterion for efficiency based on an increasing real opex ratio without evidence of an increase in the level or quality of services. Real opex per capita was $1,980 in 2014-15 and is forecast to be $2,230 in 2019-20.

Other relevant factors	
Social and community context	Gundagai has one town and four small villages and maintains a road network of about 780km. Gundagai Shire has a strong history in Australian folklore with the 'Dog on the Tuckerbox'. The council considers one of its strengths is that the whole community shares the concern about keeping Gundagai's identity and unique heritage alive and strong.
Community consultation	The council undertook a community survey asking residents did they support Gundagai merging, and if yes, with what councils, giving ratepayers five options. A public forum was also held on 18 June and consultation occurred via the local newspaper. The survey did not outline the advantages and disadvantages for the proposals, but asked the residents what key factors would improve or decline following a merger. The result of the council's survey was 24% of respondents agreeing to a merger, with 50% of these agreeing it should be with Tumut.
Water and/or sewer	The council operates water and sewer businesses with surpluses before capital reported for 2013-14 of $110,000 and $254,000 respectively. The council reports a backlog figure of $185,000 for both funds.
Submissions	We received one submission in relation to Gundagai council's proposal, about its management being poor.

GUNNEDAH SHIRE COUNCIL – CIP

FIT

Area (km^2)	4,992	Population	2011	12,500
OLG Group	11		(2031)	13,300
ILGRP Group	G			
Operating revenue (2013-14)	$27.9m	TCorp assessment		Sound FSR Negative Outlook
ILGRP option	Council in Namoi JO (shaded area).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- We consider the council currently meets or partially meets most of the elements of scale and capacity.
- The council's proposal is consistent with the ILGRP's option to stand alone.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- In its options for Liverpool Plains Council, the ILGRP included a merger option with Gunnedah. However, it did not provide this merger as an option for Gunnedah.
- Gunnedah indicated it held merger discussions with Liverpool Plains and was willing to undertake a study into a merger, but Liverpool Plains resolved to remain a stand-alone council.
- The council is participating in the Namoi pilot JO.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.
- The council's performance against this criterion is strong for an OLG Group 11 council: it expects to generate operating surpluses in every year to 2024-25 and exceed the own source revenue benchmark without including FAGs.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

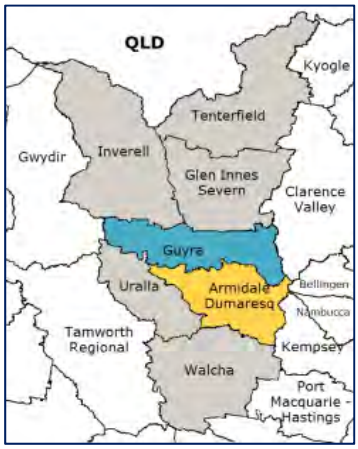
Efficiency – satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors

Social and community context	Gunnedah's local economy is predominantly based on agricultural and coal mining.
Community consultation	The proposal did not provide any details of community consultation undertaken in relation to a possible merger with Liverpool Plains Council. However, the proposal notes community consultation on the council's strategic plan did indicate that there was strong support to maintain current assets and services.
Water and/or sewer	Gunnedah provides water and sewer services. The council is compliant with the NSW Government's Best Practice Management of Water Supply and Sewerage Framework, but did not pay a dividend for 2012-13 and 2013-14. The council's current water and sewerage infrastructure backlog is $7.3m. $10.2m in capital works for its water and sewer operations are planned out to 2019-20.
Submissions	There were no submissions received in relation to Gunnedah's proposal.

GUYRA SHIRE COUNCIL – RURAL COUNCIL PROPOSAL



	NOT FIT			
Area (km^2)	4,521	Population	2011	4,500
OLG Group	9		(2031)	4,850
ILGRP Group	E	Merger	2011	29,650
			(2031)	36,500
Operating revenue (2013-14)	$8.4m	TCorp assessment		Moderate FSR Negative Outlook
ILGRP options (preference in bold)	**Merge with Armidale** (yellow) or council in New England JO (all shaded).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.
- The council does not satisfy the financial criteria overall. Although the council satisfies the criterion for infrastructure and service management, it does not satisfy the criteria for sustainability or efficiency.
- The council does not satisfy the sustainability criterion because its forecast to meet the operating performance ratio benchmark includes the assumed approval of a large proposed special variation which may be unreasonable.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- The Rural Council Proposal is not as good as the ILGRP's preferred option to merge with Armidale. When compared to the merger, the council's small and static population of 4,850 in 2031 means it is unlikely to cost-effectively provide services to the local communities.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability. The operating performance ratio was -20% in 2014-15 and is forecast to be 0% by 2024-25. However, our analysis indicates the assumptions for the improvement in operating performance ratio may be unreasonable. These are:
  - the successful application for and adoption of a permanent special variation in 2016-17 of 30% cumulative (27.5% above the rate peg), and
  - successive falls in depreciation totalling 15% and depreciation then remaining constant in nominal terms from 2015-16 onwards. This assumption suggests the council's asset base gradually decreases over time.
- The council forecasts its own source revenue and building and infrastructure asset renewal ratios will be above the benchmark by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the infrastructure and service management criterion. It is forecast to meet the benchmark for the infrastructure backlog, asset maintenance and debt service ratios over the outlook period to 2019-20.

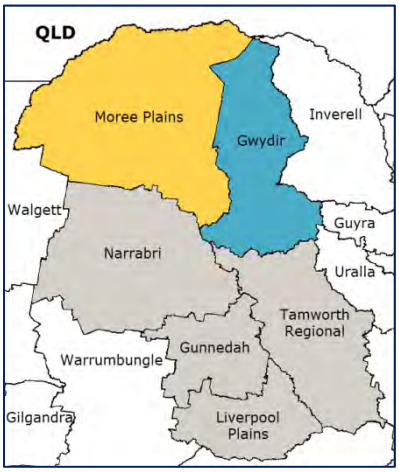
Efficiency – does not satisfy

- The council does not meet the criterion for efficiency. Real opex per capita was $1,977 in 2014-15 and is forecast to be $2,157 in 2019-20.

Other relevant factors	
Social and community context	According to the council, there are cultural differences between Guyra's largely rural LGA and Armidale Dumaresq's LGA, due to Armidale's size and character as an urban, university centre.
Community consultation	The council consulted about the FTFF process via a Reference Group, public meetings and a survey. The survey was completed by over 200 people (about 5% of the LGA's population). Key survey results are: • 14% of respondents preferred the merger option (65% preferred the Rural Council model and the remainder preferred the Council Improvement Proposal). • 85% of respondents did not support the ILGRP's option to merger with Armidale Dumaresq Council (9% supported the option and the remainder were unsure). • 70% of respondents would accept a 30% rate rise if Guyra was able to be considered a Rural Council.
Water and/or sewer	The council's water and sewer business does not comply with the NSW Best Practice Framework. The council states the business breaks even and has a $3.2m infrastructure backlog. As the business does not pay dividends, it would only affect the council's scale and capacity insofar as it allows the council to employ specialist staff.
Submissions	There were no submissions received in relation to Guyra's proposal.

GWYDIR SHIRE COUNCIL – CIP

NOT FIT



Area (km^2)	9,122	Population 2011	5,100
OLG Group	10	(2031)	4,200
ILGRP Group	F	Merger 2011	19,150
		(2031)	15,950
Operating revenue (2013-14)	$19.2m	TCorp assessment	Very weak FSR Neutral Outlook
ILGRP options (no preference)	Council in Namoi JO (all shaded) or merge with Moree Plains (yellow).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy in order to be assessed as Fit for the Future.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion as a result of its forecast for a negative operating performance ratio by 2019-20.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all Fit for the Future (FFTF) councils should meet, therefore the council is not fit.

Scale and capacity – does not satisfy

- The council's population is declining and is forecast to be 4,200 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- The council's current financial position also restricts its regional capacity.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability based on its forecast operating performance ratio not meeting the benchmark.
- The operating performance ratio was -37.8% in 2014-15 and is forecast to be -8.0% in 2024-25.
- The council's building and infrastructure asset renewal ratio was 51.3% in 2014-15 and is forecast to be 88.6% in 2019-20, peaking at 107% during the period.
- The operating performance result includes reductions in service levels and reliance on the successful application for and adoption of a permanent special variation in 2016-17 of 32.3% cumulative (29.8% above the rate peg). This is partly to continue a temporary one year special variation of 15% approved in 2015-16 (13% above the rate peg).

Infrastructure and service management - satisfies

- The council satisfies the infrastructure and service management criterion as it meets the debt service ratio and asset maintenance ratio benchmarks by 2019-20.
- The council's infrastructure backlog ratio was 9% in 2014-15 and forecast to improve to 7.3% in 2019-20, which does not meet the benchmark.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors	
Social and community context	Gwydir Council was formed in 2004 as a result of a voluntary merger between Bingara, Yallaroi and Barraba. Gwydir's local economy is mostly rural based. The 2011 ABS census showed that the sheep, beef cattle and grain farming industries represented the largest source of employment (34% of all responses).
Community consultation	Gwydir's survey of 790 residents indicated that 58.1% of residents wanted to continue to stand alone, 13.8% supported merging with Inverell, and 9.5% supported a shared services agreement with Moree Plains. It also notes that eight community meetings were held and all 505 residents that attended these meetings, except one, supported not undertaking a merger with any council. The council appears to have undertaken adequate community consultation.
Water and/or sewer	Gwydir provides water and sewer services. The council is not currently compliant with the NSW Government's Best Practice Management of Water Supply and Sewerage Framework. It has a current water and sewerage infrastructure backlog of $1.8m, with $360,000 in capital works planned out to 2019-20.
Submissions	We received eight submissions relating to Gwydir's proposal. All of the submissions received rejected the ILGRP's proposed merger due to a range of concerns including job losses, reduced support for not for profit organisations, reduced representation, and loss of local identity. One of the submissions was from Gwydir Council, which included 646 signed letters and 967 petition signatures from the Gwydir community in support of remaining a stand-alone council. Gwydir also provided a late submission, which included a petition with 28 signatures in support of the council remaining a stand-alone council and attached a letter of support from the Warialda P&A Society.

HARDEN SHIRE COUNCIL

REFER TO COOTAMUNDRA AND HARDEN SHIRE COUNCILS - MERGER PROPOSAL

HAWKESBURY CITY COUNCIL – CIP

NOT FIT

Area (km^2)	2,793	Population 2011	64,350
OLG Group	6	(2031)	80,650
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$59m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP options (preference in bold)	**No change** or combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, The Hills, Blacktown, Penrith, Blue Mountains. Possible boundary adjustments with The Hills and Blacktown to facilitate NW Growth Centre. Possible longer term merger with The Hills.		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion as a result of its forecast for a negative operating performance ratio by 2019-20.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, it has a robust revenue base and demonstrated regional collaboration.
- Hawkesbury has entered into an agreement to form a strategic alliance with Blue Mountains and Penrith Councils. The agreement is aimed at sharing expertise in project management and design and improving economies of scale.
- We note the ILGRP report included an alternative for The Hills Shire Council to merge with Hawkesbury Council. Our independent consultants Ernst and Young calculated that a merger between the two councils could produce benefits for local communities of around $60m over 20 years using public data.
- While this evidence suggests a merger may be a better alternative to the council's proposal to stand alone, our finding is based on the proposal being consistent with the ILGRP preferred option for no change.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability based on its forecast for a negative operating performance ratio by 2019-20.
- The council's operating performance ratio was -12.5% in 2013-14 and is forecast to be -1.1% by 2019-20. Its operating performance ratio forecast relies upon the successful application for and adoption of a special variation from 2017-18 of 29.7% cumulative over 5 years (16.0% above the rate peg) as well as service level reductions to fund asset maintenance and renewals.
- The council has forecast it will meet the benchmark for the own source revenue ratio and building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the asset maintenance ratio and debt service ratio by 2019-20.
- The council shows improvement in its infrastructure backlog ratio by 2019-20.

Efficiency - satisfies

- The council meets the criteria for efficiency based on declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Hawkesbury is on the north-western periphery of the metropolitan region and the largest local government area in Sydney. While the south east corner of the LGA is predominantly urban, the remainder of LGA forms a much larger rural hinterland. Compared to adjoining metropolitan councils, Hawkesbury has a relatively small population of 65,000 people spread over an area of 2,793 square kilometres. It is therefore required to maintain a large asset holding serving a dispersed population.
Community consultation	Hawkesbury's proposal did not discuss community consultation.
Water and/or sewer	Hawkesbury currently achieves the NSW Government Best Practice Management of Water Supply and Sewerage Framework requirements. Its water and sewerage infrastructure backlog is $1.2 million.
Submissions	We received one confidential submission.

HAY SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

NOT FIT

Area (km^2)	11,233	Population:	2011	3,100
OLG Group	9		(2031)	2,150
ILGRP Group	C			
Operating revenue (2013-14)	$7.0m	TCorp assessment	Moderate FSR Negative Outlook	
ILGRP option	Rural Council in Murrumbidgee JO (all shaded).			

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council meets the scale and capacity criterion as a Rural Council.
- The council does not meet the criterion for sustainability based on an adjusted estimate of its operating performance ratio forecast to be below the benchmark by 2019-20.
- The council meets the criteria for infrastructure and service management and efficiency.
- We consider the operating performance ratio is a key measure of sustainability that councils must meet to be Fit for the Future, therefore the council is not fit.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include resource sharing within the JO, reviewing services and reducing employee costs.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on the Government adopting a Rural Council model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability– does not satisfy

- The council does not satisfy the criterion for sustainability.
- While it has forecast a small operating surplus by 2024-25, this is based on optimistic assumptions which may not be realistic. According to our adjusted estimates, the operating performance ratio is forecast to reach -0.4% by 2024-25, which does not meet the benchmark of break even within 10 years for Rural Councils.
- In its proposal, the council relies on the successful application for and adoption of a special variation in 2018-19 of 9.5% cumulative (7.0% above the rate peg).
- The council's own source revenue ratio meets the benchmark by 2019-20 when FAGs are included. However, the ratio excluding the FAGs remains below the benchmark of 60% and only a limited improvement is forecast by 2024-25.
- The council has forecast the building and infrastructure asset renewal ratio will be close to the benchmark by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management as it is forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council states it has revised the methodology for the calculation of the backlog, with risk analysis and assessment being incorporated in the methodology, in addition to the condition of the assets. We consider this to be a reasonable approach.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real opex per capita to 2019-20.

Other relevant factors	
Social and community context	The Hay Shire local government area has a population of 3,100 and covers 11,233 km^2. It is located in the western part of the Riverina area along the Murrumbidgee River. The Shire is one of Australia's leading wool and sheep meat producing areas. It also produces beef, irrigated vegetables and fruit, rice, wheat and cotton. The main regional centre is Hay (estimated population 1,800). The other main towns in the Shire are Maude (estimated population 30) and Booligal (estimated population 25). Hay is situated about halfway between Sydney and Adelaide and just over 400 kilometres from Melbourne.
Community consultation	The council conducted a community survey, noting in the survey that to be Fit for the Future, the council needed additional funds, which could be achieved through a rate increase or by reducing service levels or by a combination of both these strategies. The survey results showed over 83% favoured either a rate increase on its own or a rate increase in combination with a reduction in service levels.
Water and/or sewer	The council has a water/sewer business which it operates on a better than break-even basis. The council states it currently achieves the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework.
Submissions	There were no submissions received on Hay Shire Council's proposal.

THE HILLS SHIRE COUNCIL – CIP

	FIT		
Area (km^2)	401	Population 2011	177,000
OLG Group	7	(2031)	280,900
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$158.8m	TCorp assessment	Sound FSR Positive Outlook
ILGRP options (preference in bold)	**No change** or combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, Blacktown, Hawkesbury, Penrith, Blue Mountains and: (all shaded) • boundary with Parramatta shifted to M2 • possible boundary adjustments with Blacktown and Hawkesbury to facilitate NW Growth Centre • possible longer term merger with Hawkesbury.		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure service and management and efficiency criteria.

Scale and capacity – satisfies

- The council's proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- The council has a robust revenue base, and has the capacity to undertake new functions and major projects, partner other levels of government, and to cope with complex and unexpected change.
- Hornsby Shire Council submitted a business case that included estimates for the benefits of a merger of Hornsby and The Hills Shire Council. Based on this model, our analysis suggests the merger could produce net benefits of $85m over 20 years (including the full Government grant). However, The Hills Shire Council did not wish to pursue this option and it was not an option identified by the ILGRP. We did not investigate further regional impacts of this proposed merger.
- The Hills Council has proposed alternative border changes expanding into neighbouring Hawkesbury, Hornsby and Parramatta LGAs, increasing its population by 59,220. It considers this is the best option which combines suburbs that are currently divided by the border, but has not undertaken financial analysis of the option. The neighbouring councils do not accept these proposals.
- The ILGRP report included an alternative for The Hills Shire Council to merge with Hawkesbury Council. Our independent consultants Ernst and Young calculated that a merger between the two councils could produce benefits $60m over 20 years based on public data (not including the Government grant).
- While this evidence suggests a merger may be a better alternative to the council's proposal to stand alone, our finding is based on the proposal being consistent with the ILGRP preferred option for no change.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management – satisfies

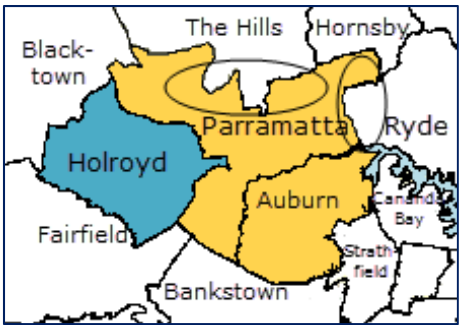
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratios by 2019-20.
- The council does not meet the debt service ratio benchmark. It has been debt free since 2002. It has a 'no debt' policy, but states it will consider borrowing for new capital in the future if it can identify a revenue source to service the debt.

Efficiency - satisfies

- The council satisfies the efficiency criterion based on a decrease in real operating expenditure ratio from 2014-15 to 2019-20.

Other relevant factors	
Social and community context	The council opposes the ILGRP's suggested southern boundary shift mainly because it would remove 15% of the total rate income and disturb and remove residents who have a long affinity with The Hills Shire. It also opposes the ILGRP's suggestion to potentially merge with Hawkesbury Shire Council in the longer term. The council proposes an alternative boundary change which would incorporate a large part of Hornsby Shire's rural area, including around 38,000 residents from Hornsby, and extend into Hawkesbury Shire and to a lesser extent into Parramatta Local Government Area. The council considers this a more logical boundary which would join currently divided suburbs and include residents who identify as being in The Hills Shire but live outside the border.
Community consultation	The council undertook a community survey which asked 1,244 respondents their preference to three options: • the ILGRP's suggested southern boundary change (15% support) • the option to merge with Hawkesbury (10% support), and • the option to expand the Hills' boundaries to include parts of Hornsby, Hawkesbury and Parramatta LGAs (75% support). We understand this was an online self-select survey and, as such the statistical representation of the respondents could not be determined.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received one submission relating to the council's proposal. The submission is from a Hawkesbury Shire Council representative and states its opposition to, and rejection of, the council's suggested boundary change on the grounds that: • it is inconsistent with ILGRP options • there was no meaningful consultation undertaken with Hawkesbury Shire Council or its residents • the proposed boundary change would move 13% of Hawkesbury Shire Council residents and rate base without transferring responsibility for a corresponding proportion of assets, and • the survey undertaken by The Hills Shire Council was flawed. In a meeting the council said it is reticent to undertake a full merger with Hawkesbury because it said Hawkesbury has a large infrastructure backlog which would need to be funded.

HOLROYD CITY COUNCIL – CIP



NOT FIT

Area (km^2)	40.2	Population 2011	104,100
OLG Group	3	(2031)	136,000
ILGRP Group	Sydney Metro	Merger 2011	356,700
		(2031)	520,500
Operating revenue (2013-14)	$83m	TCorp assessment	Weak FSR Neutral Outlook
		TCorp assessment (2015)	Moderate FSR Positive Outlook

ILGRP options (preference in bold)

Merge with Auburn, Parramatta, Ryde (part) and The Hills (part) and move northern boundary of Parramatta to M2 (balance of The Hills to remain an individual council) **or** adjust Parramatta's boundaries to include parts of Ryde and The Hills and combine Auburn, Holroyd and Parramatta as a strong JO.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 136,000 by 2031 compared with the forecast merger population of 356,700. Our analysis suggests that the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case by Morrison Low which showed a merger of Parramatta, Holroyd, Auburn, part of Ryde and part of The Hills produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $254m over 20 years (including the Government grant).
- In addition, our independent consultants Ernst and Young estimated net benefits from the merger of $150m over 20 years using public data (not including the Government grant).
- These analyses showed large gains to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP preferred option for Holroyd to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council had a special variation approved from 2013-14 adding an additional 44.2% (29.1% above the rate peg) to rates revenue over a five year period. This is the primary reason for the improvement in the council's financial performance over time.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratios by 2019-20.
- The council has forecast a debt service ratio of zero by 2019-20, which does not meet the benchmark.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council states it is concerned about a merger with Parramatta for the following reasons: • the focus and funding would shift to developing Parramatta and away from Holroyd's existing LGA • issues of importance to the Holroyd community may not receive sufficient focus • as Holroyd and Parramatta have different demographic characteristics, some areas would be prioritised for development service over others, and • there would be a risk of reduced representation and responsiveness.
Community consultation	In the recent survey by council (April-June 2015), 84% of respondents opposed the proposed merger. The council notes there were over 500 attendees at two public meetings (in February and March) that overwhelmingly opposed this proposal.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received six submissions for Holroyd supporting the council's proposal to stand alone. Two of the local MP also supported Holroyd's proposal. One late submission was received.

HORNSBY SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	462	Population 2011		163,800
OLG Group	7		(2031)	201,750
ILGRP Group	Sydney Metro	Merger	2011	278,400
			(2031)	352,850
Operating revenue (2013-14)	$129.2m	TCorp assessment		Sound FSR, Neutral Outlook

ILGRP options (preference in bold): **Merge with Ku-ring-gai** (yellow) or combine as a strong JO, and move the boundary with Parramatta northward to the M2.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

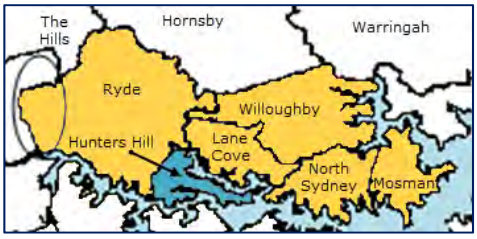
- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council acknowledges it does not meet the scale and capacity criterion and has not explicitly addressed the elements of capacity in its proposal.
- The council's population is forecast to be 201,750 by 2031 compared with the forecast merger population of 352,850. Our analysis suggests that the council does not have sufficient scale to partner effectively with the governments compared to the merger.
- The council submitted a business case which showed that a merger of Hornsby and Ku-ring-gai produces net benefits. Based on this model, our analysis suggests the merger produces net benefits of $61m over 20 years (including the Government grant).
- In addition, our independent economic consultants Ernst and Young have estimated net benefits from the merger of around $88m over 20 years using public data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Hornsby indicates it is willing to pursue the preparation of an independent merger business case with one or more of its neighbouring councils and then to further consider potential for a merger. It discussed a merger with Ku-ring-gai Council and other neighbouring councils but no agreement to merge was reached.
- Hornsby Shire Council also submitted a business case which showed that a merger with The Hills Shire Council produces net benefits. Based on this model, our analysis suggests the merger produces net benefits of $85m over 20 years (including the Government grant). However, The Hills Shire Council did not wish to pursue this option and it was not an option identified by the ILGRP. We did not investigate further regional impacts of this proposed merger.
- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- Our analysis is consistent with the ILGRP's preferred option for Hornsby to merge.

	Sustainability – satisfies • The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20. **Infrastructure and service management – satisfies** • The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratio by 2019-20. • The council has been reviewing its asset management practices to ensure sufficient funding to improve the ratios, and notes this is illustrated by the large increase in the asset maintenance ratio from 2014-15 to 2015-16. • The council also meets the debt service ratio. The council indicates an intention to be debt free in the future, however this is beyond the assessment period. **Efficiency - satisfies** • The council satisfies the criteria for efficiency based on a forecast reduction in real operating expenditure per capita from 2014-15 to 2019-20.
Other relevant factors	
Social and community context	Hornsby Council covers 462km^2 with an urban area in the south including the centres of Epping, Carlingford, Pennant Hills and Hornsby. The rural area in the north includes Berowra, Brooklyn and Wisemans Ferry. A demographics study commissioned and submitted by Ku-ring-gai Council indicates that Hornsby and Ku-ring-gai have many similar demographics including age structures, household types, incomes, and level of cultural diversity.
Community consultation	Hornsby engaged Crosby Textor Research to survey community attitudes towards a merger. The number of respondents was not provided so we cannot determine if the survey was statistically representative. Key results from this research include: • 44% of the surveyed residents indicated some level of support for a merger • 47% were against a merger, of which about half were 'strongly opposed', and • 73% of respondents supported a shared services model. When asked to choose, surveyed residents showed a preference for a merger with Ku-ring-gai (40%) over either The Hills Shire (27%) or a 3-council merger with Ku-ring-gai and The Hills (24%).
Water and/or sewer	The council does not have a water/sewer business.
Submissions to IPART	We received four submissions relating to Hornsby's submission, all opposed to the council merging. Reasons include: • loss of representation • reduced attention to local issues and services • lack of community consultation.

HUNTER'S HILL COUNCIL - CIP



NOT FIT

Area (km^2)	6	Population 2011		13,900
OLG Group	2		(2031)	17,500
ILGRP Group	Sydney Metro	Merger	2011	286,867
			(2031)	376,150
Operating revenue ($2013-14)	$12.6m	TCorp assessment		Moderate FSR Neutral Outlook

ILGRP options (preference in bold): **Merge with Lane Cove, Mosman, North Sydney, Ryde (part), Willoughby** (yellow) or combine as a JO.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity - does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 17,500 by 2031 compared with the forecast merger population of 376,150. Our analysis suggests that the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case which showed that a merger of Lane Cove, Hunter's Hill, Mosman, North Sydney, Willoughby and part of Ryde produces net benefits. Based on this model, our analysis suggests the merger produces net benefits of $280 million over 20 years (including the Government grant).
- In addition, our independent consultants Ernst & Young estimated gains from the merger of $187m over 20 years using public data (not including the Government grant).
- These analyses showed large gains to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- As an alternative to a merger, Hunters Hill, Ryde and Lane Cove councils submitted a common proposal to create a Joint Regional Authority (JRA). According to the councils, this would provide the benefits of shared services and centralised planning and development without the disruption of a merger. It would generate net benefits over 15 years of $0.5m, or $3.4m if it also included Mosman, North Sydney and Willoughby. The proposal does not fully quantify any efficiency savings that may also eventuate under the JRA. The preferred merger is likely to provide a higher level of efficiency savings than the JRA.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a permanent special variation in 2017-18 of 11.2% cumulative (8.7% above the rate peg).

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council states the municipality is a very contained community with a strong identity. We consider this is due the council's residents living on a peninsular and note this would help to create a cohesive community.
Community consultation	The council undertook telephone polling and an online survey. The number of respondents in both cases was around 400. According to the telephone survey, 81% of respondents support the council standing-alone and exploring the JRA, while 59% support standing alone. According to the online survey, 56% of respondents support the council standing-alone and exploring the JRA while 53% support standing alone.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 23 submissions for Hunters Hill. Ten oppose merging citing potential risks such as the loss of local focus, more high-rise, greater distance to council chambers, less representation, higher rates, and a lack of evidence that mergers will produce benefits. Eight support merging citing that the current council is mismanaged, not meeting the needs of its residents and that merged councils are less wasteful, have less duplication and will enable access to facilities in other LGAs. Four support the JRA citing reasons including the support of the community, the benefits of shared services while retaining a local focus. One submission states the council is not meeting current needs and believes Gladesville should be managed by Lane Cove. A few submissions supported Gladesville being under one LGA. Another submission noted the community consultation meetings were not balanced.

HURSTVILLE CITY COUNCIL - CIP

NOT FIT

Area (km^2)	23	Population	2011	87,200
OLG Group	3		(2031)	104,950
ILGRP Group	Metropolitan Sydney	Merger	2011	390,300
			(2031)	497,500
Operating revenue (2013-14)	$66.1m	TCorp assessment	Moderate FSR Neutral Outlook	

ILGRP options (preferences in bold).

Merge with Canterbury, Kogarah and Rockdale (blue and yellow) or combine as a strong Joint Organisation, also including Sutherland (grey) **and** adjust Rockdale boundary at airport.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits such as delivering infrastructure in accordance with the South Subregion plan, and managing the Georges River catchment.
- The council's population is forecast to be 104,950 by 2031 compared with the forecast merger population of 497,500. Our analysis suggests that the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case which showed that a merger of Canterbury, Kogarah, Hurstville and Rockdale produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $280m over 20 years (including the Government grant).
- In addition, our independent consultants Ernst and Young estimated net benefits from the merger of $172m over 20 years using publically available data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Hurstville to merge with neighbouring councils.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Hurstville has a culturally diverse population. Around 40% of its residents were born overseas and 50% of its residents speak a language other than English at home, which is broadly consistent with the ILGRP preferred merger councils.
Community consultation	The council circulated a brochure about the ILGRP preferred merger option in March 2015. The brochure requested submissions about the preferred merger option. Around 64% preferred the council to remain independent.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	IPART did not receive any submissions relating to the council's proposal.

INVERELL SHIRE COUNCIL – CIP

FIT

Area (km^2)	8,606	Population 2011	16,600
OLG Group	11	(2031)	18,600
ILGRP Group	G		
Operating revenue (2013-14)	$25m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP option	Council in New England JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- The council's forecast population of 18,600 in 2031 is above the level (10,000) the ILGRP considers appropriate for a non-metropolitan council.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmark for the operating performance ratio by 2020-21 and the benchmarks for the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council's forecasts rely on a number of assumptions including the successful application for and adoption of a special variation from 2016-17 of 23.4% cumulative over 3 years (15.7% above the rate peg).

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on a forecast decline in real opex per capita over the outlook period.

Other relevant factors

Social and community context	The LGA's community of interest centres on the town of Inverell, which is reasonably remote. The closest major centre is Glen Innes, which is 50 minutes to the east. The council does not wish to reduce service levels as a way of meeting financial benchmarks.
Community consultation	The council's consultation process consisted of advertising the proposal and inviting the community to comment. The public was also invited to comment on the council's proposed Operational Plan.
Water and/or sewer	Inverell Council states its water and sewer businesses break even and do not have an infrastructure backlog net of cash reserves.
Submissions	There were no submissions received in relation to Inverell's proposal.

JERILDERIE SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

	NOT FIT			
Area (km^2)	3,352	Population:	2011	1,550
OLG Group	8		(2031)	1,250
ILGRP Group	B	Merger	2011	9,850
			(2031)	9,050
Operating revenue (2013-14)	$6.5m	TCorp assessment		Moderate FSR Negative Outlook
ILGRP options (preference in bold)	**Merge with Berrigan** (yellow) or Rural Council in Mid-Murray JO (all shaded).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management criterion, it does not satisfy the sustainability and efficiency criteria.
- The council does not satisfy the sustainability criterion based on its forecast for continuing operating deficits.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all FFTF councils should meet, therefore the council is not fit.

Scale and capacity– does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is as good an option to achieve the scale and capacity objectives for the region.
- The proposed Rural Council Proposal is not as good as the ILGRP's preferred option to merge with Berrigan. When compared to the merger, the council's small and declining population of 1,250 in 2031 means it is unlikely to cost-effectively provide services to the local communities.
- The council submitted a business case assessing the costs and benefits of merging Jerilderie with Berrigan. The business case showed the merger of Jerilderie and Berrigan could deliver benefits to the local community of between $1.4m and $12.5m over 10 years (using a discount rate of 5.5%, not including the $5m Government funding).

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability based on its continuing operating deficit. The operating performance ratio was -11.5% in 2014-15 and is forecast to reach -5.7% by 2024-25, which is below the benchmark of break-even.
- The council's figures include a previously approved and adopted special variation of 21.0% over 2 years from 2015-16 (15% above the rate peg).
- The council's own source revenue ratio was 49.1% in 2014-15 and is forecast to reach 52.0% by 2019-20 without the inclusion of FAGs, which is below the benchmark. The inclusion of FAGs increases the ratio to 80.7% by 2019-20.
- The building and infrastructure asset renewal ratio was 74.2% in 2014-15 and is forecast to reach 97.2% by 2019-20. This is close to the benchmark of 100%.

Infrastructure and service management - satisfies

- The council satisfies the infrastructure and service management criterion. It is forecast to meet the benchmark for the infrastructure backlog, asset maintenance and debt service ratios over the outlook period to 2019-20.

Efficiency – does not satisfy

- The council does not meet the criterion for efficiency based on its forecast to maintain its level of service for a declining population. Real opex per capita was $5,170 in 2014-15 and is forecast to be $5,580 in 2019-20.
- The increase in real opex per capita is 8% over the period, compared with a forecast decline in population of 1.2% over the same period.

Other relevant factors	
Social and community context	While Jerilderie and Berrigan are both agricultural areas, the councils maintain there are differences in their respective focus. Berrigan considers its orientation is to the south of the Murray River, ie, towards Victoria. Berrigan states it collaborates with the Victorian municipality of Moira on tourism and for shared services. Jerilderie has a low rates base which is further impacted by population decline. Berrigan considers its rates base is stronger due to a steady population and increasing property values. It considers this may have implications for rates harmonisation in a merger. Jerilderie is the main town in the Jerilderie LGA and is surrounded by farmland. We note that most of Berrigan and Jerilderie's boundaries would be accessible from Berrigan within 90 minutes.
Community consultation	The council consulted the community over two years in conjunction with its special variation application consultation. It used newsletters, questionnaires, public meetings, Mayoral Columns, newspaper articles and media releases to engage with the community. In general the majority of the community voted for the council to submit a Rural Council Proposal.
Water and/or sewer	The council does not meet all the requirements of the NSW Best Practice Management framework. A section 64 Development Servicing Plan is not in place as there is no new development in the township. It notes with less than 400 residential and 100 non-residential assessments, the ability to obtain the required usage criteria is limited. The Fund is showing a diminishing deficit over the next 10 years which is to be addressed by a 5% annual increase in fees and charges with a review on depreciation. The council will also conduct a service delivery and administrative cost review which it states will remove the deficit earlier than currently predicted. It reports it has no water and sewerage infrastructure backlog.
Submissions	There were no submissions received in relation to Jerilderie's proposal.

JUNEE SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	2,030	Population	2011	6,150
OLG Group	10		(2031)	5,800
ILGRP Group	F	Merger	2011	13,700
			(2031)	12,400
Operating revenue (2013-14)	$10.5m	TCorp assessment		Moderate FSR Neutral Outlook
ILGRP options (no preference)	Council in Riverina JO (all shaded) or merge with Cootamundra.			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – does not satisfy

- The council's population is declining and is forecast to be 5,800 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with Government.
- The council also does not demonstrate it meets the elements of strategic capacity.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- The council rejected a proposal to merge. The council and Cootamundra identify the Bethungra range as a topographical physical barrier between the communities, which they consider reduces the potential scale benefits. The council also cites different regional focuses between the councils.
- The council held meetings with Temora, Coolamon, Wagga Wagga and Gundagai. The council considers the meetings were productive as there was a renewed commitment towards sharing plant and resources, but ultimately each council decided to stand alone.
- We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the stand-alone proposal. However, the merger may enable the provision of more cost-effective services to the local communities, advocating credibly and managing strategic issues in the region.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	The council and Cootamundra Shire Council identify the Bethungra range as a physical barrier between the communities. Further, the council notes that it has a south and southwest focus compared with Cootamundra Shire Council's north northeast view of the region.
Community consultation	Junee undertook a self-select community survey that was open to the public between March and June 2015. The council provided FFTF information to the public prior to and during the survey period, through various avenues. The council notes the survey questions response (260) was below the number valid for statistical sampling (350), but is unlikely to change with additional respondents. We note that 73% would prefer a JO over a merger, and 69% are opposed to merging.
Water and/or sewer	Goldenfields Water County Council provides potable water to the area. The council is responsible for the sewerage network. The council does not currently achieve the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework. The sewer business does not currently operate on a break-even basis. The council notes that it decided to freeze sewerage charges for its community for the period 2014-15 to 2016-17 to ease the impact of a successful SV for the general fund.
Submissions	There were no submissions received in relation to Junee's proposal.

KEMPSEY SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	3,371	Population: 2011	29,150
OLG Group	4	(2031)	30,500
ILGRP Group	G		
Operating revenue (2013-14)	$37.7m	TCorp assessment	Weak FSR Negative Outlook
ILGRP option	Council in Mid-North Coast JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. The council does not meet the criterion for sustainability including the benchmark for the operating performance ratio.
- The council does not satisfy the criterion for infrastructure and service management but does meet the efficiency criterion.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council's proposal is consistent with the ILGRP's option.
- As the ILGRP did not propose another option for this council, the council was not required to demonstrate how it met each of the elements of scale and capacity. It therefore did not provide sufficient information on the other elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal.
- The council engages in MIDROC and has investigated further service sharing with neighbouring councils, but its current financial position could limit its capacity for new functions and major projects.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability based on its forecast operating performance ratio not meeting the benchmarks.
- The council's operating performance ratio was -40.4% in 2014-15 and is forecast to reach -3.5% by 2019-20, which is below the benchmark. The council has forecast small negative results to 2024-25.
- Its building and infrastructure asset renewals ratio was 36.8% in 2014-15 and forecast to improve to 85.7 by 2019-20.
- This improvement is largely driven by lower depreciation costs as well as cost reductions.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2017-18 of 36% cumulative over 4 years (25% above the rate peg).
- The council's own source revenue ratio meets the benchmark for all years.

Infrastructure and service management - does not satisfy

- The council does not satisfy the criterion for infrastructure and service management based on its forecast for the infrastructure backlog and asset maintenance ratios not meeting the benchmarks by 2019-20.
- The council's infrastructure backlog was 9.7% in 2014-15 and is forecast to improve to 6.8% in 2019-20, which does not meet the benchmark. The council forecasts continued improvement, but still does not meet the benchmark by 2024-25.
- The council's asset maintenance ratio was 60.1% in 2014-15 and is forecast to improve to 79.5% by 2019-20.
- The council is yet to confirm the appropriate funding level for maintenance, and it is working with other MIDROC councils to develop best practice road asset management. It suggests the asset maintenance benchmark will be met by 2024-25.

- It meets the debt service ratio benchmark.

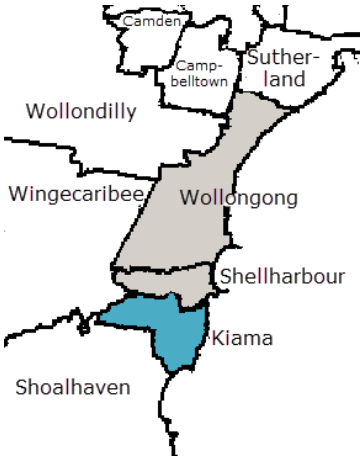
Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors	
Social and community context	The council ranks lower on the SEIFA index than most of its neighbours and other Group 4 councils. As a result, rates historically have been kept low, but the council is phasing in increases to improve its sustainability.
Community consultation	The council has not indicated that it has undertaken community consultation with regard to its Fit For the Future proposal.
Water and/or sewer	The council's annual and user charges for water and sewer have been kept well below sustainable levels, and as such these businesses do not operate at break-even. Recently it began increasing charges and expects the water and sewer services will break even within the ten year financial plan. The businesses mostly meet the requirements of the Best Practice Management Framework, and the council expects it will meet a final target in the future. The infrastructure backlog for these functions is $37.8m but the council considers this is overstated.
Submissions	We did not receive any submissions on Kempsey's proposal.

KIAMA MUNICIPAL COUNCIL – CIP

NOT FIT



Area (km^2)	258	Population 2011	20,800
OLG Group	4	(2031)	25,450
ILGRP Group	Illawarra		
Operating revenue (2013-14)	48.8m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options (no preference)	Council in Illawarra JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management criterion, it does not satisfy the sustainability and efficiency criteria.
- The council does not satisfy the sustainability criterion based on its forecast for a negative operating performance ratio by 2019-20.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FFTF) councils must meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's option.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements of scale and capacity including effective regional collaboration.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – does not satisfy

- The council does not satisfy the sustainability criterion. It does not meet the operating performance and building and infrastructure asset renewal benchmarks by 2019-20.
- The operating performance ratio was -7.7% in 2014-15 and is forecast to be -6.1% by 2019-20 which does not meet the benchmark. These figures rely on a number of assumptions, including the successful application for and adoption of a special variation from 2018-19 of 17.4% cumulative over 3 years (9.7% above the rate peg).
- The council cites the construction of a $62m Centre of Excellence in Aged Care as contributing to its poor operating performance ratio. While this Centre is forecast to produce revenue from 2018 onwards, our analysis suggests it may be earning a low return on capital. Lower returns on capital are appropriate for councils pursuing social or other objectives supported by the local community.
- The council has forecast it will meet the benchmark for the own source revenue ratio by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the infrastructure and service management criterion based on meeting the infrastructure backlog and debt service ratios by 2019-20. However, the council is close to exceeding the debt service benchmark by 2019-20 due to borrowing needed to fund its Centre of Excellence in Aged Care.
- While the council marginally misses the asset maintenance benchmark, it indicates it has identified optimal asset maintenance based on community expectations, the life of assets and that renewals are accounted for in its Asset Management Plan and Long Term Financial Plan.

Efficiency – does not satisfy

- The council does not meet the efficiency criterion based on an increase in real operating expenditure per capita from $2,200 in 2014-15 to $2,450 in 2019-20.

Other relevant factors	
Social and community context	A Kiama Council Community Survey in 2011 identified that 76% of residents were satisfied or very satisfied with Kiama Council's overall performance and only 3% were dissatisfied (based on 531 phone interviews and a 70% completion rate).
Community consultation	Kiama Council indicates its community expresses a strong desire for it to remain independent. However, it does not identify how it obtained this result.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	No submissions were received in relation to Kiama's proposal.

KOGARAH CITY COUNCIL – CIP

NOT FIT

Area (km^2)	15	Population	2011	58,900
OLG Group	3		(2031)	76,350
ILGRP Group	Metropolitan Sydney	Merger	2011	390,300
			(2031)	497,500
Operating revenue (2013-14)	$46.3m	TCorp assessment	Moderate FSR Neutral Outlook	

ILGRP options (preferences in bold).

Merge with Canterbury, Hurstville and Rockdale (blue and yellow) or combine as a strong Joint Organisation, also including Sutherland (grey) **and** adjust Rockdale boundary at airport.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition, the merger option would provide further benefits such as delivering infrastructure in accordance with the South Subregion plan, and managing the Georges River catchment.
- The council's population is forecast to be 76,350 by 2031 compared with the forecast merger population of 497,500. Our analysis suggests the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case which showed that a merger of Canterbury, Kogarah, Hurstville and Rockdale produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $280m over 20 years (including the Government grant).
- In addition, our independent consultants Ernst & Young estimated net benefits from the merger of $172m over 20 years using publically available data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Kogarah to merge with neighbouring councils.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council's improvement in financial performance is driven by a special variation of 21.8% over four years approved in 2013 for asset renewal purposes.
- The council has also revised its asset management practices to provide more accurate depreciation forecasts, and the required asset renewal expenditures.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

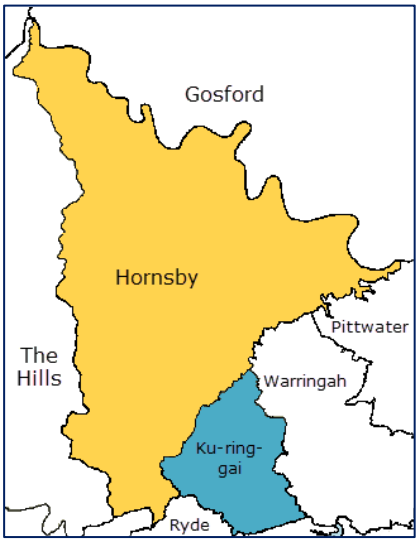
Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita by 2019-20.

Other relevant factors	
Social and community context	Kogarah is 14km south of the Sydney CBD and includes four public and private hospitals. The council states the LGA is known for its sporting history, parks and foreshore. In an area of 20km^2 the council states is has 169km of sealed roads, 219km of footpaths, 56 children's playgrounds and 189 hectares of open space. Affordability of housing was cited as a key issue for its community.
Community consultation	The council has conducted a significant amount of consultation for its proposal to stand alone. The council circulated information brochures to all its residents in April 2015, and undertook a telephone survey of around 600 randomly selected residents. The council also conducted two consultation sessions in October 2014 and May 2015. The telephone survey found 90% of residents did not support the ILGRP preferred merger option, and 85% supported Kogarah to stand alone. We note the telephone consultation stated that Kogarah residents would be worse off under any merger proposal because of higher rates and more council debt. This may have had a material impact on the respondents' choice of answers.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received three submissions about Kogarah's proposal. All three submissions stated the merger would lead to a poorer outcome for Kogarah's residents eg, loss of local identity, and higher rates.

KU-RING-GAI COUNCIL – CIP

NOT FIT



Area (km^2)	85	Population 2011	114,600
OLG Group	3	(2031)	151,100
ILGRP Group	Sydney Metro	Merger 2011	278,400
		(2031)	352,850
Operating revenue (2013-14)	$102.4m	TCorp assessment	Sound FSR, Neutral Outlook

ILGRP options (preference in bold): **Merge with Hornsby Council,** (yellow) or combine as a strong JO with Hornsby Council and move the boundary with Parramatta northward to the M2.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 151,100 by 2031 compared with the forecast merger population of 352,850. Our analysis suggests the council does not have sufficient scale to partner effectively with the governments compared to the merger.
- Hornsby Shire Council submitted a business case which showed that a merger of Ku-ring-gai and Hornsby Shire councils produces net benefits. Based on this model, our analysis suggests the merger produces net benefits of $61m over 20 years (including the Government grant).
- In addition, our independent economic consultants Ernst and Young have estimated gains from the merger of $88m over 20 years using public data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Ku-ring-gai to merge.

Sustainability – satisfies

- The council satisfies the sustainability criterion. It is forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure renewal ratio by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately 2.7 percentage points to 2.2% in 2019-20 which is still above the benchmark.

Infrastructure and service management – satisfies

- The council satisfies the infrastructure and service management criterion as it meets the infrastructure backlog, asset maintenance and debt service benchmarks by 2019-20.
- The council implemented a new funding model in June 2015 to address its infrastructure backlog, and is forecasting an infrastructure backlog ratio of 0.2% in 2019-20.
- In its long term financial plan, the council shows it intends to repay all loans and have a zero debt service ratio by 2023-24. While this would not meet the benchmark, it is beyond our assessment period.

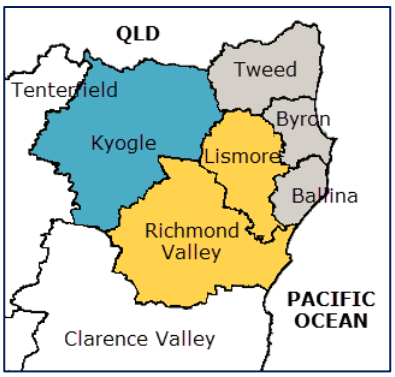
Efficiency - satisfies

- The council meets the criterion for efficiency based on the forecast for a reducing real opex per capita ratio for 2014-15 to 2019-20.

Other relevant factors	
Social and community context	Ku-ring-gai Council disagrees with the ILGRP's preferred option, and suggests a better option would be for it to merge with Warringah Council, and for Hornsby Shire Council to merge with The Hills Shire Council due to the closer demographic and economic links. However, Ku-ring-gai submitted a demographic study of the North Sydney councils. This study finds: • similar degrees of economic linkage between Ku-ring-gai and Hornsby councils and between Hornsby and The Hills councils • demographic links between Ku-ring-gai and Hornsby councils, but did not consider demographics in The Hills LGA, and • close economic links and some demographic links between Ku-ring-gai and Willoughby councils. Ku-ring-gai considers there is some misalignment of priorities between the merger councils, eg, it has a larger focus on environmental protection whereas Hornsby has a larger focus on strategic development.
Community consultation	Ku-ring-gai undertook broad community consultation which shows the community largely opposes the merger. This included an information brochure and media advertising showing arguments for and against the merger. In a survey of 402 residents, 77% of respondents preferred to remain stand alone. This increased to 87% after hearing the council's arguments against a merger, which included that the council was already financially sustainable and capable, that rates would increase, the council's financial position would weaken, and Ku-ring-gai residents would have minority representation.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 4 submissions relating to Ku-ring-gai's submission: • two opposed merging the council because the council is already strong • one submission from a community group questioned reliability of the council's infrastructure backlog ratio and raised a local carpark issue • one confidential submission.

KYOGLE COUNCIL – RURAL COUNCIL PROPOSAL

NOT FIT



Area (km^2)	3,639	Population 2011	9,550
OLG Group	10	(2031)	9,600
ILGRP Group	F	Merger with Richmond Valley	
		2011	32,350
		(2031)	35,000
		Merger with Lismore	
		2011	53,900
		(2031)	59,800
Operating revenue (2013-14)	$19.9m	TCorp assessment	Weak FSR Negative outlook

ILGRP options (no preference): Council in Northern Rivers JO (all shaded) or merge with Richmond Valley and Lismore (yellow).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy scale and capacity.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The ILGRP did not include a Rural Council Proposal in its options for Kyogle.
- The council does not meet the majority of rural council characteristics, particularly regarding population and options for mergers.
- The council is located less than 50km from other regional centres (Casino and Lismore). Outlying villages are around 100km from Kyogle, which is consistent with the ILGRP's suggestion that the boundaries of an LGA are 60-90 minutes from a main administration centre in country areas.
- The council's population of 9,550 is significantly higher than Group C councils with populations of less than 5,000 which the ILGRP specifically identified as being suitable for the Rural Council model.
- The council submitted a Rural Council Proposal because it considered it had no other option after merger discussions were rejected by Richmond Valley and Lismore. Its proposal states this is because it does not meet the scale and capacity elements for a stand-alone council.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council's figures include an approved special variation of 38.9% over five years from 2015-16 (23% above the rate peg).

Infrastructure and service management - satisfies

- The council meets the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, asset maintenance ratio and debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its declining real opex per capita over the period.

Other relevant factors	
Social and community context	30% of the LGA population is located in the town of Kyogle. The council has a declining population with a SEIFA ranking of 11, indicating a low socio-economic status.
Community consultation	The council states it included consideration of the FFTF reforms as part of its community engagement process on its Long Term Financial Plan. This included the results of a survey which showed that 88% of respondents agreed that the council needed additional funds to maintain its infrastructure and 54% were in favour of an application for a special variation. 60% agreed that the council should further explore the options around amalgamation.
Water and/or sewer	The council states it achieves the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework. However, the council states it had a backlog of $4.1m in 2013-14.
Submissions	We received one submission regarding Kyogle which questioned the sustainability of the council and raised concerns over the quality of roads in the LGA.

LACHLAN SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	13,744	Population 2011	6,700
OLG Group	10	(2031)	(5,500)
ILGRP Group	F	Merger 2011	21,800
		(2031)	(21,000)
Operating revenue (2013-14)	$22.6m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP options (no preference)	Lachlan to merge with Parkes (yellow), or council in Central West JO (all shaded).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council's population is declining and is forecast to be 5,500 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- Parkes Shire Council submitted a business case for a merger with Lachlan Shire Council which suggests the merger could produce net benefits of $14.3m over 9 years (including the Government grant).

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio (with the inclusion of FAGs) and the building and infrastructure asset renewal ratio by 2019-20.
- For councils within OLG groups 8-11 we have assessed the own source revenue ratio with the inclusion of FAGs.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2016-17 of 33.4% cumulative over 4 years (23.2% above the rate peg). This is included in the council's long term financial plan.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratio by 2019-20.

Efficiency – satisfies

- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period.
- The council assumes the population will remain static. However, based on DP&E's forecasts of a population decline, we forecast the real opex per capita ratio would decline and then increase modestly after 2015-16.

Other relevant factors	
Social and community context	The proposal did not contain any relevant social and community context information for this criterion.
Community consultation	Lachlan undertook a community survey and forums in relation to the options available to council. The community indicated it was not in favour of a merger with Parkes, but would support a special variation and increased fees and charges in order to secure its long term sustainability.
Water and/or sewer	Lachlan operates water and sewer businesses. The council states it has an infrastructure backlog of $150 million, however Lachlan is undertaking a review of its water and sewer assets in conjunction with Jeff Roorda and Associates over the next 12 months. Lachlan reported deficits for both water and sewer. From 2015-16 Council has resolved to increase water and sewer prices each year over a four year period to ensure it will be at least break-even and have sufficient funds in reserves to meet planned capital works. Lachlan reports the cost to bring water and sewer assets to a satisfactory standard in 2013-14 at $1.6m.
Submissions	There were no submissions received in relation to Lachlan's proposal.

LAKE MACQUARIE COUNCIL – CIP

NOT FIT

Area (km^2)	648	Population 2011	196,800
OLG Group	5	(2031)	217,850
ILGRP Group	Hunter Councils	Merger 2011	352,350
		(2031)	407,900
Operating revenue (2013-14)	$191.8m	TCorp assessment	Sound FSR Negative Outlook

ILGRP options (preference in bold)

The ILGRP did not present a table of options for the Hunter region. Instead, it included a discussion of these councils in its report. The ILGRP indicated "Newcastle and Lake Macquarie should be amalgamated."

Our approach to Hunter Councils is reflected in the table in our Methodology Paper and indicates the preferred option that Newcastle and Lake Macquarie:

Amalgamate or council in Joint Organisation (possible boundary changes).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity - does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 217,850 by 2031 compared with the forecast merger population of 407,900. Our analysis suggests that a merged council would have enhanced scale to partner effectively with governments compared to the stand alone option.
- Our analysis suggests the merger could generate significant benefits to the local communities over 20 years.
- The council suggested there would be barriers to the merger, such as the two councils having different growth strategies, service models, community characteristics and regional focus, and both having self-contained local transport modes.
- Our analysis and findings are consistent with the ILGRP final report which concluded the preferred option was for Lake Macquarie to merge with Newcastle.

Sustainability - satisfies

- The council meets the criteria for sustainability as it is forecast to meet the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewals ratios by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 reserves would reduce the ratio by approximately 1.2 percentage points to 0.8% in 2019-20, which is still above the benchmark.

Infrastructure and service management - satisfies

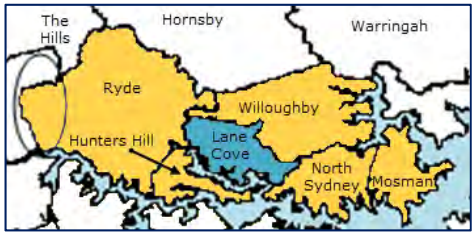
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet or improve close to the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Lake Macquarie submits it and Newcastle have distinct characters, Newcastle being a city and Lake Macquarie a dispersed community with numerous villages. Lake Macquarie also contests the ILGRP's statement that "(Newcastle's) southern suburbs merge seamlessly into the Lake Macquarie area…", stating the boundary is a natural one based on a water catchment divide.
Community consultation	Lake Macquarie City Council undertook community consultation by contacting residents, providing an information leaflet, and taking a survey on their preferences. Majority support was for the council to stand alone. The main reasons for respondents' choices concern: • having a low opinion of Newcastle City Council • reduced attention to local issues • the council's current good performance and appropriate size, and • funding and decision making would be directed from Lake Macquarie to Newcastle.
Water and/or sewer	The council does not have a water/sewer business.
Submissions to IPART	We received 31 submissions relating to Lake Macquarie Council's proposal, including one from the Cooranbong Business and Community Allianz, and one from a netball association. The majority were opposed to a merger. The main reasons were: • a loss of identity and local focus • the council is currently performing well, and • the merged councils would be financially weaker. Two submissions supported the suggested merger whilst one preferred a merger with Wyong Council. One late submission was received that did not support a merger. In a meeting the council discussed a number of issues from implementing a merger with Newcastle along the lines of the ILGRP's preferred options. It considered there would be significant impacts from a merger, which would include: • Financial impact on ratepayers from rate harmonisation in a merger with Newcastle. It considered rate harmonisation would result in Lake Macquarie ratepayers facing rate increases to meet Newcastle rate levels. • Social impact due to the differing service delivery model in Lake Macquarie compared to Newcastle due to the geography of the area. The council noted that Lake Macquarie has a number of communities surrounding a central lake and delivers services through local boards while Newcastle has a more urban delivery model with Newcastle as the centre.

LANE COVE COUNCIL - CIP



NOT FIT

Area (km^2)	11	Population	2011	33,250
OLG Group	2		(2031)	45,250
ILGRP Group	Sydney Metro	Merger	2011	286,867
			(2031)	376,150
Operating revenue (2013-14)	$37.2m	TCorp assessment		Sound FSR Negative Outlook

ILGRP options (preference in bold): **Merge with Hunter's Hill, Mosman, North Sydney, Ryde (part), Willoughby** (yellow) or combine as a JO.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity - does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 45,250 by 2031 compared with the forecast merger population of 376,150. Our analysis suggests that the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case which showed that a merger of Lane Cove, Hunter's Hill, Mosman, North Sydney, Willoughby and part of Ryde produces net benefits. Based on this model, our analysis suggests the merger produces net benefits of $280 million over 20 years (including the Government grant).
- In addition, our independent consultants Ernst & Young estimated net benefits from the merger of $187m over 20 years using public data (not including the Government grant).
- These analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- As an alternative to a merger, Hunters Hill, Ryde and Lane Cove councils submitted a common proposal to create a Joint Regional Authority (JRA). According to the councils, this would provide the benefits of shared services and centralised planning and development without the disruption of a merger. It would generate net benefits over 15 years of $0.5m, or $3.4m if it also included Mosman, North Sydney and Willoughby. The proposal does not fully quantify any efficiency savings that may also eventuate under the JRA. The preferred merger is likely to provide a higher level of efficiency savings than the JRA.
- Our analysis is consistent with the ILGRP's preferred option for Lane Cove to merge with neighbouring councils.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

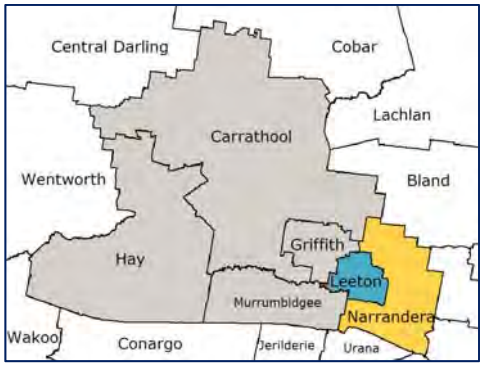
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratios by 2019-20.
- The council does not meet the debt service ratio benchmark. The council has a "no debt" policy.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council states the area has a strong sense of community. Morrison Low noted Lane Cove's community is quite contained with a strong village identity, due to its boundaries ie, foreshore and main arterial roads.
Community consultation	According to consultation results, 35% of survey respondents support a stand-alone council while 47% support the JRA proposal. The council states that survey respondent's support continuing to stand alone due to the council's high levels of performance.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions received in relation to Lane Cove's proposal.

LEETON SHIRE COUNCIL – CIP



FIT

Area (km^2)	1,132	Population	2011	11,400
OLG Group	11		(2031)	11,300
ILGRP Group	G	Merger	2011	17,500
			(2031)	16,250
Operating revenue (2013-14)	$15.7m	TCorp assessment		Moderate FSR Negative Outlook

ILGRP options (no preference): Council in Murrumbidgee JO (all shaded) or merge with Narrandera (yellow).

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although the council does not satisfy the infrastructure and service management criterion, the council satisfies the sustainability and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal to stand alone in a JO is consistent with the ILGRP's options for this council.
- The council has proposed process improvements to further enhance its capacity to stand alone.
- Based on the Morrison Low business case submitted on a merger, our analysis suggests the merger could produce benefits of $16m over 20 years (including the Government grant).
- While this evidence suggests a merger may be a better alternative to the council's proposal to stand alone, our finding is based on the proposal being consistent with the ILGRP option for no change.
- Morrison Low noted there is little difference in scale and capacity between the existing councils and the merger with Narrandera, particularly for Leeton.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, building and infrastructure asset renewal ratio and own source revenue ratio by 2019-20.
- The Morrison Low business case commissioned by the council noted that a merged Leeton/Narrandera council would only meet two of the financial benchmarks.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management, as it is forecast to meet the asset maintenance and debt service benchmarks by 2019-20.
- The infrastructure backlog ratio was 4.8% in 2014-15 and is forecast to be 5.6% by 2019-20, which does not meet the benchmark.

Efficiency - satisfies

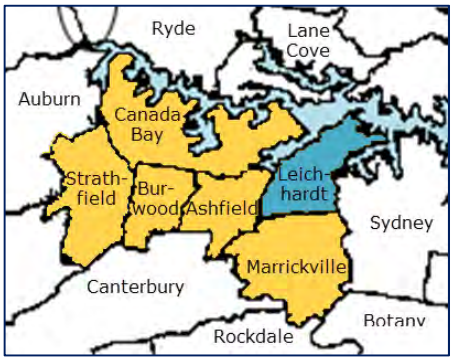
- The council satisfies the criterion for efficiency based on declining real operating expenditure per capita.

Other relevant factors

Social and community context	The council did not address any social or community issues.
Community consultation	Two public meetings were held to outline to the community the options available to council. Both meetings were unanimous in the desire by the community for the council to stand alone, whilst undertaking process improvement to improve its long term sustainability.

Other relevant factors	
Water and/or sewer	Leeton operates water and sewer businesses and has achieved the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework Guidelines. Leeton's water and sewer businesses reported a surplus (before capital) of $536,000 and $596,000 respectively in 2013-14. It reported a current (2013-14) water and sewerage infrastructure backlog of $16.6m based on special schedule 7, but notes the methodology of 'bring to satisfactory' has undergone substantial modifications over the last three years and considers this figure will be significantly reduced as a result.
Submissions	There were no submissions received in relation to Leeton's proposal.

LEICHHARDT MUNICIPAL COUNCIL – CIP



NOT FIT

Area (km^2)	10	Population 2011	55,650
OLG Group	2	(2031)	67,550
ILGRP Group	Sydney Metro	Merger 2011	331,800
		(2031)	433,000
Operating revenue (2013-14)	$78.8m	TCorp assessment	Sound FSR, Neutral Outlook

ILGRP options (preference in bold): **Merge with Ashfield, Burwood, Canada Bay, Marrickville and Strathfield** (yellow) or combine as strong Joint Organisation.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria overall:	**Satisfies**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 67,550 by 2031 compared with the forecast merger population of 433,000. Our analysis suggests the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case which showed a merger of Strathfield, Ashfield, Burwood, Canada Bay, Leichhardt and Marrickville produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $396m over 20 years (including the full Government grant).
- In addition, our independent economic consultants have estimated net benefits from the merger of $194m over 20 years using public data (not including the Government grant).
- The council resolved its preferred amalgamation would be between Leichhardt, Ashfield and Canada Bay Councils in the event of an amalgamation. It carried out internal modelling of this option, which showed this merger would be the best option for its residents.
- All analyses showed large gains to the local community from a merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP preferred option for Liechhardt to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the sustainability criterion. It is forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management – satisfies

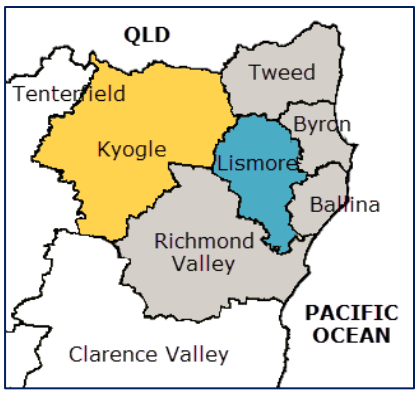
- The council satisfies the infrastructure and service management criterion based on its forecast to meet the benchmarks for the infrastructure backlog ratio, asset maintenance ratio and debt service ratio by 2019-20.

Efficiency – satisfies

- The council meets the efficiency criterion based on a decline in real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Leichhardt Municipal Council indicates the merged council will lead to a loss of: • representation with 2.5 councillors representing the LGA, rather than 12 • sense of identity and place, since there is no shared community of interest particularly with respect to Leichhardt's built form and open space heritage, and • local culture, local values and prioritisation of local issues.
Community consultation	Leichhardt Municipal Council consulted on two options (stand-alone or Inner West council). Every household and business was hand delivered information. 1,378 survey responses were received with 76% of respondents not supportive of an amalgamated council. The advice in the information pack promotes the stand-alone case. In addition, a random phone survey had 304 respondents with 61% of respondents not supportive of an amalgamated council. According to Leichhardt Municipal Council the structure of the random phone survey meets industry requirements put forward by Piazza Research to avoid any perception or accusation of "push polling".
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 191 submissions (including one early submission) relating to Leichhardt's proposal of which 178 rejected the merger. The main reasons for opposition included satisfaction with council's performance, loss of local identity and focus, reduced representation and services, and the absence of evidence that residents will be better off under a merger. The remainder supported the merger for reasons including the council was not meeting the needs of residents and a merged council would provide economies of scale and consistency of policies across wider areas.

LISMORE CITY COUNCIL – CIP



FIT

Area (km^2)	1,289	Population 2011	44,350
OLG Group	4	(2031)	50,200
ILGRP Group	G	Merger with Kyogle	
		2011	53,900
		(2031)	59,800
Operating revenue (2013-14)	$81.8m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP options (no preference)	Council in Northern Rivers JO or merge with Kyogle (yellow).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although it does not satisfy the infrastructure and service management criterion, it satisfies the sustainability and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- The council has a robust revenue base and has demonstrated some effective regional collaboration.
- The council is home to Lismore, a large regional centre. Our analysis suggests this population is sufficient to enable the council to have the strategic capacity to meet the future needs of its community and be a capable partner in the regional area with governments.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone. Hence the council has been assessed as satisfying the scale and capacity criterion.
- The council investigated a merger with Kyogle but decided against it on the basis that it would not bring benefits to Lismore Council residents or communities. We do not have sufficient evidence to evaluate the costs and benefits of the merger option relative to the stand alone proposal.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance and own source revenue ratios by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately 1.1 percentage points to 2.2% in 2019-20, which is still above the benchmark.
- The building and infrastructure asset renewal ratio was 106% in 2014-15 and is forecast to reach 88.4% by 2019-20. This does not meet the benchmark.
- The council's proposal assumes savings of $1.3m from service reviews and the successful application for and adoption of a special variation in 2018-19 of 5.5% cumulative (3.0% above the rate peg).

Infrastructure and service management – does not satisfy

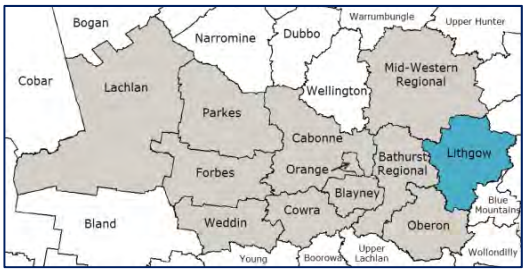
- The council does not satisfy the criterion for infrastructure and service management based on its forecast that it will not meet the benchmarks for the infrastructure backlog ratio and asset maintenance ratio by 2019-20. The council has forecast it will meet the benchmark for the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its reducing real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Lismore is a growing regional services hub within the Northern Rivers area. 63% of its population lives in urban areas, while 33% live in rural areas. The council is the centre for Southern Cross University and Lismore Base Hospital which contribute education and health services to the region.
Community consultation	The council consulted with its community through the 'Imagine Lismore' process to identify key priorities for its strategic plan. There is insufficient information on consultation regarding the Fit For The Future process.
Water and/or sewer	Lismore is not currently compliant with the best practice management framework, due to its waste charges and tariff structure. These will be reviewed to prepare compliant strategy in 2017-18.
Submissions	We received one submission regarding Lismore's proposal which does not support the council standing alone, citing high rates and lack of support for the proposed special variation. It also suggested alternative mergers as options.

LITHGOW CITY COUNCIL – CIP



NOT FIT

Area (km^2)	4,464	Population 2011	20,850
OLG Group	4	(2031)	20,600
ILGRP Group	G		
Operating revenue (2013-14)	$22.1m	TCorp assessment	Sound FSR Negative outlook
ILGRP option	Council in Central West JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. While it satisfies the infrastructure and service management criterion, it does not satisfy the sustainability and efficiency criteria.
- The council does not satisfy the sustainability criterion as a result of its forecast for a negative operating performance ratio by 2019-20.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – does not satisfy

- The council does not satisfy the sustainability criterion based on its forecast for an operating performance ratio of -9.0% by 2019-20, which does not meet the benchmark.
- The council's building and infrastructure asset renewal ratio is forecast to be 69.0% by 2019-20 which is below the benchmark.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency – does not satisfy

- The council does not meet the efficiency criterion based on its forecast increase in real opex per capita over the period to 2019-20.

Other relevant factors

Social and community context	Lithgow City Council stated it undertook meetings with neighbouring councils including Bathurst Council, Blayney Council, and Oberon Council. However, Lithgow City Council notes that these councils were not interested in pursuing potential mergers, rather options to increase productivity through bulk purchasing and other cost saving areas were discussed.
Community consultation	Lithgow City Council indicates that it informed the community about the Fit for the Future process as part of public meetings. However, no details were provided in its proposal in relation to the feedback provided by the community.
Water and/or sewer	Lithgow City Council operates water and sewer businesses. Both funds reported a surplus (before capital) for 2013-14. The council reports that the cost to bring the water and sewer assets to satisfactory standard is $24.1m. Lithgow City Council does not meet the requirements of the NSW Government's Best Practice Management of Water Supply and Sewerage Framework.
Submissions	We received one submission in relation to Lithgow's proposal. It expresses concerns about the accounting treatment of particular assets and the subsequent effect on financial information provided by the council in its Fit for The Future submission.

LIVERPOOL CITY COUNCIL – CIP

NOT FIT

Area (km^2)	305	Population 2011	188,100
OLG Group	7	(2031)	288,950
ILGRP Group	Sydney Metro	Merger 2011	384,600
		(2031)	528,850
Operating revenue (2013-14)	$142.1m	TCorp assessment	Sound FSR, Negative Outlook

ILGRP options (preference in bold): **Merge with Fairfield** (yellow) or Council in JO with Bankstown, Camden, Campbelltown, Fairfield and Wollondilly (shaded area).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under a merger option. In addition a merger option would provide significant further benefits.
- The council's population is forecast to be 288,950 by 2031 compared with the forecast merger population of 528,850. Our analysis suggests that a merged council will have enhanced scale to better partner effectively with state and Federal governments compared to the stand alone option.
- Our analysis suggests the council does not have sufficient size to effectively manage the high growth corridor in south western Sydney.
- The council did not provide a merger business case to demonstrate its proposal to stand alone was as good as or better than the preferred merger option.
- Our independent consultants Ernst and Young estimated net benefits from the merger of $131m over 20 years using public data (not including the Government grant).
- The council suggested that its growth profile may make it well placed to consider a merger with a council in the South West Growth Centre (ie, Camden and/or Campbelltown).
- Our analysis is consistent with the ILGRP's preferred option for Liverpool to merge and for a council of greater scale to manage the Liverpool region.
- Liverpool's proposal notes in the event it is required to merge, its preferred option is to merge with council(s) in the South West Growth Centre (Camden and/or Campbelltown). Its proposal noted a number of benefits from such a merger. The council commissioned analysis from SGS Economics & Planning which calculated (using the 'lead council' model):
  - a merger with Campbelltown and Camden produces cost savings of $243m in net present value terms over 10 years, or 6.7% of the combined cost base, whereas
  - a merger with Fairfield produces cost savings of $64m in net present value terms over 10 years, or 2.3% of the combined cost base.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

- The council's operating performance ratio was -1.3% in 2013-14 and is forecast to reach 0.3% by 2019-20 which meets the benchmark. We estimate adjusting this ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately two percentage points to -1.7% in 2019-20, which is below the benchmark, but close to meeting it. We consider the council has sufficient scope to adjust its revenue strategy to meet the benchmark.
- The building and infrastructure renewal ratio was 79.8% in 2013-14 and is forecast to reach 108.3% by 2019-20. The council states it has aligned its Asset Management Plan with its Long Term Financial Plan and increased renewal funding to achieve the benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criteria for efficiency based on its declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council's proposal outlines the Liverpool City LGA is considered the regional city for South Western Sydney. It is a well-connected transport hub with significant growth of nearly 100,000 additional residents by 2031.
Community consultation	The council conducted a community survey in 2015 through an independent research company. Of the 1,884 responses received, 53% were opposed to a merger, 33% supported a merger and 22% supported a merger with Fairfield. The council notes Fairfield's community consultation indicated that 91% opposed a merger with Liverpool.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions received in relation to Liverpool City's proposal.

LIVERPOOL PLAINS SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	5,002	Population	2011	7,750
OLG Group	10		(2031)	7,950
ILGRP Group	F	Merger	2011	20,250
			(2031)	21,250
Operating revenue (2013-14)	$15.1m	TCorp assessment		Weak FSR Negative Outlook

ILGRP options (no preference): Council in Namoi JO (all shaded area) or merge with Gunnedah (yellow).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the criteria for sustainability, infrastructure and service management and efficiency.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The population is small and is forecast to grow slowly to be 7,950 in 2031.
- The council does not have a robust revenue base, and its resources to cope with complex and unexpected change appear to be limited.
- Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- Liverpool Plains was required to explore the merger option. While Liverpool Plains held merger discussions with Gunnedah, it does not appear to have fully explored the merger option. In its proposal, Gunnedah indicated it was willing to undertake a study into a merger, but Liverpool Plains resolved to remain a stand-alone council.
- Instead of a merger, Gunnedah and Liverpool Plains have established a formal resource sharing strategy to improve the capacity of both councils.
- The council is participating in the Namoi pilot JO.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio and the own source revenue ratios by 2019-20.
- The building and infrastructure asset renewal ratio improves from 94.8% in 2014-15 to 99.8% in 2019-20, which is very close to the benchmark.
- The council's forecasts for the operating performance ratio are contingent on assumed efficiency improvements and the successful application for and adoption of a special variation from 2017-18 of 19.1% cumulative over 3 years (11.4% above the rate peg).

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency – satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors	
Social and community context	Factors affecting the council's decision to reject a merger include a strong sense of local identity, community opposition, its emerging mining resource sector, its positive population growth, and its competitive advantages of being located close to Tamworth and major road and rail networks.
Community consultation	A survey was undertaken by Liverpool Plains, with 1,102 responses received representing 25% of the eligible participants. 87% of total respondents indicated they would prefer to stand-alone. Liverpool Plains also undertook other consultation activities including meetings with business owners, presentations to local organisations, and a Fit for the Future hotline. The council notes it developed its proposal on the basis of the community's preference to stand alone. This consultation appears to have been relatively extensive.
Water and/or sewer	Liverpool Plains provides water and sewer services. The council does not currently meet the NSW Government's Best Practice Management of Water Supply and Sewerage Framework. It operates its water and sewer services on a break-even basis.
Submissions	There were no submissions received in relation to Liverpool Plains' proposal.

LOCKHART SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

FIT AS A RURAL COUNCIL

Area (km^2)	3000	Population	2011	3,100
OLG Group	9		(2031)	2,550
ILGRP Group	C	Merger	2011	64,900
			(2031)	75,600
Operating revenue (2013-14)	$9m	TCorp assessment		Sound FSR Neutral Outlook

ILGRP options (no preference): Rural Council in Riverina JO (all shaded) or merge with Wagga Wagga City Council (yellow).

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall as the council meets the criteria for sustainability, infrastructure and service management and efficiency.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include resource sharing within the Riverina Eastern Regional Organisation of Councils. REROC demonstrates its success in increasing the scale and capacity of its member organisations on a range of measures and plans to become the pilot JO for the region.
- Other strategies for improvement identified by the council include sharing administrative functions with neighbouring councils and an internal governance restructure.
- The council rejected a proposal to merge and did not submit a merger business case. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the Rural Council proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on the Government adopting a Rural Council model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmark for the operating performance ratio by 2024-25 and the benchmarks for the building and infrastructure asset renewal and own source revenue ratios by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2016-17 of 56.8% cumulative over 10 years (28.8% above the rate peg). Nonetheless, our analysis indicates the council would meet the operating performance ratio in the absence of this special variation.

Infrastructure and service management – satisfies

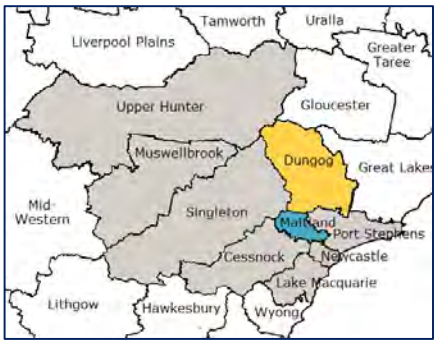
- The council satisfies the criterion for infrastructure and service management based its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	Lockhart is the major town in the local government area with a population of 800. It is a predominantly agricultural region with some additional light industry. The council distinguishes itself from Wagga Wagga City Council, which is a large regional centre with more urban issues. The closest regional centres for Lockhart are Wagga Wagga (65km) and Albury (106km).
Community consultation	The council updated residents on its plans through its newsletter and website. The council held 5 public meetings to inform the community of its improvement plan. A total of 118 community members attended the meetings with 79% voting in favour of the plan.
Water and/or sewer	The council has no backlog for its sewerage infrastructure. Water is supplied and managed by Riverina Water which is based in Wagga Wagga. The council indicates compliance with 78% of the NSW Government Best Practice Management of Water Supply and Sewerage Framework.
Submissions	No submissions were received in relation to Lockhart's proposal.

MAITLAND CITY COUNCIL – CIP



NOT FIT

Area (km^2)	392	Population 2011	69,900
OLG Group	5	(2031)	100,500
ILGRP Group	Hunter	Merger 2011	78,450
		(2031)	109,300
Operating revenue (2013-14)	$72.9m	TCorp assessment	Moderate FSR Neutral Outlook

ILGRP option (preference in bold)

The ILGRP report includes a map which indicates that Maitland and Dungog are a preferred merger option. We have therefore approached the assessment of these councils as if the merger was the ILGRP's preferred (ie bolded) option.

Our approach to Hunter Councils is reflected in the table in our Methodology Paper and indicates the preferred option that Maitland and Dungog:

Merge or council in Hunter JO (all shaded).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council meets the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity - does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- Our analysis is consistent with the ILGRP's preferred option for Maitland to merge with neighbouring councils.
- The council submitted a business case which showed a net cost of $6.1m over 10 years. Based on this model, our analysis of the business case suggests that the merger generates benefits of $5.3m over 20 years which includes the $5m Government grant.

Sustainability – satisfies

- The council satisfies the sustainability criterion. It is forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately 2.4 percentage points to -0.7% in 2019-20, which is below the benchmark. However, we consider the council has sufficient scope to adjust its revenue strategy to meet the benchmark.

Infrastructure and service management - satisfies

- The council satisfies the infrastructure and service management criterion as it meets the infrastructure backlog, asset maintenance and debt service benchmarks by 2019-20.

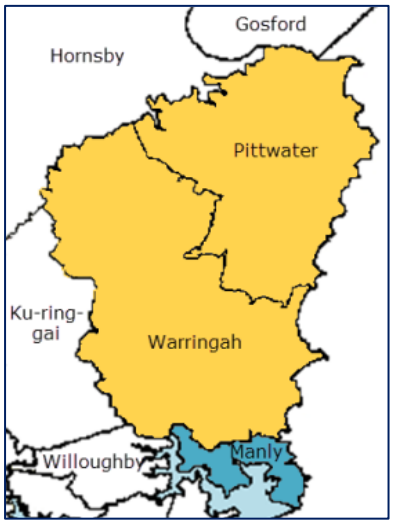
Efficiency - satisfies

- The council satisfies the efficiency criterion based on a decrease in real operating expenditure per capita from $890 in 2014-15 to $850 in 2019-20.

Other relevant factors	
Social and community context	The business case indicates that the corporate values of both Maitland and Dungog councils are largely shared between the organisations and have adopted very similar styles in expressing their respective vision and associated themes. The report also notes that different service levels exist between the two councils.
Community consultation	Maitland Council states it made a deliberate decision not to undertake any community consultation in relation the CIP, confident that its position had been determined using extensive consultation on community expectations for services and service levels as part of its recent special variation application.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	No submissions have been received in response to Maitland's proposal.

MANLY COUNCIL – CIP

NOT FIT



Area (km^2)	14.4	Population	2011	42,800
OLG Group	2		(2031)	53,600
ILGRP Group	Sydney Metro	Merger	2011	251,650
			(2031)	307,000
Operating revenue (2013-14)	$61.6m	TCorp assessment		Sound FSR Neutral Outlook

ILGRP options (preference in bold): **Merge with Pittwater and Warringah Councils** (yellow) or combine as a strong JO with Pittwater and Warringah councils.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

:

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- Manly Council did not demonstrate its improvement proposal was at least as good as the ILGRP merger option. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 53,600 by 2031 compared with the forecast merger population of 307,000. Our analysis suggests that the council does not have sufficient scale to partner effectively with governments compared to the merger.
- Manly Council and Pittwater Council jointly commissioned a business case which showed a merger of Manly, Pittwater and Warringah produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $116m over 20 years.
- Warringah Council also commissioned a separate business case of the merger. Based on this model, our analysis suggests the merger would produce net benefits of $265m over 20 years (including the Government grant).
- In addition, our independent economic consultants Ernst and Young estimated net benefits from the merger of around $116m over 20 years using publically available data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Manly Council noted its preference is the creation of two new councils (Greater Manly and Greater Pittwater) from the existing three councils if a merger was forced. Warringah Council does not support this alternative proposal.
- Community consultation by Manly and Pittwater Councils indicated opposition to the ILGRP merger. Warringah's community consultation, which was undertaken across the three LGAs, indicated almost 70% of responses supported the ILGRP merger.
- Our analysis is consistent with the ILGRP's preferred option for Manly to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a special variation in 2017-18 of 4.7% cumulative (2.2% above the rate peg).

Infrastructure and service management - satisfies

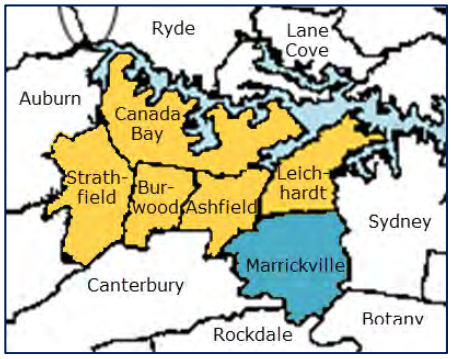
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on the Real Operating Expenditure per Capita showing a declining trend from 2014-15 to 2019-20.

Other relevant factors	
Social and community context	Tourism is important for Manly (it has 8 million visitors annually), providing a major source of income and employment for local businesses and demand for increased expenditure by the council. In comparison to Pittwater and Warringah Councils, the council has a higher population density and a younger population with a higher income.
Community consultation	In a survey of Manly residents, with 1,963 respondents, conducted in June 2015, to determine attitudes to a "forced merger", 76% supported a merger to create two councils and 24% supported merging all three councils. A stand-alone option was not provided in the survey.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	Four submissions were received on Manly Council's proposal. Two submissions argued against the ILGRP merger option, citing concerns related to loss of local identity and representation and increases in rates. One submission received from Warringah Council was in favour of merging with Pittwater and Manly councils, which noted there would be economies of scale and greater benefits for the Northern Beaches region from the merger. We also received one confidential submission.

MARRICKVILLE COUNCIL - CIP



NOT FIT

Area (km^2)	16	Population 2011		81,100
OLG Group	3		(2031)	102,300
ILGRP Group	Sydney Metro	Merger	2011	331,800
			(2031)	433,000
Operating revenue (2013-14)	$92.5m	TCorp assessment		Moderate FSR, Neutral Outlook

ILGRP options (preference in bold): **Merge with Ashfield, Burwood, Canada Bay, Leichhardt and Strathfield** (yellow) or combine as strong Joint Organisation.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria overall:	**Satisfies**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 102,300 by 2031 compared to the forecast merger population of 433,000. Our analysis indicates the council does not have sufficient scale and capacity to effectively partner with governments compared to the merger.
- The council submitted a business case which showed a merger of Strathfield, Ashfield, Burwood, Canada Bay, Leichardt and Marrickville produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $396m over 20 years (including the full Government grant).
- In addition, our independent economic consultants Ernst & Young estimated gains to the local communities from the merger of $194m over 20 years using publically available data (not including the Government grant).
- The council submitted another business case which showed a merger of Marrickville, Botany Bay and Rockdale produces net benefits. Based on this model, our analysis suggests a merger between Marrickville, Botany Bay and Rockdale could produce net benefits of $251m over 20 years. However, the council did not wish to pursue this option and it was not an option identified by the ILGRP. We did not investigate the further regional impacts of this proposed merger.
- All analyses showed large gains to the local community from a merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Marrickville to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the sustainability criterion. It is forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the infrastructure and service management criterion as it meets the infrastructure backlog, asset maintenance and debt service benchmarks by 2019-20.

Efficiency – satisfies

- The council meets the efficiency criterion based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	Marrickville Council states that loss of identity is a risk in a merger with councils that do not share a similar sense of community, eg, it has a high percentage of artists, cultural workers, arts industries and same-sex couples.
Community consultation	Marrickville Council consulted the community on two options (stand alone or Inner West merger). It received 3,685 survey responses as a result of an information brochure provided to all rate payers with 72% of respondents opposed to the Inner West merger and 78% supporting Marrickville as a stand-alone council. We consider its information pack presents an incomplete assessment of costs and benefits.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 40 submissions relating to Marrickville's proposal. Among these submissions, 35 rejected the merger. The main reasons for opposition included satisfaction with council's performance, loss of local identity and focus, reduced representation and services, and that there is no evidence residents will be better off under a merger. One submission was in support of merging based on operational improvements. Three submissions were in support of alternative mergers, eg, with the City of Sydney. We also received one confidential submission.

MID-WESTERN REGIONAL COUNCIL – CIP

NOT FIT

Area (km^2)	8,722	Population 2011	23,000
OLG Group	4	(2031)	25,050
ILGRP Group	G		
Operating revenue (2013-14)	$39.7m	TCorp assessment	Sound FSR Negative Outlook
ILGRP option	Council in Central West JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Whilst it satisfies the efficiency criterion, it does not satisfy the sustainability and infrastructure and service management criteria.
- The council does not satisfy the sustainability criterion as a result of its forecast for a negative operating performance ratio by 2019-20.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FFTF) councils should meet, therefore the council is not fit.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's option to stand alone.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- The council has demonstrated effective regional partnerships.

Sustainability – does not satisfy

- The council does not satisfy the sustainability criterion based on its forecast for an operating performance ratio of -1.9% by 2019-20.
- This council's operating performance ratio is forecast to be below the benchmark by 2019-20. The council recognises its current asset management systems and procedures are inadequate and need to improve so that accurate and reliable data can be used to monitor and improve the council's performance against the indicators for sustainability and infrastructure service management.
- The council's forecast for the own source revenue ratio and the building and infrastructure asset renewal ratio meet the benchmarks by 2019-20.

Infrastructure and service management – does not satisfy

- The council does not satisfy the infrastructure and service management criterion based on its forecast for a large infrastructure backlog and insufficient asset maintenance by 2019-20.
- The infrastructure backlog ratio was 11% in 2014-15 and is forecast to be 7% by 2019-20. This does not meet the benchmark.
- The council states its current asset management data is unreliable and places low confidence in its estimates (ie, estimates are based on engineering assessments and do not reflect community expectations or council's priorities). The council also states it has inherited duplicate assets and assets in varying conditions as a legacy of two previous amalgamations.
- The council expects improvements in the quality of asset management data will reduce the 'estimated cost to bring assets to a satisfactory condition' by at least 10% and it plans to redirect 20% of its renewal expenditure to reduce its backlog.

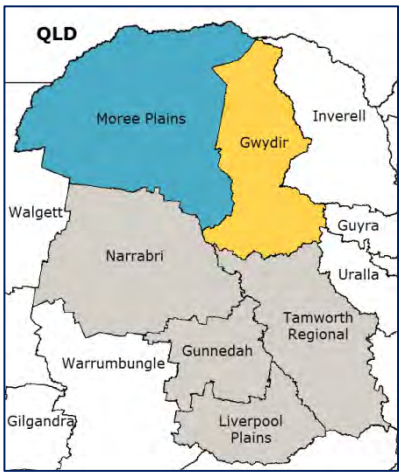
- The council has calculated the infrastructure backlog ratio using the current replacement cost as the denominator, instead of the written down value. This is arguably a valid measurement of the infrastructure backlog. The results of this method are more favourable but still do not meet the benchmark, showing an 8% backlog in 2013-14 and 5% backlog in 2019-20.
- The asset maintenance ratio was 89% in 2014-15 and is forecast to be 84% by 2019-20. This is below the benchmark. As noted above, the council's estimates are unreliable due to inadequate asset management systems and procedures. The council states its large network of unsealed roads is a major cause of this result and acknowledges the need to consult with the community to set realistic service levels.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period.

Other relevant factors	
Social and community context	The proposal did not contain any relevant social and community context information for this criterion.
Community consultation	The proposal did not provide any details of community consultation.
Water and/or sewer	Mid-Western Regional Council operates water and sewer businesses. It does not achieve the requirements of the NSW Government's Best Practice Management of Water Supply and Sewerage Framework. The council indicates its water and sewer infrastructure backlog is $39.1m. The council reported surplus results for water and sewer (before capital) of $847,000 and $146,000 respectively for 2013-14.
Submissions	There were no submissions received in relation to Mid-Western's proposal.

MOREE PLAINS SHIRE COUNCIL – CIP



FIT

Area (km^2)	17,930	Population	2011	14,050
OLG Group	11		(2031)	11,750
ILGRP Group	G	Merger	2011	19,150
			(2031)	15,950
Operating revenue (2013-14)	$52.2m	TCorp assessment		Moderate FSR Neutral Outlook
ILGRP options (no preference)	Council in Namoi JO (all shaded) or merge with Gwydir (yellow).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council currently meets or partially meets most of the elements of scale and capacity. In particular, it has undertaken a number of large regional projects and has contributed to the development of a Melbourne to Brisbane inland rail link, which is a nationally significant project.
- The council's proposal is consistent with the ILGRP's option to stand alone in the Namoi JO.
- Moree Plains notes discussions were held with Gwydir Council in relation to a merger. However, a merger was not pursued by Moree Plains due to community opposition, the potential for a merger to hinder Moree Plains' ability to meet benchmarks and differences in the communities and strategic priorities.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.
- The council's performance against this criterion is fairly strong, particularly for a OLG Group 11 council, as it intends to generate operating surpluses in every year out to 2024-25 and exceeds the own source revenue ratio without the inclusion of FAGs from 2015-16 onwards.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

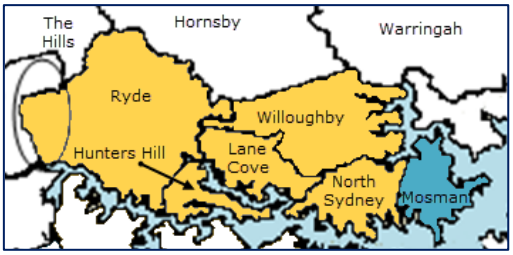
- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors

Social and community context	Moree Plains states it has different community and strategic priorities compared to Gwydir. For example, Moree Plains is opposed to coal seam gas and coal mining, while Gwydir supports these activities. Moree Plains also has a large indigenous population representing 22% of its population; while Gwydir's indigenous population is 4% of its population. Moree Plains considers that a merger with Gwydir could dilute its focus on indigenous reconciliation.
Community consultation	Moree Plains undertook a community survey in 2013. Respondents rated the following options with an 'Agree' or 'Strongly Agree' position: continuation as a stand-alone council (60%), strengthening shared services (48%), merger with Gwydir Council (23%). No further community consultation was indicated.
Water and/or sewer	Moree Plains provides water and sewer services. The council is compliant with the NSW Government's Best Practice Management of Water Supply and Sewerage Framework. However, it has not paid a dividend for its water and sewer services for 2013-14 and 2012-13.
Submissions	There were no submissions received in relation to Moree Plains' proposal.

MOSMAN MUNICIPAL COUNCIL - CIP

NOT FIT



Area (km^2)	9	Population	2011	29,350
OLG Group	2		(2031)	35,350
ILGRP Group	Sydney Metro	Merger	2011	286,867
			(2031)	376,150
Operating revenue ($2013-14)	$41.3m	TCorp assessment		Weak FSR, Positive Outlook

ILGRP options (preference in bold): **Merge with Hunter's Hill, Lane Cove, North Sydney, Ryde (part), Willoughby** (yellow) or combine as a JO.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity - does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 45,250 by 2031 compared with the forecast merger population of 376,150. Our analysis suggests the council does not have sufficient scale to partner effectively with governments compared to the merger option.
- The City of Ryde Council, Hunter's Hill City Council and Lane Cove City Council submitted a business case which showed that a merger of Lane Cove, Hunter's Hill, Mosman, North Sydney, Willoughby and part of Ryde produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $280 million over 20 years (including the Government grant).
- In addition, our independent consultants Ernst & Young estimated net benefits from the merger of around $187m over 20 years using publically available data (not including the Government grant).
- These analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Mosman to merge with neighbouring councils.

Sustainability - satisfies

- The council meets the criteria for sustainability as it is forecast to meet the benchmarks for the operating performance, own source and building and infrastructure asset renewals ratios by 2019-20.

Infrastructure and service management - satisfies

- The council meets the criteria for infrastructure and service management as it forecasts meeting the benchmarks for the infrastructure backlog ratio and debt service ratio by 2019-20.
- The council forecasts its asset maintenance ratio will be 100% by 2019-20 which is close to the benchmark of 'greater than' 100%.

Efficiency - satisfies

- The council meets the criterion for efficiency based on a forecast decline in real opex per capita from 2014-15 to 2019-20.

Other relevant factors	
Social and community context	Mosman considers it has built a strong sense of local identity that is recognised within and outside the boundaries of the LGA. During the consultation process, residents argued against mergers for reasons including: a desire to maintain a local identity, the risk of reduced democracy and community spirit and concerns about whether a merged council would be as attuned to local issues as Mosman Municipal Council. Mosman is bounded on three sides by harbour; however it contains the main thoroughfare between the city and the northern beaches.
Community consultation	Mosman's community consultation shows its community strongly opposes merging. The most recent poll in 2012 found 81% of respondents opposed a merger. However, it is not clear whether balanced information on the merger options was provided as part of the poll. A submission to IPART also notes the council's survey on community preferences for standing-alone appears unbalanced.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	Nine submissions were received in relation to Mosman's proposal (including one early submission). Six oppose merging citing potential risks such as the loss of local focus, less representation, reduced services, financial weakness, threat to democracy, reduced oversight, reduced community engagement, a failure to address the social dimension of local government, a lack of evidence that mergers will produce benefits and the risk of increased rates. Two submissions note the council's good performance. One submission supports a merger citing potential benefits including a stronger voice, better calibre councillors and reduced influence of special interest groups. This submission supports merging with North Sydney. We also received one confidential submission.

MURRAY SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	4,256	Population	2011	7,200
OLG Group	10		(2031)	8,750
ILGRP Group	D	Merger Deniliquin/Conargo	2011	16,100
			(2031)	16,150
		Merger Deniliquin/Wakool	2011	18,550
			(2031)	17,650
Operating revenue (2013-14)	$14.1m	TCorp assessment	Neutral FSR, Moderate Outlook	

ILGRP options (preference in bold): **Merge with Deniliquin/Conargo** (yellow) and Wakool or council in Mid-Murray JO with Deniliquin, Conargo, Wakool, Jerilderie and Berrigan (all shaded).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- The council has not demonstrated its proposal to stand alone is as good as the ILGRP's merger option. When compared to a merger, the council's forecast population of 8,750 in 2031 means it is unlikely to provide services cost-effectively to the local communities, advocate credibly and partner effectively with governments.
- The council submitted a business case by LKS Quaero for a merger between Wakool, Murray and Deniliquin Councils, but did not identify an NPV estimate. Based on this model, our analysis suggests a merger could produce net benefits of $26m over 20 years (including the full government grant of $11m).
- Our analysis also suggests a potential Murray and Deniliquin merger could produce net benefits of $16m over 20 years (including a government grant of $5m).
- All analyses show large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council has proposed a special variation of 3% above the rate peg, but has not specified which year this may occur. Consultation has not yet been undertaken.
- The council states it will improve its operating position through the implementation of the Murray Shire Plan, including service reviews, efficiency reviews and rating base reviews.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

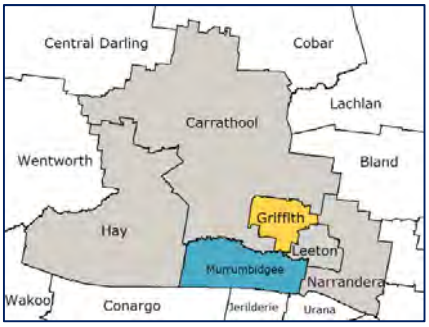
Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period to 2019-20.

Other relevant factors	
Social and community context	The largest township in the Murray Shire is Moama, which is situated on the Murray River and forms a 'twin city' with Echuca, which is located in Victoria. The council is 800km from Sydney and 200km from Melbourne and therefore many of its residents are employed and access services to the south.
Community consultation	The council undertook consultation which it states supported a stand-alone proposal. It has not provided further information on its process for consultation.
Water and/or sewer	The council's proposal states it is compliant with best practice for water and sewer and has a zero infrastructure backlog.
Submissions	IPART received four submissions (including one late submission) regarding Murray's proposal. Two submissions were against a merger, stating that the council was performing well and a merger would result in a loss of local focus and identity. One submission supported a merger and argued that the council only meets the FFTF benchmarks with accounting adjustments and rate increases and is mismanaged. We also received one confidential submission.

MURRUMBIDGEE SHIRE COUNCIL - RURAL COUNCIL PROPOSAL

NOT FIT



Area (km^2)	3,506	Population	2011	2,350
OLG Group	9		(2031)	1,800
ILGRP Group	B	Merger	2011	27,750
			(2031)	27,250
Operating revenue (2013-14)	$5.2m	TCorp assessment		Moderate FSR Neutral Outlook

ILGRP options (preference in bold): **Merge with Griffith** (yellow) or Rural Council in Murrumbidgee JO (al shaded).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council meets the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is as good an option to achieve the scale and capacity objectives for the region.
- The proposed Rural Council Proposal is not as good as the ILGRP's preferred option to merge with Griffith. When compared to the merger, the council's small and declining population of 1,800 in 2031 means it is unlikely to cost-effectively provide services to the local communities and advocate and partner with government.
- Our analysis indicates the merger is a superior outcome for managing strategic issues along the Murrumbidgee River, such as agriculture and other primary industries. We also observe the merger will further promote the close economic and social ties between the two councils.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2023-24 and the building and infrastructure asset renewal ratios by 2019-20.
- The own source revenue ratio is forecast to increase from 48% in 2014-15 to 56% by 2019-20. Although just below the benchmark, the council meets the requirement for it to demonstrate improvement by 2019-20. With FAGs, the ratio increases from 70% in 2014-15 to 82% by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2017-18 of 15.6% cumulative over 2 years (10.5% above the rate peg).
- The improvement in operating performance is also driven by a $0.5m reduction in depreciation based on an external assessment by Jeff Roorda and Associates.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The reduction in its infrastructure backlog is driven by a recent revaluation (by Jeff Roorda and Associates) using more accurate condition assessments of council assets and levee bank works.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	There are two town centres (Darlington Point and Coleambally) to support its rural-based and agricultural industries. The impact of drought conditions has led to population decline in the past.
Community consultation	The council held community meetings in May 2013 (when the draft ILGRP report was released) and further meetings in April and May 2015. The council used online and paper based media to inform its community. The council stated the community feedback was for the council to stand alone.
Water and/or sewer	The council's compliance with the NSW Government Best Practice Management frameworks is 60% for water and 33% for sewerage. The council proposes to adopt strategies, which would increase compliance to 90% for water and 75% for sewerage, by 2019-20.
Submissions	There were no submissions received in relation to Murrumbidgee's proposal.

MUSWELLBROOK SHIRE COUNCIL – CIP

FIT

Area (km^2)	3,415	Population 2011	16,350
OLG Group	11	(2031)	19,350
ILGRP Group	Hunter		
Operating revenue (2013-14)	26.7m	TCorp assessment	Moderate FSR, Neutral Outlook
ILGRP option	Council in Hunter JO.		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's option to stand alone.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- The council is part of an effective regional collaboration of Hunter Councils demonstrating effective shared resource management.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building infrastructure and asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

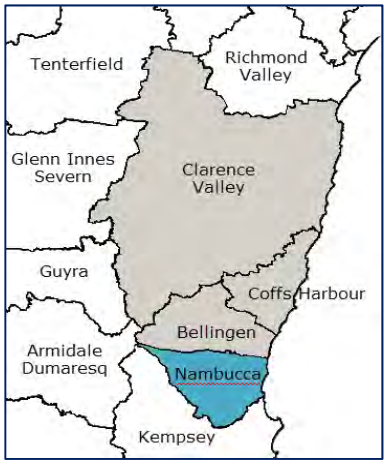
Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real operating expenditure per capita to reduce over the period to 2019-20.

Other relevant factors

Social and community context	As the ILGRP suggests the council stand alone in a JO, the CIP does not address social or community concerns.
Community consultation	Aside from stating that consultation will occur prior to any future application for a Special Variation to Rates, there is no evidence that the council has conducted consultation relating to the Fit For The Future Process.
Water and/or sewer	The council has not provided evidence its water and sewer businesses currently pay, or would be able to pay, dividends. Consequently, the existence of these businesses only affect the councils' scale and capacity insofar as they allow the council to hire staff with a wider range of skills.
Submissions	No submissions were received on Muswellbrook's proposal.

NAMBUCCA SHIRE COUNCIL – CIP



FIT

Area (km^2)	1,491	Population 2011	19,529
OLG Group	11	(2031)	20,650
ILGRP Group	G		
Operating revenue (2013-14)	$21.4m	TCorp assessment	Weak FSR Negative Outlook
ILGRP option	Council in North Coast JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future - FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option.
- Our analysis has not identified evidence for a better alternative to the council's proposal.
- The council currently meets or partially meets most of the elements of scale and capacity.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio and the own source revenue ratios by 2019-20.
- The council's improvement in operating performance includes a $2.8m pa reduction in expenses due to changes in accounting policy, which we consider to be reasonable.
- The building and infrastructure asset renewal ratio was 70.4% in 2014-15 and improves to be 78.7% in 2019-20, peaking during the period at 106.8%. The 2019-20 result remains below the benchmark.
- In its proposal, the council relies on the successful application for and adoption of a special variation in 2017-18 of 3.5% cumulative (2.5% above the rate peg). This is in addition to an approved special variation from 2014-15 of 15% cumulative over three years (7.3% above the rate peg).

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council states it has revised the methodology for calculating the backlog ratio from the 2014-15 year onwards, which we consider to be reasonable.

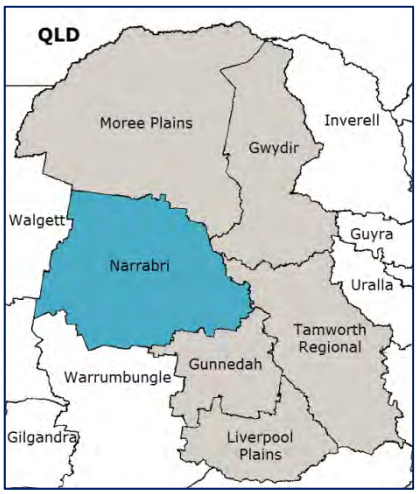
Efficiency - satisfies

- The council meets the criterion for efficiency based on the real operating expenditure per capita showing a declining trend.

Other relevant factors

Social and community context	Nambucca is located on the mid north coast of New South Wales. The council's main towns are Nambucca Heads, Macksville and Bowraville, in addition to key coastal settlements. It has an ageing population, with 32% over 65 years old. It is a lower income area with 38% earning less than $32,000 per year. The economy is driven by agriculture, forestry and fishing, with construction and retail also contributing significantly.
Community consultation	No details of community consultation were included in the proposal.
Water and/or sewer	Nambucca Shire Council operates water and sewerage utilities in the shire. The water supply infrastructure backlog is $14.0m. The sewerage infrastructure backlog is $27.7m.
Submissions	We received one confidential submission relating to the council's proposal.

NARRABRI SHIRE COUNCIL – CIP



	FIT			
Area (km^2)	13,000	Population	2011	13,450
OLG Group	11		(2031)	12,600
ILGRP Group	G			
Operating revenue ($2013-14)	$35.2m	TCorp assessment		Moderate FSR Negative Outlook
ILGRP option	Council in Namoi JO (all shaded).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not propose another option for this council, the council was not required to demonstrate how it met each of the elements of scale and capacity. It therefore did not provide sufficient information on the other elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- The council appears to have a limited ability to undertake new functions and major projects and acknowledges it has a shortage of skilled workers. However, it appears to have plans in place to improve its fiscal responsibility and improve the skills of the local community.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance and the own source revenue ratios, and is close to meeting the building and infrastructure asset renewal ratio by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2017-18 of 26.0% cumulative over 3 years (16.7% above the rate peg).
- The council's performance against this criterion is fairly strong particularly for an OLG Group 11 council, as it exceeds the own source revenue ratio from 2017-18 without the inclusion of FAGs and forecasts operating surpluses from 2016-17 onwards.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the asset maintenance and debt service ratios by 2019-20, and will be close to meeting the infrastructure backlog benchmark.
- The council has not detailed the strategies relating to the forecast changes in these measures.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.
- The council identified a range of annual recurrent efficiency savings which will total $1.35m from 2018-19, which contribute to improvement in this measure.

Other relevant factors	
Social and community context	Narrabri's main industries are agriculture and primary industries. The 2011 census indicated that sheep, beef cattle and grain farming, other crop growing, and agriculture and fishing support services were the largest sources of employment (20% of all responses).
Community consultation	In developing its proposal, the council conducted eight community consultation meetings, exhibited its draft improvement plan for public consultation, and interacted with the community via its Facebook page. All community submissions were reported to the council. However, we note no information was provided in the council's proposal in relation to the community's views on its proposal.
Water and/or sewer	Narrabri provides water and sewer services. The council currently does not meet the requirements of the NSW Government's Best Practice Management of Water Supply and Sewerage Framework. It is managing its water and sewer services on a break even basis. The council does not have any water or sewerage infrastructure backlog.
Submissions	We received four submissions related to Narrabri's proposal, which raised concerns about the council's management, financial performance, and poor community consultation.

NARRANDERA SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	4,175	Population 2011		6,100
OLG Group	10		(2031)	4,950
ILGRP Group	F	Merger	2011	17,500
			(2031)	16,250
Operating revenue (2013-14)	$15.1m	TCorp assessment		Moderate FSR Negative Outlook
ILGRP options (no preference)	Council in Murrumbidgee JO (all shaded) or merge with Leeton (yellow).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy in order to be assessed as Fit for the Future.
- The council satisfies the financial criteria overall. Whilst it does not satisfy the efficiency criterion, it satisfies the sustainability and infrastructure and service management criteria.

Scale and capacity - does not satisfy

- The council did not sufficiently demonstrate how it would achieve scale or strategic capacity.
- The council is currently a participant in RAMROC which it indicated would be similar to a JO.
- The council's population is declining and is forecast to be 4,950 by 2031. Our analysis suggests the council has insufficient scale to deliver services for its community and to partner effectively with Government.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- The council opposed a merger with Leeton. Based on the business case submitted on a merger with Leeton Council, our analysis suggests the merger could produce benefits to the local communities of $16m over 20 years (including the $5m Government grant).
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, own source revenue ratio (with the inclusion of FAGs) and the building and infrastructure asset renewal ratio by 2019-20.
- For councils within OLG groups 8-11 we have assessed the own source revenue ratio with the inclusion of FAGs.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - does not satisfy

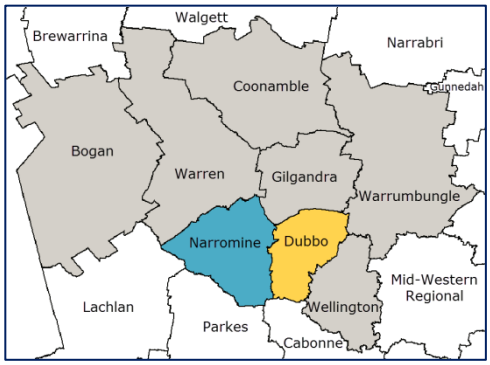
- The council does not meet the efficiency criterion based on its forecast for an increasing real operating expenditure per capita from $2,610 in 2014-15 to $2,640 in 2019-20.
- The council states it will be reviewing its provision of aged care (including a possible sale of the facility) and out of school care services in December 2015, as this may be the reason for the increase in the ratio.

Other relevant factors	
Social and community context	The council resolved to stand alone and did not address any social or community issues.
Community consultation	Narrandera conducted a community engagement process about the local government reform in 2013-14, lodging a submission to the ILGRP in March 2014. The submission noted the Narrandera community did not support a merger with Leeton.
Water and/or sewer	Narrandera operates water and sewer businesses and does not meet the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework Guidelines. Narrandera's water and sewer businesses reported a surplus (before capital) of $756,000 and $177,000 respectively in 2013-14. However, it reported a $450,000 backlog for each of its water and sewerage businesses. It states it has sufficient funds in reserve to fund these works and is undertaking further work to assess asset conditions.
Submissions	We received one submission in relation to Narrandera's proposal, in support of standing alone.

NARROMINE SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	5,224	Population	2011	6,850
OLG Group	10		(2031)	6,300
ILGRP Group	E	Merger	2011	47,100
			(2031)	52,800
Operating revenue (2013-14)	$13.0m	TCorp assessment	Moderate FSR Neutral outlook	



ILGRP options (no preference): Council in Orana JO (all shaded) or merge with Dubbo (yellow).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - does not satisfy

- The council's population is declining and is forecast to be 6,300 by 2031. Our analysis suggests the council has insufficient scale to deliver service for its community and to partner effectively with Government. Our findings are consistent with analysis by the ILGRP, which suggests councils with populations below 10,000 are unlikely to be of a sufficient size to deliver local council services effectively and efficiently.
- The council did not meet most of the elements of strategic capacity, because it did not demonstrate its proposal to stand alone was as good as or better than the merger with Dubbo, which would produce benefits for its community.
- Our analysis suggests the potential merger with Dubbo City Council would promote the existing economic and social ties between the two councils, and generate efficiencies. Given the council's relative size, its community is likely to be better off under a merger. We note Dubbo City Council's infrastructure and assets services surrounding councils and the broader Orana region.
- Given its small and declining population, the council is unlikely to be able to credibly advocate for its community.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.
- The council identified revenue and cost-saving opportunities (including $0.5m in depreciation based on more accurate assessments) which would help generate small surpluses from 2017-18 onwards.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency – satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

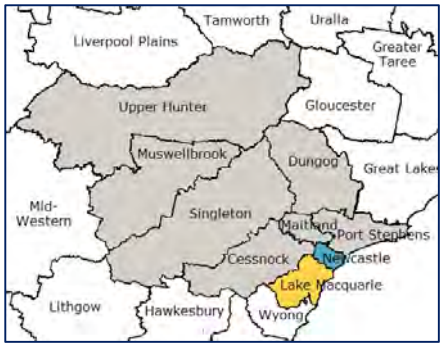
Other relevant factors

Social and community context	Narromine's economy is mostly based on agriculture. Around 21% of the residential population are indigenous Australians. The LGA is ranked as the 25th most disadvantaged LGA in NSW (out of 152 councils for SEIFA).

Other relevant factors	
Community consultation	The council has undertaken a reasonable amount of community consultation for its proposal. The council issued newsletters, held public meetings, released online and media publications and conducted an online survey. The results from the online survey showed that 53% of respondents supported the stand-alone council proposal and 47% did not (based on 59 completed surveys).
Water and/or sewer	The council is 100% compliant with the NSW Best Practice Management Framework. The council does not have any capital works greater than $1m. The utility businesses operate on a full cost recovery basis, and the council has identified around 30 initiatives to improve its performance. We note the council has a backlog of around $0.75m for its water and sewer business.
Submissions	There were no submissions received in relation to Narromine's proposal.

NEWCASTLE CITY COUNCIL – CIP

NOT FIT



Area (km^2)	187	Population 2011	155,550
OLG Group	5	(2031)	190,050
ILGRP Group	Hunter Councils	Merger 2011	352,350
		(2031)	407,900
Operating revenue (2013-14)	$223.6m	TCorp assessment	Moderate FSR, Negative Outlook

ILGRP options (preference in bold)

The ILGRP did not present a table of options for the Hunter region. Instead, it included a discussion of these councils in its report. The ILGRP indicated that "Newcastle and Lake Macquarie should be amalgamated."

Our approach to Hunter Councils is reflected in the table in our Methodology Paper and indicates the preferred option that Newcastle and Lake Macquarie:

Amalgamate or council in Joint Organisation (possible boundary changes).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity - does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 190,050 by 2031 compared with the forecast merger population of 407,900. Our analysis suggests the merger would have enhanced scale to partner effectively with governments compared to the merger option.
- Our analysis suggests the merger could generate significant benefits to the local communities over 20 years.
- The council suggests there would be barriers to the merger, such as the two councils having different growth strategies, service models, community characteristics and regional focus, and both having self-contained local transport modes.
- Our analysis and findings are consistent with the ILGRP final report which concluded the preferred option was for Newcastle to merge with Lake Macquarie.

Sustainability – satisfies

- The council satisfies the criteria for sustainability based on its forecast to meet the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewal ratios by 2019-20.
- The projected improvement is based on an approved special rate variation, efficiency improvements, increased revenue from commercial operations and asset sales.

Infrastructure and service management - satisfies

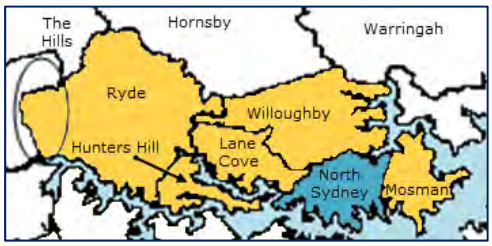
- The council meets the criteria for infrastructure and service management based on its forecast to meet the benchmarks for the asset maintenance ratio and debt service ratio by 2019-20.
- The council forecasts a significant improvement in its infrastructure backlog ratio to 3.0% by 2019-20 which is close to the benchmark.

Efficiency - satisfies

- Newcastle meets the criterion for efficiency based on a forecast decline in real opex per capita.

Other relevant factors	
Social and community context	Newcastle submits it and Lake Macquarie are distinct because Newcastle's LGA is based around a city while Lake Macquarie's LGA consists of a dispersed community with numerous villages.
Community consultation	Newcastle did not undertake community consultation specific to its Fit for the Future Proposal. It has analysed results from consultation undertaken during the ILGRP's review process, some of which was focused on the Hunter region. This research shows that, broadly, the majority of respondents from the Hunter region are opposed to council mergers.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received two submissions relating to Newcastle City Council's proposal. One referred to financial robustness being achieved through diversity. We also received one confidential submission. We received one late submission generally supporting larger councils and in particular a Hunter Coast Council for reasons including economies of scale and political significance.

NORTH SYDNEY COUNCIL – CIP



NOT FIT

Area (km^2)	1	Population 2011		66,750
OLG Group	2		(2031)	85,750
ILGRP Group	Sydney Metro	Merger	2011	286,867
			(2031)	376,150
Operating revenue (2013-14)	$108.7m	TCorp assessment		Moderate FSR, Neutral Outlook

ILGRP options (preference in bold): **Merge with Hunter's Hill, Lane Cove, Mosman, North Sydney, Willoughby** (yellow) or combine as a JO.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although it does not meet the efficiency criterion, the council satisfies the sustainability and infrastructure and service management criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 87,750 by 2031 compared with the forecast merger population of 376,150. Our analysis suggests the council does not have sufficient scale to partner effectively with the governments compared to the merger option.
- The City of Ryde Council, Hunter's Hill Council and Lane Cove Council submitted a business case which showed that a merger of Lane Cove, Hunters Hill, Mosman, North Sydney, Willoughby and part of Ryde produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $280 million over 20 years (including the Government grant).
- In addition, our independent consultants Ernst and Young estimated net benefits from the merger of around $187m over 20 years using publically available data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for North Sydney to merge with neighbouring councils.

Sustainability - satisfies

- The council meets the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, own source revenue ratio and building and infrastructure asset renewal ratio by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a special variation in 2019-20 of 7.0% cumulative (4.5% above the rate peg).

Infrastructure and service management - satisfies

- The council meets the criterion for infrastructure and service management based on it meeting the infrastructure backlog, asset maintenance and debt service ratio benchmarks by 2019-20.

Efficiency – does not satisfy

- The council does not satisfy the criterion for efficiency based on increasing real opex per capita of $1,240 in 2014-15 rising to $1,410 in 2019-20.

- To meet the benchmark, the council states it would need to reduce real operating expenditure by $32m over the five years to 2019-20. It does not intend to make such a reduction.

Other relevant factors	
Social and community context	The Morrison Low report notes communities are generally identified by suburb rather than LGA.
Community consultation	Polling results repeatedly show most North Sydney residents do not support council mergers. However, the extent of information provided to inform the community about the implications of these mergers is unclear.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received one submission in relation to North Sydney's proposal. It requested North Sydney remain a stand-alone council, noting that it is large enough. One late submission was received from a councillor, which included a petition with over 1,000 signatures opposed to the merger.

OBERON COUNCIL – CIP

NOT FIT

Area (km^2)	3,594	Population 2011	5,200
OLG Group	10	(2031)	4,950
ILGRP Group	F	Merger 2011	45,150
		(2031)	56,500
Operating revenue (2013-14)	$12.0m	TCorp assessment	Sound FSR Negative Outlook
ILGRP options (no preference)	Merge with Bathurst (yellow) or council in Central West JO (all shaded).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- Oberon Council discussed merger options and boundary changes with Bathurst, Lithgow, and Blayney Shire Councils. Oberon found there were no advantages associated with these options and has opted to stand alone as part of the Central West JO.
- The council's population is declining and is forecast to be 4,950 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio by 2024-25 and the building and infrastructure asset renewal ratio based on its forecasts by 2019-20.

Infrastructure and service management – satisfies

- The council meets the criterion for infrastructure and service management based on its forecasts to meet the benchmarks for the asset maintenance ratio and debt service ratio by 2019-20.
- The council forecast its infrastructure backlog would reduce to 4.5% by 2019-20 which is close to the benchmark.

Efficiency - satisfies

- The council meets the efficiency criterion based on a decrease in real operating expenditure per capita over the period.

Other relevant factors

Social and community context	Oberon considers itself to have closer links to the Blue Mountains, rather than western towns such as Bathurst.
Community consultation	Oberon undertook community consultation in April 2015 through a community information session based on a detailed Fit for the Future information package. Oberon's proposal notes its community is clearly of the view that it is better served by an independent, efficient local council.

Other relevant factors	
Water and/or sewer	Oberon's Strategic Business Plan for Water Supply and Sewerage Services was completed in 2013 and it complies with the Best Practice Guidelines. Further, Oberon forecasts it will break even on its water and sewer operations by 2018-19 as a result of efficiencies. In addition, ongoing capital upgrades are scheduled as part of its improvement strategy along with increasing revenues.
Submissions	We received seven submissions in relation to Oberon's proposal. Six oppose merging citing risks such as the loss of local focus and identity; reduced services; job losses, the lack of community support and increased factionalism associated with large councils. One submission notes the council's good performance. One submission is neither for nor against merging and points out that the challenges facing the local area would not change if the council merges.

ORANGE CITY COUNCIL – CIP

NOT FIT

Area (km^2)	285	Population 2011	39,400
OLG Group	4	(2031)	46,250
ILGRP Group	E	Merger 2011	52,600
		(2031)	62,700
Operating revenue (2013-14)	$59.3m	TCorp assessment	Sound FSR, Negative Outlook

ILGRP options (preference in bold): Council in Central West JO (all shaded) or **merge with Cabonne** and/or Blayney (yellow).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- Based on the business case submitted by Orange on a merger with Cabonne, our analysis suggests the merger could produce benefits of $27m over 20 years (including the Government grant). Morrison Low noted that the inclusion of Blayney in this merger would be expected to generate even higher benefits, although it did not research this option.
- Our analysis is consistent with the ILGRP's preferred option for Orange to merge.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio and the own source revenue ratio by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately 1.9 percentage points to -0.8% in 2019-20, which is below the benchmark. However, we consider the council has sufficient scope to adjust its revenue strategy to meet the benchmark.
- The council has forecast its building and infrastructure asset renewal ratio will be 60.3% by 2019-20, which is below the benchmark. We consider this is acceptable in the context of its performance against the other ratios.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency – satisfies

- The council meets the criterion for efficiency based on its forecast for declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The East Cabonne Ratepayers Association has been campaigning for boundary changes since 2011 to move the eastern parts of Cabonne into Orange Council. The Association supports a Cabonne-Orange merger
Community consultation	Blayney Shire and Cabonne Council resolved to submit stand-alone proposals, prior to Orange completing its community engagement. This meant the only option available to Orange was to stand-alone. Its survey found 63% believed Orange should merge with Cabonne and or Blayney Councils.
Water and/or sewer	Orange's water and sewer business is substantial with $500m of assets. Orange meets the NSW Government's Best Practice Management of Water and Sewerage Framework. The current infrastructure backlog is estimated at $1.8m. The large size of these businesses contributes to Orange's capacity and scale.
Submissions	We received one late submission in relation to Orange's proposal which opposed the merger option.

PALERANG COUNCIL – CIP

NOT FIT

Area (km^2)	5,147	Population	2011	14,850
OLG Group	11		(2031)	20,550
ILGRP Group	E	Merger	2011	54,850
			(2031)	79,050
Operating revenue (2013-14)	$25.5m	TCorp assessment		Moderate FSR Negative outlook

ILGRP options (preference in bold): **Merge with Queanbeyan Council** (yellow) or council in South East JO (all shaded).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal would be at least as good at achieving the scale and capacity objectives for the region.
- The council's proposal to stand alone is not as good as the ILGRP's preferred option to merge with Queanbeyan. When compared to the merger, the council's population of 20,550 in 2031 means it is unlikely to provide services cost-effectively to the local communities and advocate credibly and partner with government.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- Our analysis of the business case jointly commissioned by Palerang and Queanbeyan Councils calculates the merger could provide benefits to the local communities of $51m (including a Government grant of $5m) over 20 years.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, building and infrastructure asset renewal and own source revenue ratios by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2016-17 of 40.0% cumulative over 5 years (24.0% above the rate peg).

Infrastructure and service management - satisfies

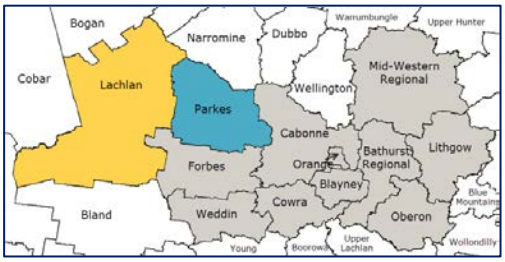
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Palerang notes it has two largely distinct socioeconomic groups - one which is within commuting distance of Canberra and has high levels of income and education, and the other which is predominately based on dispersed farming communities. The council's consultant noted a sense of identity may be a challenge to achieve under a merger due to the contrast between Queanbeyan City Council's large and prosperous regional centre and Palerang's largely dispersed rural population.
Community consultation	Palerang has undertaken the following community consultation: a web-based survey, random telephone survey, and community forums. Of its telephone survey of 1,100 respondents, 55% supported remaining a stand-alone council and 21% supported merging with Queanbeyan, with the remaining respondents preferring to merge with other councils. While this consultation appears to have been extensive, we note the flyer provided to the community did not acknowledge any potential benefits of a merger.
Water and/or sewer	Palerang notes it has been operating its water and sewer businesses on a cost recovery basis since 2007. A dividend was not paid for these services for 2013-14 and 2012-13. It notes it has no infrastructure backlog for these businesses following considerable work over the last 10 years.
Submissions	We received seven submissions on Palerang's proposal. Four of these submissions did not support the ILGRP merger, as they considered the council was performing well, the merger was unlikely to result in benefits for Palerang residents and would result in a loss of focus on rural issues and reduced representation. Of these submissions, two submissions indicated they more closely identified with other neighbouring councils (Yass Valley and Goulburn-Mulwaree). Two submissions supported the merger as they considered the consultation undertaken by Palerang was poor and the council was not financially viable. We also received one confidential submission.

PARKES SHIRE COUNCIL – CIP



FIT

Area (km^2)	6,021	Population	2011	15,100
OLG Group	11		(2031)	15,500
ILGRP Group	G	Merger	2011	21,800
			(2031)	21,000
Operating revenue (2013-14)	$22.6m	TCorp assessment		Sound FSR Moderate Outlook

ILGRP options (no preference). Council in the Central West JO (all shaded) merge with Lachlan (yellow).

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although it does not satisfy the efficiency criterion, it satisfies the sustainability and infrastructure and service management criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- The council has demonstrated skills in strategic planning, policy development and credibility to advocate.
- As the ILGRP did not have a preferred option for the council, the council was required to explore the merger option. The business case submitted by Parkes on a merger with Lachlan, suggests the merger could produce net benefits of $14.3m over 9 years (including the Government grant).
- While this evidence suggests a merger may be a better alternative to the council's proposal to stand alone, our finding is based on the proposal being consistent with the ILGRP option to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, the asset maintenance ratio and the debt service ratio by 2019-20.

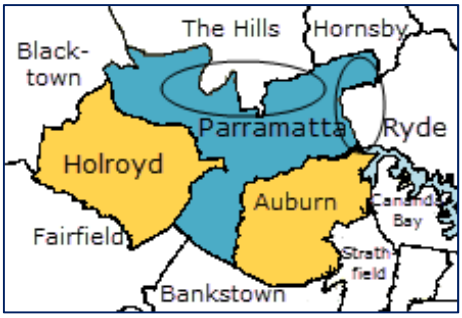
Efficiency – does not satisfy

- The council does not meet the criterion for efficiency based on its forecast for increasing real opex per capita over the period to 2019-20.

Other relevant factors

Social and community context	The proposal did not contain any relevant social and community context information for this criterion.
Community consultation	Parkes met with Lachlan to consider a merger, however, Lachlan decided against a merger due to its strong community opinion and public campaign against forced amalgamations.
Water and/or sewer	Parkes Shire states it has a large capital works program to be undertaken over the next 10 years in its water and sewer businesses. The works will be funded from existing cash reserves, government grants and borrowings. Parkes LTFP shows the water and sewer businesses will achieve a positive operating performance ratio of around 5% for water and around 15% for sewer by 2024-25.
Submissions	There were no submissions received in relation to Parkes' proposal,

PARRAMATTA CITY COUNCIL – CIP



NOT FIT

Area (km^2)	61	Population 2011	174,800
OLG Group	3	(2031)	253,900
ILGRP Group	Metro Sydney	Merger 2011	356,700
		(2031)	520,500
Operating revenue (2013-14)	$181.5m	TCorp assessment	Moderate FSR Neutral Outlook

ILGRP option (preference in bold)

Merge with Auburn (yellow), Holroyd (yellow), Ryde (part) and **The Hills** (part) and move northern boundary of Parramatta to M2 (balance The Hills to remain an individual council) **or** adjust Parramatta's boundaries to include parts of Ryde and The Hills and combine Auburn, Holroyd and Parramatta as a strong Joint Organisation.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- Holroyd City Council submitted a business case by Morrison Low which showed a merger of Parramatta, Holroyd, Auburn, part of Ryde and part of The Hills produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $254m over 20 years (including the Government grant).
- In addition, our independent consultants Ernst & Young estimated net benefits from the merger of around $150m over 20 years using public data (not including the Government grant).
- All analyses showed large gains to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Parramatta to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 reserves would reduce the ratio by approximately 0.8 percentage points to 0.3% in 2019-20, which is still above the benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council did not address this issue in its proposal.
Community consultation	Parramatta City Council undertook community consultation, including a phone survey in relation to the ILGRP proposed merger. Survey results indicate that respondents are satisfied with the performance of the council in its current form. A majority of respondents are somewhat supportive (27%), supportive (23%) or completely supportive (12%) of the merger proposal.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received four submissions relating to Parramatta's proposal. Three submissions were against council's alternative proposal to create a new 'global' city including areas such as Macquarie Park Shopping Centre, Macquarie University, Sydney Olympic Park and Epping and one supported mergers within the metropolitan area. In addition we received one late submission that did not support the merger.

PENRITH CITY COUNCIL – CIP

FIT

Area (km^2)	405	Population 2011	184,600
OLG Group	7	(2031)	(261,450)
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$178m	TCorp assessment	Weak FSR Neutral Outlook
ILGRP options (preference in bold)	**No change** or combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, Blacktown, Hawkesbury, The Hills, Blue Mountains (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option for no change.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity. We note it has a robust revenue base and scope to undertake new functions and major projects.
- Our analysis has not identified evidence for a better alternative to the council's proposal.
- The council has entered into an agreement to form a strategic alliance with Blue Mountains City Council and Hawkesbury City Council. The agreement is aimed at sharing expertise in project management and design and improving economies of scale.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio and own source revenue ratio by 2019-20.
- The council meets the benchmark for the operating performance ratio based on a number of assumptions including the successful application for and adoption of a special variation from 2016-17 of 27.6% cumulative over 4 years (17.2% above the rate peg).
- The council forecasts improvement in the building and infrastructure asset renewal ratio over the period to 2019-20 but does not meet the benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20. These improve using funds from the assumed special variation.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on an improvement in its real opex per capita ratio through targeted efficiencies and projected population growth.

Other relevant factors

Social and community context	The council states it has a large youth population and growing older population. It states it is growing more culturally diverse, with more people speaking languages other than English at home. In 2011, the council had the third highest number of Aboriginal and Torres Strait Islander residents in NSW.
Community consultation	The council states it consulted with the community in 2014 as part of its capacity review. Although not focussed on the FFTF benchmarks, its states the capacity review addresses the same issues.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions received in relation to Penrith's proposal.

PITTWATER COUNCIL – CIP

NOT FIT

Area (km^2)	90	Population	2011	60,450
OLG Group	2		(2031)	(77,600)
ILGRP Group	Sydney Metro	Merger	2011	251,650
			(2031)	(307,000)
Operating revenue (2013-14)	$72.8m	TCorp assessment		Sound FSR Neutral Outlook

ILGRP options (preference in bold): **Merge with Manly and Warringah Councils** (yellow) or combine as a strong JO with Manly and Warringah Councils.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its improvement proposal was at least as good as the ILGRP merger option. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 77,600 by 2031 compared with the forecast merger population of 307,000. Our analysis suggests the council does not have sufficient scale to partner effectively with governments compared to the merger.
- Manly Council and Pittwater Council jointly commissioned a business case which showed that a merger of Manly, Pittwater and Warringah produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $116 million over 20 years (including the Government grant).
- Warringah Council also commissioned a separate business case of the merger. Based on this model, our analysis suggests the merger would produce net benefits of $265 million over 20 years (including the Government grant).
- In addition, our independent economic consultants Ernst and Young estimated net benefits from the merger of around $116m over 20 years using publically available data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Pittwater Council notes it held merger discussions with Manly and Warringah Councils but resolved to stand-alone because it considered it has strategic capacity. It also decided to not pursue a merger due to community opposition, the diverse socio-economic profiles of the merger councils, and concern that local priorities and financial sustainability would not be improved under a merger.
- We note community consultation undertaken by Pittwater and Manly councils indicated opposition to the ILGRP merger. However, Warringah's community consultation, which was undertaken across the three LGAs, indicated almost 70% of responses supported the ILGRP merger.
- Our analysis is consistent with the ILGRP's preferred option for Pittwater to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

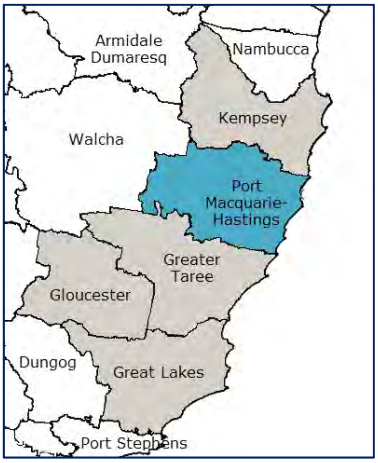
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the outlook period to 2019-20.

Other relevant factors	
Social and community context	Pittwater considers the merger councils have diverse socio-economic profiles and there is no evidence of a strong joint community of interest. Pittwater has a higher median age and lower population density than Manly and Warringah. The council also considers it has a stronger focus on the environment.
Community consultation	The council conducted a survey of 405 people, 58% did not support a “forced merger”, 28% supported the creation of two new councils (Greater Manly and Greater Pittwater), and 14% supported a merger with Manly and Warringah. We note the wording of the questions in the survey may have affected the results.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 47 submissions in relation to Pittwater’s proposal. Two of these were in favour of the ILGRP preferred option, as they considered the council’s management was poor and the merger would provide greater benefits. The majority of submissions opposed the ILGRP merger as they considered: the council was performing well, the merger is unlikely to lead to assumed efficiencies and is likely to be costly, and the merger would lead to a loss of local identity. Two late submissions were received, one which did not support the ILGRP merger and one which raised other issues. We also received four confidential submissions.

PORT MACQUARIE-HASTINGS COUNCIL – CIP



FIT

Area (km^2)	3,682	Population: 2011	75,250
OLG Group	5	(2031)	90,800
ILGRP Group	G		
Operating revenue (2013-14)	$89.8m	TCorp assessment	Weak FSR Negative Outlook
ILGRP option	Council in Mid-North Coast JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not propose another option for this council, Port Macquarie-Hastings Council was not required to demonstrate how it met each of the elements of scale and capacity. It therefore did not provide sufficient information on the other elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- The council participates in regional collaboration through MIDROC, and has partnered other levels of government and Charles Sturt University.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmark for the operating performance and own source revenue ratios by 2019-20.
- The council's forecast financial position relies in part, on the successful application for and adoption of a special variation from 2017-18 of 52.4% cumulative over 5 years (38.6% above the rate peg). This includes the continuation of an existing levy of 4.4%. It appears the council has not yet consulted its community on this proposal.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately one percentage point to 1.3% in 2019-20, which is still above the benchmark.

Infrastructure and service management – does not satisfy

- The council does not meet the criterion for infrastructure and service management based on its forecast of the infrastructure backlog ratio being 9.6% in 2014-15 and is forecast to improve to 7.1% in 2019-20, which does not meet the benchmark.
- The asset maintenance ratio was 49.8% in 2014-15 and is forecast to improve to 96.7% in 2019-20 which does not meet the benchmark.
- The council changed its asset condition assessment methodology to a risk-based approach. This led to a significant improvement in the backlog ratio from 2013-14 to 2014-15.

Efficiency - satisfies

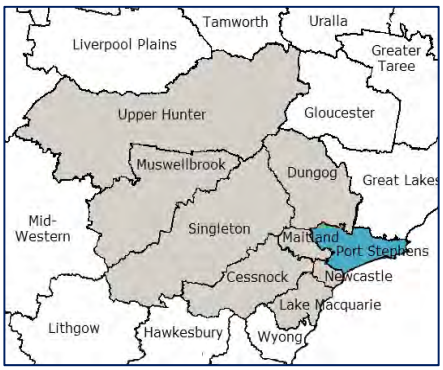
- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors

Social and community context	The council has submitted the area has a relatively high level of retirees. The main employment sectors are retail and hospitality with the area accommodating 1.6 million visitors annually.
Community consultation	Port Macquarie-Hastings has not indicated it has undertaken community consultation with regard to its Fit for the Future proposal.

Other relevant factors	
Water and/or sewer	Port Macquarie-Hastings stated its water and sewerage businesses meet the Best Practice Management Framework, and generally achieve an operating profit. The exceptions are in the year following an asset revaluation because of an associated increase in depreciation expense. The businesses have no infrastructure backlog in 2014-15.
Submissions	There were no submissions received in relation to Port Macquarie-Hastings' proposal.

PORT STEPHENS COUNCIL – CIP



FIT

Area (km^2)	979	Population 2011	67,200
OLG Group	4	(2031)	88,900
ILGRP Group	Hunter		
Operating revenue (2013-14)	$98.9m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options	Council in JO (shaded area); further consideration of a possible transfer of some land to a merged Dungog Maitland LGA in the shorter term.		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- The council has a robust revenue base and has demonstrated effective regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council states it has revised the methodology for calculating the backlog ratio from the 2014-15 year onwards, which we consider to be reasonable.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real operating expenditure per capita reducing over the period to 2019-20.

Other relevant factors

Social and community context	The council's proposal does not address social or community concerns.
Community consultation	The council has not indicated it conducted community consultation for the FFTF proposal.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions received in relation to Port Stephen's proposal.

QUEANBEYAN COUNCIL – CIP

NOT FIT

Area (km^2)	172	Population	2011	40,000
OLG Group	4		(2031)	58,500
ILGRP Group	E	Merger	2011	54,850
			(2031)	79,050
Operating revenue (2013-14)	$48.9m	TCorp assessment		Moderate FSR Neutral Outlook

ILGRP options (preference in bold): **Merge with Palerang Council** (yellow) or council in South East JO (shaded area).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is as good as or better to achieve the scale and capacity objectives for the region.
- The council did not demonstrate its improvement proposal was at least as good as the ILGRP merger option. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- Queanbeyan's proposal is based on a Regional Services Model, which would involve the provision of back office functions for Palerang Council and a coordinating leadership role for neighbouring councils. This model generated better operating results for Queanbeyan than the merger, but limited details about how this model would work in practice and the impacts for Palerang were provided.
- A high level business case was provided for this model, but we were unable to calculate an NPV based on the information provided. We also note Palerang did not provide support for this shared services model in its proposal.
- Our analysis of the business case jointly commissioned by Palerang and Queanbeyan Councils calculates the merger could provide benefits of $51m (including a Government grant of $5m) over 20 years.
- Our analysis is consistent with the ILGRP's preferred option for Queanbeyan to merge.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, building and infrastructure asset renewal and own source revenue ratios by 2019-20.

Infrastructure and service management - satisfies

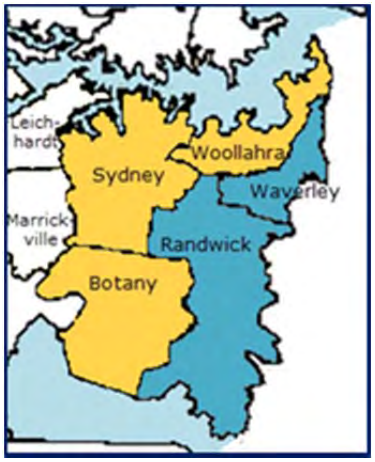
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on its forecast for a decline in real operating expenditure per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Queanbeyan notes Palerang Council has a more dispersed community, which identifies more closely with the Goulburn and Cooma council areas for shopping, schooling and health services than Queanbeyan. There is a contrast between Queanbeyan's prosperous regional centre and Palerang's largely dispersed rural population.
Community consultation	Queanbeyan notes there was overwhelming community support for remaining a stand-alone council under the Regional Service Provider model, compared to remaining stand-alone or a merger with Palerang Council. However, no further details of the outcome or process for consultation were provided.
Water and/or sewer	Queanbeyan provides water and sewer services. These services are not currently being managed on a break-even basis. It is currently not meeting the Best Practice Management of Water Supply and Sewerage Framework, but it expects to over 2015-16. No dividend was paid for these services for both 2012-13 and 2013-14. A number of significant capital projects for water and sewer will also need to be undertaken out to 2020-21, including a $100m sewer treatment plant upgrade.
Submissions	We received two submissions on Queanbeyan's proposal from two community groups based in Palerang. These submissions did not support the ILGRP's merger as they considered the merger was unlikely to result in benefits for Palerang residents and would result in a loss of focus on rural issues. One submission also noted it was unclear if any council would purchase services from Queanbeyan under its Regional Services Model and Queanbeyan faced financial risks due to its large infrastructure backlog and population growth pressures.

RANDWICK CITY COUNCIL AND WAVERLEY COUNCIL – MERGER PROPOSAL



	FIT	
	Waverley Council:	Randwick City Council:
Area (km^2)	9.2	36.3
OLG Group	2	3
ILGRP Group	Sydney Metro	Sydney Metro
Population 2011	68,700	137,800
(2031)	82,150	174,300
Proposed merger 2011	206,500	206,500
(2031)	256,450	256,450
ILGRP merger 2011	487,600	487,600
(2031)	653,250	653,250
Operating revenue (2013-14)	$113.2m	$128.5m
TCorp assessment	Moderate FSR Positive Outlook	Sound FSR Positive Outlook
ILGRP options (preference in bold)	**Merge with Randwick, Botany Bay, Woollahra and Sydney** (yellow) or combine as strong JO.	**Merge with Waverley, Botany Bay, Woollahra and Sydney** (yellow) or combine as strong JO.

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The merger proposal for Randwick City Council (Randwick) and Waverley Council (Waverley) meets the scale and capacity criterion.
- The councils' merger proposal also satisfies the financial criteria overall. It satisfies the criteria for sustainability, infrastructure and service management and efficiency.

Scale and capacity – satisfies

- We have assessed the merger of Randwick and Waverley as fit because:
  - It does not preclude the ILGRP's preferred option of a Global Sydney Council, should the Government wish to pursue this option at some point in the future.
  - It was the best available option for these councils given neighbouring councils did not wish to join the merger proposal.
  - It builds on existing collaborations between Waverley and Randwick, which share communities of interest and similar geography.
  - It would deliver substantial benefits to their local communities when compared to the councils standing alone, including estimated cost savings of $16m per annum according to council data, and an improvement in the operating performance ratio (OPR) from 1.7% in 2014-15 to 11.4% in 2019-20, mainly driven by efficiencies from the merger. The improvement in the OPR is significant.
- The councils submitted a business case which showed a merger of Randwick and Waverley produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $139 million over 20 years (including the Government grant).
- Our analysis suggests there could be significantly higher benefits if neighbouring councils were included in the merger proposal.
- In particular, under the Randwick-Waverley business case, our analysis suggests:
  - including Woollahra and Botany Bay councils in the merger proposal could produce net benefits of $384 million over 20 years (including the Government grant), and
  - including Woollahra, Botany Bay and City of Sydney in the merger proposal could produce net benefits of $416 million over 20 years (including the Government grant).

- Waverley and Randwick have indicated they would prefer not to have the City of Sydney included in the merger proposal.
- Both Randwick and Waverley have also indicated they each have a preference for merging with only one neighbouring council.
- We note Woollahra submitted research papers that questioned the achievability of the benefits modelled for a merger including them and argued a merger could entail additional wage costs.

Sustainability - satisfies

- The proposed merger satisfies the criterion for sustainability as the councils' forecast they will be above the benchmarks for:
  - the operating performance ratio (improving from 1.7% in 2014-15 to 11.4% by 2019-20), and
  - the own source revenue ratio and building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

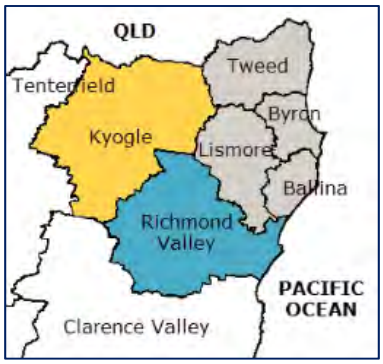
- The proposed merger satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The proposed merger satisfies the criterion for efficiency based on declining real opex per capita over time.

Other relevant factors	
Social and community context	Randwick and Waverley share similar demographics and economic, social and environmental characteristics. Both councils receive many tourists as well as recreational visitors to key health and education centres. For example, the councils indicate that 9.7m people visited beaches in the area of Randwick in 2013-14. Bondi Junction and the Randwick Health and Education precinct are key strategic centres and would likely benefit from more coordinated management under a merger.
Community consultation	The councils informed their communities of the FFTF process and proposed merger through advertisements, social media, websites, briefing sessions, pop-up stalls, and newsletters and mailed information packs. Feedback from surveys and focus groups indicates that most respondents preferred their councils to stand alone as a first preference. However, if amalgamations were to occur, 90% of Randwick respondents preferred an Eastern suburbs council rather than Global Sydney. Similarly, 32% of Waverley residents would choose a merger with Randwick should amalgamations need to occur. We note the preamble to Randwick's survey did not identify any benefits for the Global Sydney merger although the information pack did.
Water and/or sewer	The councils do not have a water/sewer business.
Submissions	We received 17 submissions in relation to the Randwick and Waverley proposal including one submission on behalf of 5 councillors from Waverley. We also received one late submission and three early submissions. Most submissions indicated they were not supportive of the merger with Waverley, nor of the Global Sydney merger. Varied reasons were given including lack of consultation, a loss of local focus and identity, reduced services and higher rates. The submissions also indicated the councils were performing well.

RICHMOND VALLEY COUNCIL – CIP



	FIT			
Area (km^2)	3,058	Population	2011	22,700
OLG Group	4		(2031)	25,150
ILGRP Group	G	Merger	2011	32,350
			(2031)	35,000
Operating revenue (2013-14)	$27.6m	TCorp assessment		Moderate FSR Neutral Outlook
ILGRP options (no preference)	Council in Northern Rivers JO (shaded area) or merge with Kyogle.			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- We consider the council currently meets or partially meets most of the elements of scale and capacity.
- The council's proposal is consistent with the ILGRP's option to stand alone.
- The council considered a merger with Kyogle but rejected it on the basis that it would not improve its financial strength. We have been unable to assess this alternative because the councils did not prepare a business case or provide any detailed information for the merger.
- While a merger with Kyogle may benefit the system of Local Government as a whole, given its relative size, further work is needed to determine if Richmond Valley residents would be better off under a merger. We do not have sufficient evidence to evaluate the costs and benefits of the merger option for Richmond Valley compared to the stand alone proposal.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.
- The council indicates several strategies which assist its improvement against the benchmarks, including holding operating expenses constant in nominal terms over the past three years and a 2% salary and wages efficiency dividend since 2013-14. However it is not clear how this dividend would work in relation to existing award wage rates.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council has completed a review of its asset base and implemented an updated asset condition model based on revaluations. This has resulted in a reduction in the infrastructure backlog ratio since 2012.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on its reducing real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Richmond Valley's largest town is Casino, which accommodates 50% of the population. The area's demographics are changing, with growth in younger, higher socio-economic groups. The council has a strong agricultural base but diversification is occurring with the proposed development of an intermodal rail freight handling facility.
Community consultation	The council's improvement plan is based on previous consultation undertaken with the community in development of its IP&R documents and special variation application.
Water and/or sewer	Richmond Valley is currently compliant with the best practice management framework. Its infrastructure backlog was $7.5m in 2013-14 and expected to reduce to $5m in 2014-15. The council has achieved full cost recovery for both local water utility businesses since 2004.
Submissions	We received seven submissions (including 4 late submissions) relating to Richmond Valley's proposal. These raised issues including questioning the evidence that merging two financially weak councils (Richmond Valley and Kyogle) would lead to better outcomes for the State and ratepayers. They also questioned the lack of community consultation by the State in developing the criteria for councils to be Fit For the Future.

ROCKDALE CITY COUNCIL – CIP

NOT FIT

Area (km^2)	28	Population	2011	103,500
OLG Group	3		(2031)	134,350
ILGRP Group	Metropolitan Sydney	Merger	2011	390,300
			(2031)	497,500
Operating revenue (2013-14)	$75m	TCorp assessment	Moderate FSR Neutral Outlook	
ILGRP option (preference in bold)	**Merge with Canterbury, Kogarah and Hurstville** (blue and yellow) or Combine as strong JO, also including Sutherland (grey) **and** adjust Rockdale boundary at airport.			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits such as delivering infrastructure in accordance with the South Subregion plan, and managing the Georges River catchment.
- The council's population is forecast to be 134,350 by 2031 compared with the forecast merger population of 497,500. Our analysis suggests that the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case which showed that a merger of Canterbury, Kogarah, Hurstville and Rockdale produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $280m over 20 years (including the Government grant).
- In addition, our independent consultants Ernst and Young estimated net benefits from the merger of $172m over 20 years using public data.
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Rockdale to merge with neighbouring councils.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council's improvement is based on the continuation of a special variation in 2013 (3% above the rate peg) for asset renewals, and lower depreciation costs arising from an external review of the council's asset management practices by Morrison Low.

Infrastructure and service management - satisfies

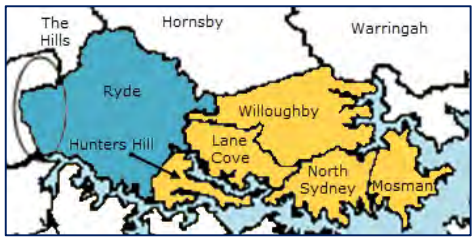
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the outlook period to 2019-20.

Other relevant factors	
Social and community context	Rockdale has a culturally diverse population. Around 50% of its residents were born overseas and 60% of its residents speak a language other than English at home.
Community consultation	The council consulted on merger options with its community. This included four merger options with different combinations of the ILGRP preferred merger councils, the Airport Councils merger (with Botany Bay and Marrickville councils), and its proposal to be a stand-alone council. There were almost an equal number supporting the stand alone proposal (35%) and a St George council merger (but with Hurstville and Kogarah only).
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received four submissions about Rockdale's proposal. Three submissions objected to the boundary change proposal to exclude the Sydney Airport area. We also received one confidential submission.

CITY OF RYDE COUNCIL – CIP



NOT FIT

Area (km^2)	40	Population 2011	108,700
OLG Group	3	(2031)	153,600
ILGRP Group	Sydney Metro	Merger 2011	286,867
		(2031)	376,150
Operating revenue (2013-14)	$96.1m	TCorp assessment	Sound FSR Negative Outlook

ILGRP options (preference in bold): **Merge with Hunters Hill, Lane Cove, Mosman, North Sydney, Willoughby** (yellow) or combine as a JO

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal for a JRA can be realised under the merger option, and the merger option could provide further benefits.
- The council's population is forecast to be 153,600 by 2031 compared with the forecast merger population of 376,150. Our analysis suggests that the council does not have sufficient scale to partner effectively with the governments compared to the merger option.
- The council submitted a business case which showed that a merger of Lane Cove, Hunters Hill, Mosman, North Sydney, Willoughby and part of Ryde produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $280 million over 20 years (including the Government grant).
- In addition, our independent consultants Ernst & Young estimated net benefits from the merger of around $187m over 20 years using publically available data.
- These analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- As an alternative to a merger, Hunters Hill, City of Ryde and Lane Cove councils submitted a common proposal to create a Joint Regional Authority (JRA). According to the councils, this would provide the benefits of shared services and centralised planning and development without the disruption of a merger. It would generate net benefits over 15 years of $0.5m, or $3.4m if it also included Mosman, North Sydney and Willoughby. The proposal does not fully quantify any efficiency savings that may also eventuate under the JRA. The preferred merger is likely to provide a higher level of efficiency savings than the JRA.
- Our analysis is consistent with the ILGRP's preferred option for Ryde to merge.

Sustainability - satisfies

- The council satisfies the sustainability criterion based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the infrastructure and service management criterion based on its forecast to meet the benchmarks for the infrastructure backlog ratio, asset maintenance ratio and debt service ratio by 2019-20.

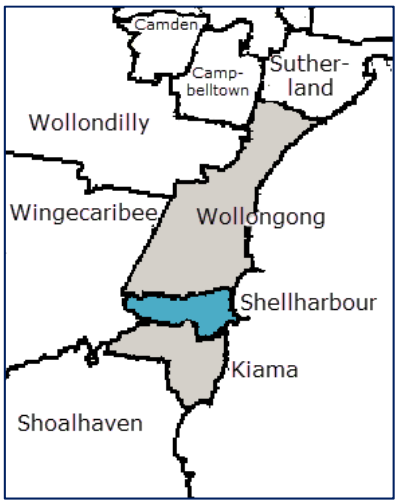
Efficiency - satisfies

- The council satisfies the criterion for efficiency based its forecast for a decline in real operating expenditure per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council states its community of interest is with northern Sydney rather than Parramatta and its community supports retaining the Ryde identity. Ryde has a highly multicultural community and this creates identity and communities of interest around culture which is not reported as evident to the same extent in neighbouring local government areas.
Community consultation	The council states it engaged with residents over 24 months and that residents strongly oppose forced merger or the proposal to split the LGA. According to the council, the community supports the need for local representation, decision makers' knowledge of local needs and council being accessible and accountable. The council states that 80% of its residents support the JRA proposal. Recent surveys show 83% of respondents oppose splitting the council into two new councils.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received five submissions in relation to Ryde's proposal. Two oppose merging because of the council's good performance, the absence of a mandate for merging, the lack of evidence that a merger would produce benefits, concern about the effect on land values if Ryde merges with Parramatta and because the FTFF process did not prioritise ecological sustainability. One supports a merger and one questions the performance of the council. We also received one confidential submission. One late submission was received stating mergers overseas have been disastrous.

SHELLHARBOUR CITY COUNCIL – CIP

NOT FIT



Area (km^2)	147	Population 2011	66,200
OLG Group	4	(2031)	84,250
ILGRP Group	Illawarra		
Operating revenue (2013-14)	$69.3m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP option	Council in Illawarra JO (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion based on its forecast for a negative operating performance ratio by 2019-20.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FFTF) councils must meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements of scale and capacity. In particular, the council has a robust revenue base and has demonstrated effective regional partnerships.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – does not satisfy

- The council does not satisfy the sustainability criterion. It does not meet the benchmarks for the operating performance ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council's operating performance ratio was -12.2% in 2014-15 and is forecast to be -0.8% by 2019-20. We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately 2.6 percentage points to -3.4% in 2019-20, which is further below the benchmark.
- The building and infrastructure asset renewal ratio was 50.9% in 2014-15 and is forecast to be 70.5% in 2019-20. However, this does peak at a relatively high ratio of 131.14% in 2016-17.
- The council has forecast it will meet the benchmark for the own source revenue ratio by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the infrastructure and service management criterion based on its forecast to meet the benchmarks for the infrastructure backlog ratio and debt service ratio by 2019-20.
- The council has forecast improvement close to benchmark in the asset maintenance ratio throughout the period to 2019-20.

Efficiency – satisfies

- The council meets the efficiency criterion based on a decrease in real operating expenditure per capita to 2019-20. However, we note this decrease is relatively small and the council's performance is inconsistent over the outlook period.

Other relevant factors	
Social and community context	Shellharbour is a growing LGA with a 27% population increase forecast over the next 20 years. It is close to major port facilities at Port Kembla and within 100km of major metropolitan areas at Wollongong, Sydney and Canberra. The council has actively collaborated with neighbouring councils Wollongong, Shoalhaven and Kiama and has formed a JO with them.
Community consultation	The council's proposal notes its community engagement strategy included elements of its action plan in response to Fit for the Future. There is no further information on how these elements were addressed.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received one confidential submission regarding the council's proposal.

SHOALHAVEN CITY COUNCIL – CIP

FIT

Area (km^2)	4,660	Population	2011	96,200
OLG Group	5		(2031)	108,150
ILGRP Group	G			
Operating revenue (2013-14)	$138.4m	TCorp assessment		Sound FSR Negative Outlook
ILGRP option	Council in South East JO (shaded area).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, the council has demonstrated the ability to undertake major regional projects and effective regional collaboration with the Illawarra councils and the Southern Council Group.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance and own source revenue ratios by 2019-20.
- The council relies on the successful application for and adoption of a special variation from 2017-18 of 21.0% cumulative over 2 years (15.9% above the rate peg).
- Our analysis shows that the operating performance ratio is overstated since $2.4m in interest on section 94 reserves has been included in the operating result. If the operating performance ratio is adjusted for Section 94 interest income, the revised ratio is approximately 1.3 percentage points lower each year than the council's forecasts (based on 2012-13 data). Shoalhaven may not meet the benchmark in 2019-20 based on this analysis. However, we consider the council has sufficient scope to adjust its revenue strategy to enable it to meet the benchmark.
- The building and infrastructure asset renewal ratio was 64.9% in 2014-15 and is forecast to be 66.5% in 2019-20, which is below the benchmark. The council claims depreciation is occurring faster than renewals are required and its current level of expenditure is appropriate.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management, as it is forecast to meet the infrastructure backlog and debt service benchmarks by 2019-20.
- The asset maintenance ratio was 95.8% in 2014-15 and is forecast to fall to 83.7% in 2019-20, which is below the benchmark.

Efficiency – satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the outlook period to 2019-20.

Other relevant factors	
Social and community context	Shoalhaven notes that if it were to merge with adjoining councils, the distances for effective management would be excessive and the social and economic mixes would be quite different. No further relevant detail was provided in its proposal in relation to this factor.
Community consultation	The proposal did not provide any details of community consultation.
Water and/or sewer	Shoalhaven Water is one of the largest local government water authorities in NSW. Its water and sewer funds achieve operating surpluses. The amount of dividend paid to the General Fund is approximately $2.5m per annum. A dividend was paid for Shoalhaven's water and sewer businesses in 2011-12, 2012-13 and 2013-14.
Submissions	There were no submissions were received in relation to Shoalhaven's proposal.

SINGLETON COUNCIL – CIP

FIT

Area (km^2)	4,893	Population 2011	23,500
OLG Group	4	(2031)	27,350
ILGRP Group	Hunter		
Operating revenue (2013-14)	$32.2m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP option	Council in Hunter JO (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building infrastructure and asset renewal ratio by 2019-20.
- The council's proposal relies in part on the successful application for and adoption of a special variation from 2016-17 of 45.1% cumulative over 4 years (34.7% above the rate peg).
- The council has also proposed shared services such as library management systems, companion animal activities and health and building inspection services which contribute to the improvement in its sustainability.
- The council's approved special variation in 2014-15 of 7.3% (5% above the rate peg) permanently has assisted in this improvement.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council has been active in reducing the backlog by securing additional loan funding through the Local Infrastructure Renewal Scheme (LIRS) program ($4m), as well as the SV approved in 2014-15 for transport infrastructure.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real operating expenditure per capita reducing over the period to 2019-20.
- The council's declining result appears to be in line with it stating that no new services are being considered and the forecast for a low population increase.

Other relevant factors	
Social and community context	As the ILGRP option was for the council to be in the Hunter JO, its CIP does not address any social or community concerns.
Community consultation	The council has undertaken community consultation over the prior years in relation to council's provision of services, policies and strategies, but there appears to have been little consultation in relation to FFTF. The council states it has undertaken a 5 day workshop with the councillors in relation to the FFTF.
Water and/or sewer	Singleton Council operates water and sewer businesses. Water and sewer funds reported a surplus for 2013-14 of $704k and $1.2m respectively. The estimated cost to bring assets to a satisfactory standard is reported to be $5.7m, however, it states that it has sufficient restricted funds to cover this cost. The shortfall of annual maintenance is reported to be $3.6m.
Submissions	There we no submissions received in relation to Singleton Council's proposal.

SNOWY RIVER SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	6,029	Population	2011	7,750
OLG Group	10		(2031)	8,650
ILGRP Group	D	Merger (3 councils)	2011	20,400
			(2031)	21,600
Operating revenue (2013-14)	$21.1m	TCorp assessment		Moderate FSR Negative Outlook
ILGRP options (no preference)	Council in South East JO (shaded area) or merge with Bombala/Cooma-Monaro.			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, the council does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion because its forecast to meet the operating performance ratio benchmark includes the assumed approval of a large proposed special variation which may be unreasonable.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all FFTF councils should meet, therefore the council is not fit.

Scale and capacity - does not satisfy

- The council's population is forecast to be 8,650 by 2031 based on DP&E data and slightly higher with council forecasts. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments. Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- Most of the efficiency strategies from the council improvement proposal could be realised in addition to the merger gains under the merger alternative.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- Our analysis of a business case for a merger of Snowy River, Cooma-Monaro and Bombala Councils and commissioned by these three councils suggests the merger could generate benefits to the community of $22m over 20 years (including the Government grant). This represents larger benefits than the three councils' share services arrangement and suggests merging is likely to be better than Snowy River's proposal to stand-alone.
- Our analysis is consistent with the ILGRP, which suggested there would be benefits from the option of Snowy River merging with Cooma-Monaro and Bombala councils.

Sustainability – does not satisfy

- The council does not satisfy the sustainability criterion. The council's operating performance ratio was -14% in 2014-15 and is forecast to reach 3% by 2024-25. The council relies on the successful application for and adoption of two large special variations from 2016-17. Together these are 95.8% cumulative over 10 years (67.8% above the rate peg).
- Our analysis suggests this assumption may not be reasonable. As the council is limited to seven years of increases, we note the first seven years would accumulate to 69% (50% above the rate peg). In addition, the council's average residential rates in 2013-14 were 23% higher than the OLG group average.
- The council has forecast it will meet the benchmark for the own source revenue ratio and the forecast shows improvement in the building and infrastructure asset renewal ratios by 2019-20.

Infrastructure and service management - satisfies

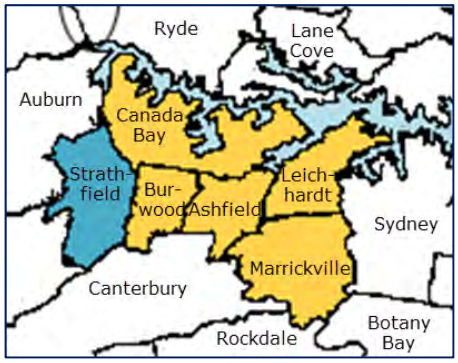
- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the asset maintenance and debt service ratios by 2019-20.
- The infrastructure backlog was 9.7% in 2014-15 and is forecast to reach 7.1% by 2019-20. While this result shows improvement, it remains above the benchmark in 2019-20.
- The council changed its approaching to measuring the infrastructure backlog. This caused the backlog to fall significantly. Nevertheless, the forecast for the infrastructure backlog ratio does not meet the benchmark and there is relatively minor improvement in this ratio over the outlook period.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	The Snowy River LGA is on the eastern slopes of the Snowy Mountains ranges and Kosciuszko National Park, and extends over hilly farmland. The median age is 38 and the accommodation industry is the main employer. Sheep, beef and grain farming constitutes 6.7% of employment.
Community consultation	The council consulted with the community via fliers, community meetings and media releases. It completed a phone survey, which shows: • 66% of respondents preferred the stand-alone option, and • 31% of respondents preferred the merger option. The reasons provided for wanting to stand alone include a desire for locally provided services, better representation and responsiveness to local issues. The council also conducted an online survey. Of the 506 respondents, 60% preferred the stand-alone option. Community forums in four towns indicated around 82% of attendees also supported this option. We note these types of survey are subject to self-selection bias.
Water and/or sewer	Snowy River Shire Council states its water and sewerage business meets the NSW Government Best Practice Management Framework and at break-even, and currently has an infrastructure backlog of $16.3m. We consider the water and sewerage operations may affect the council's scale and capacity insofar as it allows the council to employ specialist staff.
Submissions	We received one submission from the Eucumbene Chamber of Commerce, opposing Snowy River Council's intention to close the Adaminaby pool because this would be economically inefficient, ineffective and inequitable. In a meeting, the council made the following points: • The council would prefer to stand-alone and emphasised the community's support for this preference. • In a merger scenario, the council is concerned the performance of the stronger council would trend towards that of the weaker council. Accordingly, if the council is required to merge, it would prefer to be the lead party in any such merger. • If the council is required to merge with just one council, its first preference would be to merge with Bombala Council.

STRATHFIELD MUNICIPAL COUNCIL – CIP



NOT FIT

Area (km^2)	14	Population 2011	37,250
OLG Group	2	(2031)	50,900
IGLRP	Metro	Merger 2011	331,800
		(2031)	433,000
Operating revenue (2013-14)	$30.9m	TCorp assessment	Moderate FSR Negative Outlook

ILGRP options (preference in bold): **Merge with Ashfield, Burwood, Canada Bay, Leichhardt and Marrickville** (yellow) or combine as strong Joint Organisation (JO).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria overall:	**Satisfies**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although it does not meet the efficiency criterion, the council satisfies the sustainability and infrastructure and service management criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 50,900 by 2031 compared with the forecast merger population of 433,000. Our analysis suggests the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The other Inner West councils submitted a business case which showed a merger of Strathfield, Ashfield, Burwood, Canada Bay, Leichardt and Marrickville produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $396m over 20 years (including the full Government grant).
- In addition, our independent economic consultants have estimated net benefits from the merger of around $194m over 20 years using publically available data.
- All analyses showed large gains to the local community from a merger. Variances in calculations result from different inputs and underlying methodologies.
- The council is subject to an OLG performance improvement order due to evidence of serious deficiencies in its procurement and purchasing systems.
- Our analysis is consistent with the ILGRP's preferred option for Strathfield to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the sustainability criterion. It is forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council's forecasts rely on a number of assumptions, including the successful application for and adoption of a special variation in 2017-18 of 10.0% cumulative (7.5% above the rate peg).

Infrastructure and service management – satisfies

- The council satisfies the infrastructure and service management criterion as it meets the infrastructure backlog and asset maintenance benchmarks by 2019-20.
- The council does not meet the debt service ratio benchmark. The council has a "no debt" policy.

Efficiency – satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the outlook period to 2019-20.

Other relevant factors	
Social and community context	Strathfield notes there is a perception in the local community there would be significant loss of identity in the case of a merger. Strathfield notes a merger would involve a significant reduction in representation of its area in a larger merged council and make it much harder to effectively engage with councillors.
Community consultation	'Local identity' was identified as being important by over 70% of respondents to a telephone and online survey. Strathfield Municipal Council conducted a number of surveys on two options (stand-alone or Inner West merger). 81.4% (164) of respondents supported Strathfield as a stand-alone council in a telephone survey and 85.4% (687) in an online survey. Flyers were sent to residents regarding the outcomes of Morrison Low's analysis. This drew 701 responses with over 95% opposing an Inner West merger. The information pack and flyers focused more on the negative impacts of the merger and this is reflected in the higher level of opposition to the Inner West merger than the previous two surveys.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 204 submissions in relation to Strathfield's proposal. Of these submissions, 60 rejected the merger. The main reasons for opposition included satisfaction with council's performance, loss of local identity and focus, reduced representation and services, increased rates and that there is no evidence residents will be better off under a merger. Two submissions were in support of merging based on Strathfield Council's merger campaign being self-serving and the need for new councillors and council staff. One late submission was received which did not support the merger. The majority of submissions were from letters submitted by Strathfield residents opposed to Bankstown's proposal of a boundary adjustment to take over the southern portion of Strathfield Council. The form letter (and variations of the form letter) raised issues including: • lack of consultation on the boundary change • satisfaction with Strathfield Council's performance • do not identify with Bankstown • reduced representation, and • rate increases and declines in services/facilities. Strathfield Council made a submission regarding the boundary change raising issues including no justification to alter boundaries, no benefit for residents and businesses, loss of representation for residents, not supported by the community, different demographics and rate increases.

SUTHERLAND SHIRE COUNCIL – CIP

FIT

Area (km^2)	334	Population 2011	220,250
OLG Group	3	(2031)	267,750
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$195m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options (preference in bold)	**No change** or combine as strong Joint Organisation with Canterbury, Rockdale, Kogarah, Hurstville (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, it has a robust revenue base and scope to undertake new functions and major projects.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio and the own source revenue ratio by 2019-20. The building infrastructure and asset renewal ratio is forecast to be slightly below the benchmark by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 reserves would reduce the ratio by approximately 1.7 points to -1.4% in 2019-20 which is below the benchmark. However, we consider the council has sufficient scope to adjust its revenue strategy to meet the benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

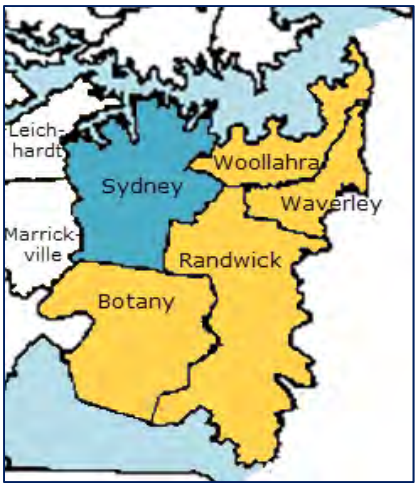
- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the outlook period to 2019-20.

Other relevant factors

Social and community context	Sutherland is south of the Sydney central business district. About half the area is national parks and bushland while the urban area is around 180km^2. The council receives 1.1m visitors annually. Its population is the second largest of all NSW local government areas.
Community consultation	The council's proposal did not outline its community consultation process for Fit For The Future.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received one submission relating to Sutherland's submission, indicating general support for mergers, providing numbers of councillors and staff were reduced to realise savings.

THE COUNCIL OF THE CITY OF SYDNEY – CIP

NOT FIT AS A GLOBAL CITY COUNCIL



Area (km^2)	27	Population 2011		183,300
OLG Group	1		(2031)	273,500
ILGRP Group	Sydney Metro	Merger	2011	487,600
			(2031)	653,250
Operating revenue (2013-14)	$501.6m	TCorp assessment		Strong FSR Positive Outlook

ILGRP options (preference in bold): **Merge with Randwick, Waverley, Woollahra and Botany** (all shaded) or combine as strong JO.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT AS A GLOBAL CITY COUNCIL

- The council does not satisfy the scale and capacity criterion when compared to the ILGRP's option of a Global City Council.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management, and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.
- Should the Global City Council option not be adopted by Government, the council meets the scale and capacity criterion as a stand-alone council and would be fit as a stand-alone council.

Scale and capacity – does not satisfy

- The ILGRP preferred option for City of Sydney was the Global City Council. City of Sydney was required to show its stand-alone option was at least as good the preferred merger option.
- City of Sydney did not submit a business case comparing its stand-alone option to the Global City Council. As such it has not demonstrated its stand-alone option is at least as good as the Global City Council.
- The stand-alone council's residential population is forecast to be 273,500 by 2031 compared with the forecast merger population of 653,250. The Global City Council will have enhanced scale and capacity to effectively partner with governments on key infrastructure such as the Sydney Light Rail Project and the second Sydney Harbour rail crossing, compared to remaining a stand-alone council.
- The larger council may also better integrate planning and development as the CBD expands.
- Our independent economic consultants Ernst and Young estimated net benefits from the Global City Council merger of $283m over 20 years using public data. The business case shows additional benefits to society from joining City of Sydney to Woollahra, Waverley, Randwick and Botany.
- In order to realise the objectives and optimise the benefits of the Global City Council, the Government might need to consider the following issues:
  - The extent to which the Global City Council should be given control over key infrastructure such as the Sydney Opera House, Barangaroo, Port Botany, Circular Quay and Darling Harbour to enable it to operate effectively as a Global City Council, as this infrastructure is currently administered by bodies separate to local councils.
  - How to ensure the development and growth of the CBD and surrounding areas continues. This may require changes and enhancements to the *City of Sydney Act 1988*. In addition, the implications for business voting within the Global City Council may need to be considered, as the *City of Sydney Act 1988* will allocate two votes to businesses in local council elections in the City of Sydney from 2016.
  - Measures to ensure the significant council revenues generated from businesses ($189m in 2012-13) in the Sydney CBD are spent efficiently to realise the key objectives of the Global City Council.
- City of Sydney argues it has sufficient scale and capacity because it accommodates 1.2m people daily in its area and produces approximately 25% of the state's GDP.

- It also argues there would be a disconnect joining a primarily CBD-based business council with neighboring residential councils.
- Other data also suggests City of Sydney is a well-run council with significant scale and capacity. It has pro-actively partnered with governments, undertaken significant CBD-based urban renewal, and approved a large range of development projects to grow the CBD.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio and the own source revenue ratio by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately 0.7 percentage points to 0.1% in 2019-20 which would still meet the benchmark.
- The council does not meet the building and infrastructure asset renewal ratio benchmark by 2019-20 based on its current method for calculating this ratio. The council has indicated it is renewing assets in accordance with its Asset Management Plan. The council relies on an alternative measure in its Asset Management Plan focusing on "Required Annual Maintenance". This is forecast to be above the benchmark in 2024-25.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the asset maintenance ratio by 2019-20, and forecasts the infrastructure backlog to be close to the benchmark by 2019-20.
- The council does not meet the debt service ratio benchmark. The council considers debt financing has not been required to meet its current expenditure outlays. However, the council is developing a policy framework to determine when borrowing is appropriate and needed.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over the period to 2019-20.

Other relevant factors

Social and community context	Residents in the City of Sydney are culturally and linguistically diverse, and there are areas of significant socio-economic disadvantage. The City of Sydney is unique in that it is Australia's major finance and business centre. There are approximately 1.2m people in the area daily including residents, workers, students and visitors.
Community consultation	The council informed its community of the FFTF process through information stalls, surveys, online consultation hubs and mail-outs. Feedback from surveys indicates that most respondents preferred their council to stand alone. However, we observe the council did not provide a balanced assessment of the proposed FTFF reforms in the information provided to residents.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 520 submissions in relation to the City of Sydney. This is the largest number of submissions for any council region and approximately a third of all submissions received. All submissions (except 8) opposed a merger of the City of Sydney with any other council. The main reasons provided stated the council is performing well; the Global City Council would be too large and would not be able to meet or adequately represent the needs of residents. We also received three late submissions and one early submission. In a meeting the council made the following points: • A merger with residentially focused councils could reduce its strategic capacity in the short-term and distract it from the implementation of key infrastructure projects such as the Green Square development and the Sydney Light Rail Project. • As most of the council's rating income comes from business rates and contributions, businesses in the CBD will likely subsidise the entire merged local government area under the Global City Council model, rather than their rates and contributions funding urban renewal and other services to the CBD. • Other councils did not agree to merge with it in part, due to the council's legislated business voting rights. From September 2016, corporations will be entitled to two votes in the local council elections in the City of Sydney, which differs from other local council areas. The council noted in discussions with other councils that none of the surrounding councils wanted to voluntarily merge with City of Sydney. • The long term effectiveness of a Global City Council would be limited as it does not have responsibility for key infrastructure. Whilst the ILGRP said a Global City Council would incorporate key Sydney icons, City of Sydney said this made no difference because it did not currently control any of them, for example, the Sydney Opera House, Circular Quay, Darling Harbour, Barangaroo, Port Botany, or inner-city train stations. The council noted this differs from councils the ILGRP indicated the Global City Council model could be based on such as City of Brisbane, which owns Brisbane Transport and Brisbane Water, and Auckland Council, which manages water, transport and port facilities.

TAMWORTH REGIONAL COUNCIL – CIP

FIT

Area (km^2)	9,650	Population	2011	58,250
OLG Group	4		(2031)	67,750
ILGRP Group	G			
Operating revenue (2013-14)	$85.1m	TCorp assessment		Moderate FSR Neutral Outlook
ILGRP option	Council in Namoi JO (shaded area).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- As the ILGRP did not propose another option for this council, Tamworth Council was not required to demonstrate how it met each of the elements of scale and capacity. It therefore did not provide sufficient information to make an assessment against most of the elements of scale and capacity.
- We note, however, the council is financially sustainable with a robust revenue base and has a relatively high population growth rate. We consider the council's strategic capacity is supported by its relative size in the region.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio and the own source revenue ratios by 2019-20.
- The council does not forecast meeting the benchmark for the building and infrastructure asset renewal ratio, and shows a decline in the ratio. The council explains there is a disconnect between required asset renewals and depreciation and says it will renew assets as per its Asset Management Plan.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the outlook period to 2019-20.

Other relevant factors	
Social and community context	Three quarters of the council's population live in Tamworth. The council notes there is a migration of older people from smaller towns to regional centres, which will require further infrastructure to support this change.
Community consultation	The proposal did not provide any details of community consultation.
Water/sewer	Tamworth provides water and sewer services. The council is not currently compliant with the NSW Government's Best Practice Management of Water Supply and Sewerage Framework. The council's current water and sewerage infrastructure backlog is $25.8m. However, it has $16.1m of capital works for its water and sewer operations planned out to 2019-20.
Submissions	We received one submission in relation to Tamworth's proposal, which noted that the council's strategies to achieve its financial benchmarks are questionable.

TEMORA SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	2,799 km^2	Population 2011	5,950
OLG Group	10	(2031)	5,100
ILGRP Group	D		
Operating revenue (2013-14)	$14.5m	TCorp assessment	Sound FSR Neutral Outlook
ILGRP options (no preference)	Council in Riverina JO (shaded area) or merge with Coolamon and/or Bland.		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy in order to be Fit for the Future (FFTF), therefore the council is not fit.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – does not satisfy

- The council only meets one element of scale and capacity (Effective Regional Collaboration). The council either fails to meet or partially meets all other elements.
- The council does not have a robust revenue base or sufficient scale to undertake new functions or major projects. Its financial position means it would not have the resources to cope with complex and unexpected change.
- The council's population is declining and is forecast to be 5,100 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- The council opposed a merger with either Coolamon or Bland. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the stand alone proposal. However, the merger may enable the provision of more cost-effective services to the local communities, more credible advocacy, and better management of strategic issues in the region.

Sustainability –satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios in the benchmark year.
- The council assumes depreciation will remain constant in nominal terms over the outlook period. However, even if depreciation increases at the same rate as income, the council would still produce a modest operating surplus in 2024-25.

Infrastructure and service management - satisfies

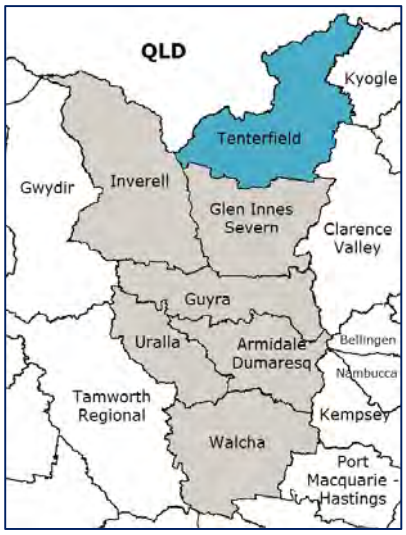
- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- While the council's forecasts for the infrastructure backlog ratio are optimistic, they are consistent with historical data from 2009 to 2014.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the period to 2019-20.

Other relevant factors	
Social and community context	While Temora's community of interest centres on Temora, residents may have a reasonably high level of affinity with towns such as Cootamundra (40 minutes from Temora).
Community consultation	Temora sought the community's views on whether it should stand alone. Over 96% of respondents believe the best option is for their council to stand alone. It has also obtained community views on FFTF issues in forums and meetings.
Water and/or sewer	Temora plans to undertake a $500,000 sewer relining project in 2015-16. Another $1m may be spent on the project, subject to the outcome of a review.
Submissions	There were no submissions were received in relation to Temora's proposal.

TENTERFIELD SHIRE COUNCIL – CIP



NOT FIT

Area (km^2)	7,024	Population 2011	7,000
OLG Group	10	(2031)	7,150
ILGRP Group	F		
Operating revenue (2013-14)	$10m	TCorp assessment	Weak FSR Negative Outlook
ILGRP option	Council in New England JO (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. While it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion based on its forecast for a negative operating performance ratio by 2019-20.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all Fit for the Future (FFTF) councils should meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's option.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- Hence we have assessed the council as meeting the scale and capacity criterion.
- Notwithstanding this, Tenterfield's population is below the level the ILGRP considers appropriate for a non-metropolitan council. The council's forecast for an ongoing, albeit reducing, infrastructure backlog reflects weak revenue, limits discretionary spending and circumscribes the council's ability to undertake new projects and respond to complex change.
- Our analysis suggests the council may have insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.

Sustainability – does not satisfy

- The council does not satisfy the sustainability criterion since its forecast to meet the benchmark for the operating performance ratio assumes a successful application for and adoption of a large special variation. We consider this assumption may not be reasonable.
- In 2014, Tenterfield received approval for a special variation of 53.1% (43.0% above the rate peg) over 4 years. On expiry, the council intends to seek approval for another special variation from 2018-19 of 50.4% (31.5% above the rate peg) over 7 years. Combined, the special variations would increase rates by 130.2% (99.3% above the rate peg) over 11 years.
- Given the approved special variation in 2014, the magnitude of this additional special variation is significant. Accordingly our analysis indicates the council's assumption of subsequent special variations is not reasonable. As a result, its forecasts do not meet the benchmark for the operating performance ratio.
- The council forecasts its own source revenue ratio (including FAGs) will meet the benchmark by 2019-20. We have assessed all councils in OLG Groups 8-11 with the inclusion of FAGs for this ratio.
- The council forecasts the building and asset renewal ratio will be 73.3% by 2019-20, but exceeds 100.0% during the period to 2019-20. These figures include the assumption of the approved special variation and we have therefore assessed the council does not meet this benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet or improve close to the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period.

Other relevant factors	
Social and community context	The community of interest for the LGA focuses on the town of Tenterfield, which is distant from other regional centres such as Glen Innes (60 minutes to the south). The council states it is more closely aligned with communities to the north east than communities in the New England area.
Community consultation	The council conducted community engagement sessions about the Fit for the Future process. Proposed improvement actions were made available for public comment. Further consultation will occur about expected service levels and measures to improve the council's financial position.
Water and/or sewer	The council operates water and sewer businesses. The infrastructure backlog for these businesses is around $3.8m.
Submissions	We received one submission relating to Tenterfield's proposal, suggesting boundary changes to include towns affected by dual border problems.

TUMBARUMBA SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

FIT AS A RURAL COUNCIL

Area (km^2)	4,391	Population	2011	3,500
OLG Group	9		(2031)	3,300
ILGRP Group	C	Merger	2011	18,500
			(2031)	17,400
Operating revenue (2013-14)	$18.0m	TCorp assessment		Strong FSR Negative Outlook

ILGRP options (no preference): Rural Council in Riverina JO or merge with Tumut/ Gundagai.

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall as the council meets the criteria for sustainability, infrastructure and service management and efficiency.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include resource sharing within the Riverina Eastern Regional Organisation of Councils. REROC demonstrates its success in increasing the scale and capacity of its member organisations on a range of measures and plans to become the pilot JO for the region.
- The council has submitted a number of improvement strategies including a shared administration agreement with Wagga Wagga City Council which will result in expenditure savings, a contract with Division of Crown Land to provide walking track maintenance services, rationalisation of some assets and plans to reduce the number of councillors from eight to seven.
- The council states it issued three formal invitations to Tumut for a meeting regarding merger issues, after Tumut had indicated support for a merger with Tumbarumba and Gundagai in submissions to the ILGRP. However, Tumut refused to meet with Tumbarumba Council and no merger discussions were pursued. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the Rural Council proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on Government adopting a Rural Council model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2024-25 and own source revenue ratio by 2019-20.
- The building and infrastructure asset renewal was 90.4% in 2014-15 and is forecast to reach 99.4% by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Tumbarumba Shire has the Snowy Mountains range to the east and the Murray River to the south. Towns in the Tumbarumba Shire Council area include Tumbarumba (population of 1,455 according to Census data for 2011), Khancoban (population of 224 according to Census data for 2011), Rosewood and Tooma. Australian Bureau of Statistics data shows 26.2% of employment is in the agriculture, forestry and fishing industry. The manufacturing sector accounts for 12.0% of employment, partly reflecting timber processing, while retail trade accounts for around 8.7% of employment. Residents of Tumbarumba Shire contribute to the workforce for a number of significant industries including the Hyne Timber mill, the Mannus Correctional Centre and the Snowy Hydro electricity generator. Tumbarumba notes local services are delivered from the towns of Tumbarumba and Corryong (Victoria), with residents accessing regional services from Wagga Wagga and Albury rather than Tumut.
Community consultation	Community consultation included the creation of a web page, public meetings held in May 2015 and the distribution of an information bulletin and survey via a letter box drop. There were 434 survey forms completed. The survey found over 90% of respondents were opposed to an amalgamation with Tumut and Gundagai Shire Councils.
Water and/or sewer	Tumbarumba Shire Council has achieved full compliance with the Best Practice Management of Water Supply and Sewerage Guidelines. Tumbarumba had a water and sewerage backlog of $1.9m in 2013-14 but Tumbarumba Council reports this backlog has now been addressed. Tumbarumba's Annual Report for 2013-14 indicated no dividend had been paid from the water and sewerage business.
Submissions	We received two submissions for Tumbarumba. These included a letter and a petition including 264 signatures both requesting Batlow be removed from Tumut Shire and included in Tumbarumba.

TUMUT SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	4,567	Population 2011	11,250
OLG Group	11	(2031)	10,650
ILGRP Group	D	Merger 2011	15,000
		(2031)	14,100
Operating revenue (2013-14)	$20.9m	TCorp assessment	Moderate FSR Neutral Outlook

ILGRP options (preference in bold): Council in Riverina JO (shaded area) or **merge with Gundagai** and Tumbarumba (yellow).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy in order to be assessed as Fit for the Future.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- The council has not adequately explored the merger option. The council has not provided evidence that the council has undertaken any consultation or analysis in relation to council's stand alone proposal or the possible benefits of mergers.
- The council's proposal to stand alone is not as good as the ILGRP's preferred option to merge with Gundagai. When compared to the merger, the council's population of 10,650 in 2031 means it is unlikely to provide services as cost-effectively to the local communities and advocate credibly and partner with government.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio and the own source revenue ratios by 2019-20.
- The building and infrastructure asset renewal ratio was 142.4% in 2014-15 and is forecast to fall to 62.8% by 2019-20. The council states that these results indicate the cyclical nature of asset renewal.
- The council states it will apply for a special variation of up to 15% from 2020-21, commencing upon expiration of its current two special rate variations.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council is reviewing its standard useful lives for all assets, which has the potential to reduce depreciation by up to 10% by extending the useful lives of assets.

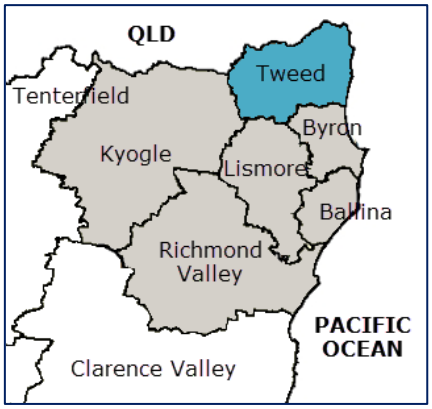
Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	According to the council, its submission to the ILGRP proposed a new council generally east of the Hume Highway corridor, which would encompass the majority of the major industry sector, the Softwood plantations and processing covering the local government areas of Tumut, Gundagai and Tumbarumba. This merger was proposed on the basis that mergers were required to be implemented.
Community consultation	In Tumut Council's community letter of June 2015 it states Tumut has no other option than submit a stand-alone option given Gundagai and Tumbarumba were proposing to stand alone. The council notes it has not been able to undertake structured and facilitated discussions on the ILGRP proposal as neither Gundagai nor Tumbarumba agreed. There is no evidence submitted that council has undertaken any consultation in relation to council's stand alone proposal or the possible benefits of mergers.
Water and/or sewer	Council operates water and sewer businesses. The water fund reported a deficit before capital of $706,000 and sewer reported a surplus of $227,000 in 2013-14. Tumut reported an infrastructure backlog of $700,000 for the sewer assets.
Submissions	We received two submissions in relation to Tumut. One submission noted the lack of community consultation in relation to the FFTF proposal and council management. The other submission contained a petition for a boundary alteration moving Batlow to Tumbarumba.

TWEED SHIRE COUNCIL – CIP

NOT FIT



Area (km^2)	1,309	Population 2011	88,450
OLG Group	5	(2031)	109,400
ILGRP Group	G		
Operating revenue (2013-14)	$104.7m	TCorp assessment	Moderate FSR, Neutral Outlook
ILGRP option	Council in Northern Rivers JO (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it meets the efficiency criterion, the council does not meet the sustainability or the infrastructure and service management criteria.
- The council does not meet the sustainability criterion based on its operating performance ratio being below the benchmark.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity - satisfies

- We consider the council currently meets or partially meets most of the elements of scale and capacity.
- The council's proposal is consistent with the ILGRP's option to stand alone.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – does not satisfy

- The council does not meet the criterion for sustainability based on its continuing operating deficits and relatively low building and infrastructure asset renewal ratio.
- The operating performance ratio was -8.1% in 2014-15 and is forecast to remain in deficit at -4.9% by 2019-20. We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately one percentage point to -5.9% in 2019-20.
- The building and asset renewal ratio was 54.1% in 2014-15 and is forecast to reach 52.2% by 2019-20. The own source revenue ratio is greater than the benchmark.
- The council expects to achieve operating surpluses in the longer term, following some consultation with the community. This expected improvement is based on revising service levels and increasing revenue. Consultation regarding service reviews is expected to commence in future years.

Infrastructure and service management – does not satisfy

- The council does not satisfy the criterion for infrastructure and service management based on its infrastructure backlog and asset maintenance ratios forecast neither to improve nor meet the benchmarks.
- The council's infrastructure backlog was 7.3% in 2014-15 and is forecast to increase to 8.9% by 2019-20.
- The asset maintenance ratio was 78.5% in 2014-15 and is forecast to be 71.3% in 2019-20.
- The debt service ratio remains within the benchmark range.
- The council states it faces infrastructure and service provision challenges created by a large pensioner population (22%), dispersed populations, frequent flooding, coast erosion and tourism demands. While it has dealt with these to some extent through its large and growing rate base, it is not fully funding its current requirements. It proposes to review services, which may result in reducing the level of service to the community and/or revising the required

condition of assets, which would improve the ratios.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Tweed is expecting significant residential development to occur to meet population growth demands. The area has a growing young population, with 28% under 25 years old. Agriculture is a $58m industry for the local economy, though tourism and commercial activity are large industries and expected to grow with further proposed airport development. Health care and social assistance are major employers. Airport passenger numbers in 2013-14 were 5.7 million. Housing affordability and availability are key challenges for the LGA.
Community consultation	The council's proposal did not include details of its community consultation.
Water and/or sewer	Tweed states it is compliant with the best practice management framework. However, it has a backlog of $37.8m and does not current achieve full cost recovery on its operations. It has taken out significant debt to fulfil capital works obligations in recent years.
Submissions	We received one submission which raised concerns Kings Forest and Cobakai Lakes developments would create issues for current infrastructure and have changed the nature of the community in the LGA.

UPPER HUNTER SHIRE COUNCIL – CIP

FIT

Area (km^2)	8,261	Population 2011	14,200
OLG Group	11	(2031)	15,750
ILGRP Group	Hunter		
Operating revenue (2013-14)	$27m	TCorp assessment 2013	Sound FSR, Negative Outlook

ILGRP option: The ILGRP did not present a table of options for the Hunter region. IPART's methodology paper presented the option for Upper Hunter as 'Council in Joint Organisation', based on the discussion in the ILGRP report and a map indicating no suggested merger. There was no specified JO, but Upper Hunter Shire Council currently participates in the Hunter pilot JO.

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's option to stand alone.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- The council is a member of Hunter Councils Inc. and a trial JO that is in pilot phase.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building infrastructure and asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real operating expenditure per capita to reduce over the period to 2019-20.

Other relevant factors

Social and community context	The CIP does not address social or community concerns as the ILGRP's option is for the council to stand alone in the Hunter JO.
Community consultation	The council did not conduct community consultation as the ILGRP's option is for the council to stand alone in the Hunter JO.
Water and/or sewer	The council operates water and sewer businesses. While the water business operates on a break-even basis, the sewerage business does not. At present, there is a $370,000 water and sewerage infrastructure backlog. The council has received grants to undertake proposed water treatment works in 2015-16. It is unclear if this will improve the sewerage infrastructure backlog although there are other strategies in 2017 that are designed to improve the allocation of funds between operating and capital expenses.
Submissions	There was one anonymous submission received in relation to Upper Hunter Shire's proposal. It stated the existence of multiple library branches is a strength for the council, rather than a weakness or duplication. We also received one confidential submission.

UPPER LACHLAN SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	6,829	Population	2011	7,400
OLG Group	10		(2031)	7,500
ILGRP Group	F	Merger	2011	35,750
			(2031)	39,050
Operating revenue (2013-14)	$21.2m	TCorp assessment		Sound Neutral Outlook

ILGRP options (no preference): Council in Tablelands JO (shaded area) or merge with Goulburn-Mulwaree (yellow).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF).
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – does not satisfy

- When compared to the merger, the council's forecast population of 7,500 in 2031 means it is unlikely to provide services cost-effectively to the local communities, advocate credibly and partner effectively with government.
- The council's relative size means it is unlikely to be able to undertake major projects of regional or state significance.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewal ratios by 2019-20.
- The council considers it may apply for a special variation from 2020-21 of 43.6% cumulative over 5 years (30.4% above the rate peg). This is not included in its forecast for the operating performance ratio or the Long Term Financial Plan. It would increase the operating performance ratio in 2024-25 from 1.5% to 2.9%.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

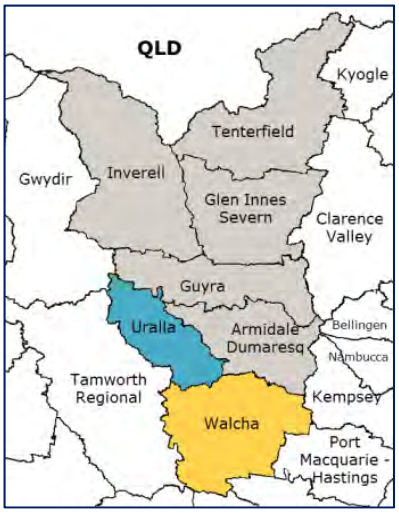
Other relevant factors

Social and community context	Upper Lachlan is located on the southern tableland 100km north of Canberra. Agriculture, tourism and retail are the main economic drivers of the LGA.
Community consultation	The council undertook a survey of its community in March 2015. According to the council, 79% of its residents preferred the council to stand alone. The council states it also held meetings in May 2015 to allow feedback and input into decision making. According to the council, 99% of those in attendance preferred the council to stand alone.

Other relevant factors	
Water and/or sewer	Upper Lachlan achieved 89% sewer compliance and 90% water supply compliance with the best practice management framework. It has total backlogs of $1m across water and sewer and manages its operations on a full cost recovery basis. It has generated a surplus before capital grants and contributions for the past 7 financial years.
Submissions	We received six submissions (including five early submissions), one of which indicated that residents in the Gunning area of the LGA would prefer a boundary adjustment that places their localities in the Yass Valley Shire rather than Goulburn-Mulwaree. No information was provided on whether communities of interest exist between these areas. Other submissions did not support a merger, citing no communities of interest, lack of democratic process in forcing a merger and loss of local focus and representation.

URALLA SHIRE COUNCIL – CIP

NOT FIT



Area (km^2)	3,230	Population 2011	6,250
OLG Group	10	(2031)	6,550
ILGRP Group	D	Merger 2011	9,350
		(2031)	9,300
Operating revenue (2013-14)	$15.3m	TCorp assessment	Moderate FSR Negative Outlook

ILGRP options (preference in bold): **Merge with Walcha** (yellow) or a council in New England JO (shaded area).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity - does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- The council's Mayor and General Manager met with Walcha on two occasions and agreed to investigate all possible options including other possible mergers. Following the completion of this process, both councils consider there was no community mandate or will to pursue a voluntary merger between the two councils.
- The council undertook its own quantitative analysis, which identifies recurrent scale economies of about $600,000 from the removal of duplication across management, councillors and systems from a merger with Walcha (and higher for other merger options it considered).
- The council's proposal to stand alone is not as good as the ILGRP's preferred option to merge with Walcha. When compared to the merger, the council's small and static population of 6,550 in 2031 means it is unlikely to efficiently provide services to the local communities and effectively advocate and partner with government.
- A merged council is likely to have improved capabilities, a more robust revenue base, greater scope to undertake new functions and projects, better regional collaboration and integrated planning.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.
- The council's forecast relies on the successful application for and adoption of a permanent special variation from 2016-17 of 17.4% cumulative (15% above the rate peg).
- The council's Long Term Financial Plan shows this special variation as the preferred option to address long-term infrastructure needs and for sustainability. However, the council's FFTF proposal states that its decision to proceed with the specific special variation increase is contingent on the outcome of its efficiency programs, the success of which may lead to a reduction in the proposed increase.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

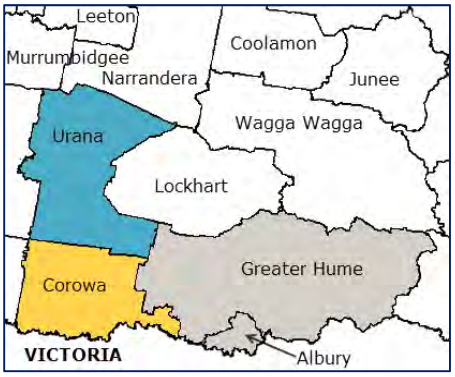
Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast modest decline in real operating expenditure over the period to 2019-20. Real opex per capita was $2,144 in 2014-15 and is forecast to be $2,119 in 2019-20.

Other relevant factors	
Social and community context	The council's proposal did not directly address this factor. Our research has found multiple reviews and reports have been commissioned into amalgamations into the New England area councils. The Vardon review in 2003 recommended the merger of Uralla with Walcha, Guyra and Armidale. The Boundaries Commission report in 2004 supported the view of a four-way merger. However, the four councils reached an agreement to form the New England Strategic Alliance of Councils (NESAC) as an alternative to a merger. NESAC collapsed in 2009 following the withdrawal of Walcha and Uralla. Reviews by OLG and others of the NESAC collapse identify common factors such as lack of: • commitment to the Alliance • robust governance arrangements • adequate planning, and • trust, among other reasons. The Kibble review in 2010 recommended a merger for these councils, but excluded Walcha, based on Kibble's view it was financially sound and did not share communities of interest with Armidale to the same extent as Uralla and Guyra.
Community consultation	The council's engagement program included newsletter inserts, press releases, advertising, web content, a mail-out to all residential addresses, community workshops at Uralla and Bundarra and then a community survey, both on-line and paper based. The council notes, from 400 responses, 92% of respondents did not want a voluntary merger pursued, and 94% committed to some level of special rate variation, with almost 70% of those respondents stating a special variation of between 10- 20% was acceptable. However, as the survey was not randomised, it could be subject to selection bias. In addition, the question asked on merging does not consider the ability for merger efficiencies to partially or fully offset existing operating deficits instead of the alternatives of increased rates and/or reducing services. These two issues should be noted, but given the proportion of respondents against a voluntary merger, it is likely to accurately reflect community sentiment.
Water and/or sewer	Uralla provides water and sewer services to the area. The council notes combined backlogs of about $310,000 for water and sewer infrastructure. Further, it notes it operates it water and sewer operation on a break-even basis, however it does not currently achieve the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework meaning it cannot receive dividends from these operations.
Submissions	We received one confidential submission relating to the council's proposal.

URANA SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

NOT FIT



Area (km^2)	3,356	Population:	2011	1,200
OLG Group	8		(2031)	800
ILGRP Group	B	Merger	2011	12,500
			(2031)	12,050
Operating revenue (2013-14)	$6.8m	TCorp assessment		Weak FSR Neutral Outlook

ILGRP options (preference in bold): **Merge with Corowa** or Rural Council in Upper Murray JO (all shaded).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is as good an option to achieve the scale and capacity objectives for the region.
- The proposed Rural Council Proposal is not as good as the ILGRP's preferred option to merge with Corowa. When compared to the merger, the council's small and declining population of 800 in 2031 means it is unlikely to cost-effectively provide services to the local communities and advocate and partner with government.
- The business case and qualitative analysis provided by the council did not demonstrate the proposal to become a Rural Council was at least as good as, or better than, a merger with Corowa.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2024-25 and the building and infrastructure asset renewal ratios by 2019-20.
- The own source revenue ratio was 30% in 2014-15 and is forecast to reach 45% by 2019-20 without the inclusion of FAGs, which is below the benchmark. The inclusion of FAGs will increase the ratio to 73% by 2019-20.
- The council's forecasts assume the successful application for and adoption of a special variation from 2016-17 of 63.1% cumulative over 4 years (52.7% above the rate peg).
- Although the proposed special variation is large, the council claims community consultation as part of FFTF shows the community is prepared to pay higher rates.
- On the figures provided, if the council were to adopt a lower real rate increase of about 20%, it would still generate a positive operating performance ratio by 2024-25.

Infrastructure and service management - satisfies

- The council satisfies the infrastructure and service management criterion. It is forecast to meet the benchmark for the infrastructure backlog, asset maintenance and debt service ratios over the outlook period to 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real opex per capita to 2019-20.

Other relevant factors	
Social and community context	The council has been a member of both the Riverina East Regional Organisation of Councils (based in Wagga Wagga) and the Riverina and Murray Regional Organisation of Councils (based in Albury). The council believes the area's strongest links are in the direction of Wagga Wagga. The council notes the area's links to the Riverina area include water reticulation (provided by Riverina Water County), membership of REROC, that Urana is within the Riverina Tourism area and that grain harvest forums are usually held in Wagga Wagga.
Community consultation	The council has undertaken an extensive community consultation process and was an advocate for a stand-alone council position. The council informed the community through a series of five public meetings, information provided through the council's newsletter, news releases, and through the council's website. The council undertook a survey of attitudes to a merger, with the survey form mailed to all households and also distributed at community events such as football matches. There were 281 respondents. The survey showed 88% of respondents favoured the option of remaining as a stand-alone rural council with 8% favouring amalgamation with another council.
Water and/or sewer	The council does not provide water services although it does provide sewerage services. The council does not achieve the requirements of NSW Government Best Practice Management of Water Supply and Sewerage and does not pay a dividend. The sewerage system was only installed in 1995-96 and there is no infrastructure backlog.
Submissions	There were no submissions received in relation to Urana's proposal.

WAGGA WAGGA CITY COUNCIL – CIP

FIT

Area (km^2)	4839	Population 2011	61,800
OLG Group	4	(2031)	73,050
ILGRP Group	D	Merger 2011	64,900
		(2031)	75,600
Operating revenue (2013-14)	$88.8m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP options (no preference)	Council in Riverina JO (shaded area) or merge with Lockhart Shire Council.		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although the council does not satisfy the infrastructure and service management criterion, the council satisfies the sustainability and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal to stand alone in a JO is consistent with the ILGRP's options for this council.
- The council has a robust revenue base and is improving its ability to increase its discretionary spending through a range of measures.
- The council is home to Wagga Wagga, a large regional centre. Our analysis suggests this population is sufficient to enable the council to have the strategic capacity to meet the future needs of its community and be a capable partner in the regional area for government.
- The council is a member of the Riverina Eastern Regional Organisation of Councils (REROC). REROC demonstrates its success in increasing the scale and capacity of its member organisations on a range of measures and plans to become the pilot JO for the region.
- The council and Lockhart Shire Council both rejected a proposal to merge and did not submit a merger business case. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the stand alone proposal.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio in 2019-20. In addition, the council meets the benchmark for the own source revenue and building and infrastructure asset renewal ratios.

Infrastructure and service management – does not satisfy

- The council does not satisfy the criterion for infrastructure and service management based on its forecast for an infrastructure backlog of 6.4% in 2019-20 and an asset maintenance ratio of 83.9% in 2019-20, which do not meet the benchmarks for these ratios.
- The council acknowledges its difficulty in maintaining its assets and in its infrastructure backlog, citing its large road network and the damage as a result of floods in 2010 and 2012 as contributing factors.
- In its proposal, the council relies on the successful application for and adoption of a special variation in 2016-17 of 6.6% cumulative (4.1% above the rate peg) to be retained in the rate base for 5 years.
- This special variation is to fund the upgrade of the Main City and North Wagga Levees. This is included in the council's Long Term Financial Plan and the council's ratios. The Long Term Financial Plan also makes reference to a proposed special variation in 2021-22 of 15.9% cumulative for 4 years (26.3% including the rate peg). This is outside of the outlook period and so is not included in the council's ratios.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20. An increase in real opex from 2013-14 to 2014-15 is explained as a result of the restoration to roads following the flood damage from prior years.

Other relevant factors	
Social and community context	Wagga Wagga is a major inland regional centre which includes the main campus of Charles Sturt University, Kapooka Army Recruit Training Base, Wagga Base Hospital, RAAF Base Wagga and TAFE NSW Riverina Institute. Other villages are included in the local government area including Tarcutta and Oura. The local government area is characterised by a youthful and growing population with low unemployment levels.
Community consultation	The council indicates the community was informed about the Fit for the Future process including through public exhibition of the 2015-16 Combined Delivery Program and Operational Plan. In addition, the council informed its community of its plans under Fit for the Future through its online community engagement platform 'yoursaywagga.'
Water and/or sewer	Riverina Water County Council supplies water. The council intends to review its sewerage businesses to determine if a dividend may be payable and to request Riverina Water County Council to pay a dividend to its constituent councils. These funds would be used to reduce the Infrastructure Backlog and Asset Maintenance ratios.
Submissions	There were no submissions received in relation to Wagga Wagga Council's proposal.

WAKOOL SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

FIT AS A RURAL COUNCIL

Area (km^2)	7,549	Population: 2011	4,050
OLG Group	9	(2031)	3,200
ILGRP Group	C		
Operating revenue (2013-14)	$13.5m	TCorp assessment	Weak FSR Negative Outlook
ILGRP options (no preference)	Rural Council in Mid-Murray JO (shaded area) or merge with Murray/ Conargo/ Deniliquin (yellow).		

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall. The council satisfies the criteria for sustainability, infrastructure and service management and efficiency.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include resource sharing within the JO, reviewing services and realising limited opportunities to raise additional revenue.
- A high level business case for a merger between Wakool, Murray and Deniliquin Councils by LKS Quaero was provided, but did not identify an NPV estimate.
- Based on the assumptions used by LKS Quaero, our analysis indicates a merger could provide benefits to society of $26m (including a Government grant of $11m) in NPV terms over 20 years.
- While this evidence suggests a merger may be a better alternative to the council's proposal to stand alone, our finding is based on the proposal being consistent with the ILGRP option to be a Rural Council.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on Government adopting a Rural Council model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2024-25 and the building and infrastructure asset renewal ratios by 2019-20.
- The operating performance ratio was -3.6% in 2014-15 and is forecast to reach 8.4% by 2024-25, which is above the benchmark. The council's operating performance ratio is supported by an approved special variation of 7.0% in 2015-16, which is 2.5% above the rate peg.
- The council undertook a depreciation review in 2014-15 which resulted in reduced depreciation of around $0.64m, which has contributed to an improvement of around 4 percentage points in the operating balance.
- The council's own source revenue ratio including FAGs increases from 62.8% in 2014-15 to 70.0% by 2019-20.

Infrastructure and service management - satisfies

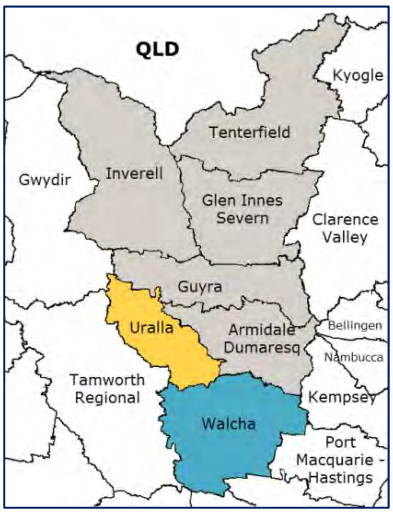
- The council satisfies the infrastructure and service management criterion. It is forecast to meet the benchmark for the infrastructure backlog, asset maintenance ratio and debt service ratio over the period to 2019-20.
- The council conducted a full review of its infrastructure backlog in 2014-15 in accordance with the OLG definitions of backlog and the principles outlined by Jeff Roorda and Associates. As a result its backlog estimate of $44m has reduced to $0.3m in 2014-15. The council has not provided further detail to explain this significant change.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real opex per capita to 2019-20.

Other relevant factors	
Social and community context	The council notes 45% of its population (1,802 people) resides in urban centres of Barham, Moulamein, Murray Downs and Tooleybuc, with the remainder of its population dispersed across its shire. Some of these towns are located relatively close to larger town centres of Deniliquin and Swan Hill (VIC), however we note both Deniliquin and Swan Hill both have populations of less than 10,000. Wakool's economy is based on agriculture, but it notes in recent years employment in agriculture has declined significantly due to drought and policy changes.
Community consultation	Wakool notes it undertook the following consultation: radio interviews, newsletters, pop-up shops (71 attendees), a community group discussion, and invited submissions on the council's draft rural council proposal and alternative merger option. Approximately 45 submissions were received, including 26 submissions opposing the merger with Murray and Deniliquin and having no objection to the rural council proposal, and 10 submissions having no objection to the rural council proposal. The main concerns raised in relation to the merger related to: loss of local identity and representation, higher debt levels in the merger councils, loss of staff and reduced services, and the large size of the merged council. We note no information appears to have been provided in relation to the pros and cons of the different options in the invitation to provide submissions.
Water and/or sewer	Wakool currently manages its water and sewer businesses on a break even basis and considers it has no infrastructure backlog. We note the water utility may provide limited strategic capacity to the council as Wakool has proposed transferring non-operational water utility functions to the JO.
Submissions	There were no submissions were received in relation to Wakool's proposal.

WALCHA SHIRE COUNCIL – RURAL COUNCIL PROPOSAL



NOT FIT

Area (km^2)	6,261	Population	2011	3,100
OLG Group	9		(2031)	2,750
ILGRP Group	B	Merger	2011	9,350
			(2031)	9,300
Operating revenue (2013-14)	$8.8m	TCorp assessment		Weak FSR Negative Outlook

ILGRP options (preference in bold): **Merge with Uralla** or stand alone as Rural Council in New England JO (shaded area).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- The council's Rural Council Proposal is not as good as the ILGRP's preferred option to merge with Uralla. When compared to the merger, the council's small and declining population of 2,750 in 2031 means it is unlikely to cost-effectively provide services to the local communities and advocate and partner with government.
- Most of the efficiency strategies proposed by the council could be realised in addition to the merger gains under the merger alternative.
- Our analysis indicates the merger is a better outcome for managing strategic issues in the region. The merger is also likely to further promote closer economic and social ties between the two councils.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2024-25 and the building and infrastructure asset renewal and own source revenue ratios by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a permanent special variation from 2016-17 of 15.6% cumulative over 2 years (10.5% above the rate peg).
- The council has also altered its approach to asset management, which has resulted in a large reduction in depreciation.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the asset maintenance and debt service ratios by 2019-20.
- The council's infrastructure backlog was 10% in 2014-15 and is forecast to reach 7% in 2017-18 and remain steady at this level until 2019-20. The council plans to reduce its infrastructure backlog through a combination of asset renewals and funding required asset maintenance. However, it is unlikely the council will reach the benchmark of 2% based on its own projections to 2024-25.

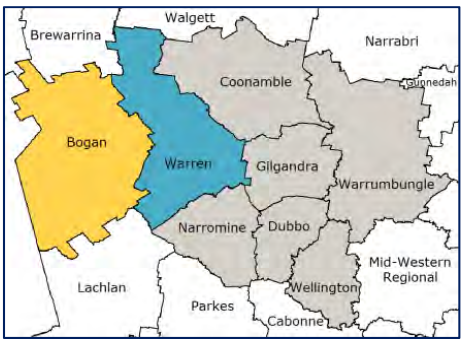
Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	The major town in the council is Walcha, which is home to about 50% of the council's population. Walcha is largely tied to agriculture and timber plantations. There are conflicting views from previous independent reports for government by Vardon in 2003 (and subsequently referred to the Boundaries Commission) and Kibble in 2010 about Walcha's communities of interest, with the latter report by Kibble rejecting the former report's view that Walcha should amalgamate with Armidale, Uralla and Guyra. Walcha appears to be largely self-reliant, with both Tamworth and Armidale providing regional centre services. Further, Walcha services border towns within Tamworth. However, Walcha does have functional relationships with Uralla and shares or is proposing to share resources, eg, a Ranger was hired in 2015 and there are plans to hire a strategic planner by 2016.
Community consultation	Walcha Council consulted its community and other special interest groups (eg, NSW Farmers) to formulate the Council's position. Walcha Council undertook a community survey, general public meetings and information sessions aimed at informing the community on the FFTF process, the council's current position (to stand alone) and obtain community preferences. The council's presentation to the community does not clearly explain the costs and benefits of the alternative options and concentrates on the council's performance relative to the financial benchmarks and its infrastructure challenges. The community survey showed strong support for the council to stand alone at 84%, along with support to reduce the number of councillors and wards. However, the survey also showed that 57% of survey respondent were not in favour of higher rates to pay for improved infrastructure.
Water and/or sewer	Walcha Council provides water and sewerage services to its community, and according to the council also provides critical mass and assists its ability to function and attract staff. The council's water and sewer business achieves 79% compliance in implementing best practice management. Further, Walcha notes it manages its operations on a break-even basis. The council's current water and sewer infrastructure backlog is $1.3m, but no further information is provided about the backlog.
Submissions	We received 18 submissions for Walcha Shire Council's proposal. All submissions supported the council's proposal and were against a merger with Uralla Shire Council. The key themes included a loss of local focus and identity, less representation, a reduction in services or facilities. Further, some submitters noted the council is performing well, and there is no evidence residents would be better off under the proposed merger.

WARREN SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

FIT AS A RURAL COUNCIL



Area (km^2)	9,443	Population: 2011	2,850
OLG Group	9	(2031)	2,400
ILGRP Group	C		
Operating revenue (2013-14)	$9.7m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options (no preference)	Rural Council in Orana JO (shaded) or merge with Bogan (yellow shade).		

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall as the council meets the criteria for sustainability, infrastructure and service management and efficiency.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- To achieve scale and capacity, the council proposes extending existing resource sharing arrangements, streamlining services and creating an IT platform via which to share back office services with three other councils.
- The council states it examined the advantages and disadvantages of merging, notwithstanding community opposition to this alternative, but proposes to stand-alone. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the stand alone proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on Government adopting the Rural Council Model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If the Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio in 2024-25.
- The council also meets the building and infrastructure asset renewal ratio.
- In addition, the council meets the benchmark for the own source revenue with FAGs. The council acknowledges it has limited opportunities to increase revenue and would need a special variation to achieve the benchmark without the support of FAGs.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management as it is forecast to meet the benchmarks for the infrastructure backlog ratio, the debt service ratio and the asset maintenance ratio.

Efficiency – does not satisfy

- The council does not satisfy the criterion for efficiency. The council's forecasts for real opex per capita reflect an unchanged population over the outlook period. Using the DP&E's forecasts, real opex per capita would increase slightly.

Other relevant factors	
Social and community context	The community of interest centres on the town of Warren, which is distant from other regional centres such as Gilgandra and Narromine (both around 50 minutes away).
Community consultation	Warren Shire Council states it consulted via information on its website, meetings with industry and meetings with community groups. The council states it received a petition with 1,770 signatures (62% of the population) requesting that the council stands alone.
Water and/or sewer	According to the council, its water and sewerage business does not break even, although the council maintains this is due to the practice of expensing items that should have been capitalised.
Submissions	There were no submissions received in relation to Warren Shire Council's proposal.

WARRINGAH COUNCIL – CIP

NOT FIT

Area (km^2)	149	Population	2011	148,400
OLG Group	3		(2031)	179,600
ILGRP Group	Sydney Metro	Merger	2011	251,650
			(2031)	310,800
Operating revenue (2013-14)	$156m	TCorp assessment		Sound FSR Positive Outlook

ILGRP options (preference in bold)

Merge with Pittwater and Manly Councils (yellow) or combine as a strong JO with Pittwater and Manly Councils.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the sustainability criterion as a result of its operating performance ratio being above the benchmark.
- The council also satisfies the infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF).

Scale and capacity – does not satisfy

- The council did not demonstrate its improvement proposal was at least as good as the ILGRP merger option. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 179,600 by 2031 compared with the forecast merger population of 307,000. Our analysis suggests that the council does not have sufficient scale to partner effectively with the government compared to the merger.
- Manly Council and Pittwater Council jointly commissioned a business case which showed a merger of Manly, Pittwater and Warringah produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $116 million over 20 years (including the Government grant).
- Warringah Council also commissioned a separate business case of the merger. Based on this model, our analysis suggests the merger could produce net benefits of $265 million over 20 years.
- In addition, our independent economic consultants Ernst and Young estimated net benefits from the merger of around $116m over 20 years using publically available data.
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Warringah Council notes the ILGRP merger is its preferred option and it sought to reach an agreement with Pittwater and Manly Councils to merge via a number of forums. However, it says these councils did not support this merger.
- We note community consultation undertaken by Pittwater and Manly councils indicated opposition to the ILGRP merger. However, Warringah's community consultation, which was undertaken across the three LGAs, indicated almost 70% of responses supported the ILGRP merger.
- Our analysis is consistent with the ILGRP's preferred option for Warringah to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately one percentage point to 3.9% in 2019-20, which is still above the benchmark.

Infrastructure and service management - satisfies

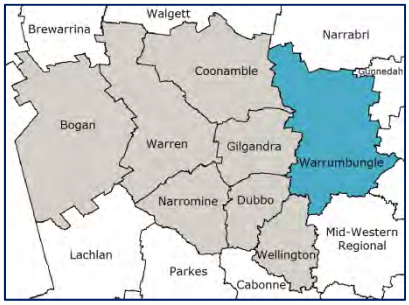
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council has a higher population density than Pittwater, but much lower than that of Manly. It also has an aging population compared with Manly, with 26% of residents 55 years or older (2011).
Community consultation	A 2015 survey indicated that 94% of residents in Warringah were satisfied with the council's performance, which suggests the council is already meeting community expectations. The council conducted extensive community consultation across the three northern beaches' LGAs through various media, including submissions, random telephone surveys and social media. The results from this consultation showed almost 70% of responses from across the Northern Beaches and 74% of Warringah responses support the ILGRP merger. We note these results differ from the surveys undertaken by the other two councils, which indicated strong opposition to the merger.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received nine submissions in relation to Warringah Council's proposal. Eight of the submissions did not support the ILGRP preferred option, as they considered the merger was unlikely to lead to efficiencies and they were concerned about a loss of local identity. One of the submissions was in favour of the ILGRP merger, stating that it would result in greater efficiencies and cost savings.

WARRUMBUNGLE SHIRE COUNCIL - CIP



NOT FIT

Area (km^2)	14,820	Population	2011	9,900
OLG Group	9		(2031)	8,800
ILGRP Group	C			
Operating revenue (2013-14)	$27.6m	TCorp assessment	Weak FSR Negative Outlook	
ILGRP option	Council in Orana JO (all shaded).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall.
- Although the council satisfies the infrastructure and service management criterion, it does not satisfy the sustainability and efficiency criteria.
- The council does not satisfy the criterion for sustainability based on assumptions that are not reasonable. As a result, an adjusted forecast for its operating performance ratio does not meet the benchmark.
- We consider the operating performance ratio is a key measure of sustainability that councils must meet to be Fit for the Future, therefore the council is not fit.

Scale and capacity – satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not propose another option for this council, Warrumbungle Council was not required to demonstrate how it met each of the elements of scale and capacity.
- It provided limited information against the elements of scale and capacity and we consider it meets or partially meets most of them.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability. It meets the building and infrastructure asset renewal ratio by 2019-20. However, it does not meet the operating performance ratio based on our revised calculation.
- The operating performance ratio was -14.7% in 2014-15 and is forecast (by the council) to reach 0.1% by 2024-25, which meets the benchmark.
- However, these ratios include the assumption that FAGs would increase by $1m in 2017-18 onwards, which our analysis indicates is not reasonable. Under more realistic estimates, our analysis suggests the revised operating performance ratio is forecast to be -2.2% in 2024-25.
- For councils within OLG groups 8-11 we have assessed the own source revenue ratio with the inclusion of FAGs. The council meets the own source revenue ratio.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the asset maintenance and debt service ratios by 2019-20.
- The council plans to reduce its backlog from 5% in 2014-15 to 4% in 2019-20, by diverting funding from capital expansion to capital renewals.
- The council revalued much of its asset base in 2012-13 leading to a decrease in the cost to bring assets to satisfactory condition. It is yet to complete its revaluation for structures and stormwater drainage infrastructure and considers the backlogs for these categories to be conservatively high.

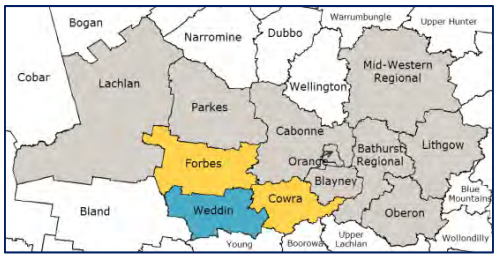
	Efficiency – does not satisfy • The council does not satisfy the criterion for efficiency based on our estimate of it increasing real opex per capita over time. We estimate the real operating expenditure is likely to increase from $33.6m in 2014-15 to $34.4m to 2019-20, while the population is forecast to decrease from around 9,900 to 9,800 between 2011 and 2021. This indicates an increasing real operating expenditure per capita ratio.
Other relevant factors	
Social and community context	The LGA covers a large geographic area, comprising 6 towns and 13 villages. The LGA has a predominantly rural-based economy – around 24% of all employed persons were in the sheep, cattle and grain farming industry in 2011. The LGA also has a rich indigenous heritage - Aboriginal or Torres Strait Islander people represented 9.3% of the Shire's population in 2011.
Community consultation	The council conducted a rigorous and broad community consultation program for its Improvement Action Plan (IAP). The council held several internal workshop and community meetings in each of the six towns in the LGA, to inform the content of its IAP. Following public release of the IPA, the council engaged in further public consultation and publicity, including four dedicated town meetings and widespread media coverage. The CIP does not indicate the community feedback.
Water and/or sewer	The council is 90% compliant with the NSW Government Best Practice Management of Water Supply and Sewerage Framework. The council is intending to implement a water consumption charge in 2016-17 to achieve full compliance. The council is reviewing its asset backlogs and is budgeting significant asset renewal expenditure in its 2015-16 Delivery Program.
Submissions	There were no submissions were received in relation to Warrumbungle's proposal.

WAVERLEY COUNCIL

REFER TO RANDWICK CITY AND WAVERLEY COUNCILS - MERGER PROPOSAL

WEDDIN SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

NOT FIT



Area (km^2)	3410	Population	2011	3750
OLG Group	9		(2031)	3250
ILGRP Group	C	Merger Forbes	2011	13,200
			(2031)	12,000
		Merger Cowra	2011	16,250
			(2031)	14,450
Operating revenue (2013-14)	$7.8m	TCorp assessment		Moderate FSR Negative Outlook

ILGRP options (no preference): Weddin Shire Council as a Rural Council in Central West JO (all shaded) or merge with Cowra or Forbes (yellow).

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council meets the scale and capacity criterion as a Rural Council.
- The council does not satisfy the financial criteria overall.
- Although the council satisfies the efficiency criterion, it does not satisfy the sustainability and infrastructure and service management criteria.
- The council does not satisfy the criterion for sustainability based on its unrealistic revenue assumptions. As a result, an adjusted forecast for its operating performance ratio does not meet the benchmark.
- We consider the operating performance ratio is a key measure of sustainability that councils must meet to be Fit for the Future, therefore the council is not fit.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include reducing the number of councillors, realising efficiencies from services reviews, and increasing collaboration and shared services through the JO and with the other Rural Councils.
- The council did not explore the costs and benefits of the merger options. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the Rural Council proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on the Government adopting a Rural Council Model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion.

Sustainability - does not satisfy

- The council does not satisfy the criterion for sustainability. It meets the building and infrastructure asset renewal ratio by 2019-20. However, it does not meet the operating performance ratio on our revised calculation.
- The operating performance ratio was -25.7% in 2014-15 and is forecast to reach 11.4% by 2024-25, which meets the benchmark according to council's numbers
- However, these ratios include the assumption that FAGs would increase by $1.5m in 2017-18 onwards, which our analysis indicates is unrealistic. Under more realistic assumptions, our analysis suggests the revised operating performance ratio is forecast to be -0.4% in 2024-25.

- The own source revenue ratio was 49.3% in 2014-15 and is forecast to reach 40.4% by 2019-20 without the inclusion of FAGs, which is below the benchmark to improve over the period. We note the inclusion of FAGs will increase the ratio to 66.7% by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management.
- The asset maintenance ratio was 94.5% in 2014-15 and is forecast to reach 97.0% by 2019-20 which is close to the benchmark of 100%.
- The debt service ratio is forecast to meet the benchmark.
- The infrastructure backlog is 4.5% in 2014-15 and is forecast to be 4.4% by 2019-20, which does not meet the benchmark.

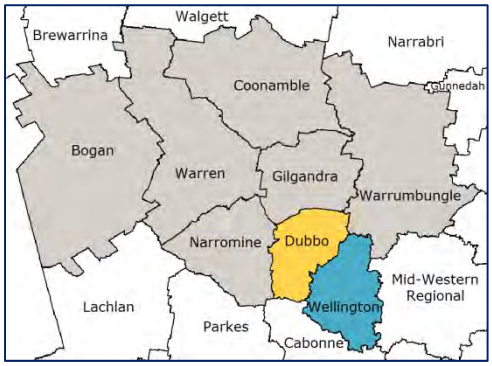
Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	The major town in the LGA is Grenfell, which supports the surrounding agriculture area. Weddin is located between four other LGA, with the primary community of interest being Young. Health services and shopping are usually undertaken at Orange. The area also provides labour to the surrounding shires for banking and health, mainly for the agriculture industry.
Community consultation	Weddin council has undertaken community consultation in a number of formats including workshops, social media, newsletters and open forums in relation to its FFTF proposal. The council has not indicated if there were any submissions for council's proposal to be a rural council. A community survey was undertaken by council in relation to the special rate variation in 2014 and not the options for FFTF.
Water and/or sewer	The council operates a sewer business and does not meet the requirements of NSW Government Best Practice Management of Water Supply and Sewerage Framework. The council states it has no infrastructure backlog and reported a surplus before capital of $74,000 for the sewer fund. Water supply is provided by Central Tablelands Water County Council.
Submissions	There were no submissions were received in relation to Weddin's proposal.

WELLINGTON COUNCIL – CIP

NOT FIT



Area (km^2)	4,047	Population	2011	8,850
OLG Group	10		(2031)	8,100
ILGRP Group	E	Merger	2011	49,100
			(2031)	54,600
Operating revenue (2013-14)	$15.9m	TCorp assessment	Weak FSR, Neutral Outlook	
ILGRP option (no preference)	Council in Orana JO (all shaded) or merge with Dubbo (yellow).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council's population is declining and is forecast to be 8,100 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.
- Therefore the council's proposal to stand alone does not satisfy the scale and capacity criterion.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council identified opportunities for significant service level reductions, cost-savings, restructuring and divestment of functions. The council also reduced its depreciation expense and required maintenance expenditure, based on external advice by Morrison Low. Overall, these savings would help the council achieve operating surpluses from 2016-17 onwards.

Infrastructure and service management - satisfies

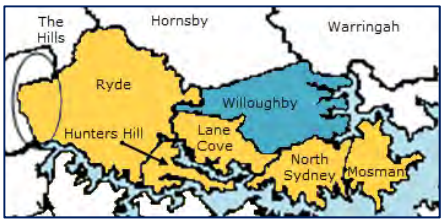
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, the asset maintenance ratio and the debt service ratio by 2019-20.
- The council has changed the threshold for "satisfactory condition" for its assets. This has reduced the backlog, renewal and maintenance requirements for the council to address. As a result, the backlog is forecast to be eliminated by 2015-16.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The LGA is primarily based on agricultural industries for cropping, wool, beef and lamb. The council also has key tourist attractions based on its natural geographical features such as the Wellington Caves Reserve and mining attractions.
Community consultation	The council has used a wide range of methods to inform its community between 17 March and 24 April 2014 (after the release of the ILGRP report). The council received 31 written submissions and 628 completed surveys. Survey feedback indicated that 65% expressed concerns that a merger with Dubbo and Narromine councils would impact on local identity and services.
Water and/or sewer	The council is 100% and 89% compliant with the NSW Government's Best Practice Management requirements for water and sewer, respectively. The council is expecting operating surpluses from 2017-18 onwards for its water and sewer functions. These surpluses are expected to increase steadily to around $0.2m by 2019-20, and will be used to fund renewals and improvements for water and sewer infrastructure, which includes $4.2m worth of capital works for the period 2015 to 2020.
Submissions	There were no submissions received in relation to Wellington Council's proposal.

WILLOUGHBY CITY COUNCIL - CIP



NOT FIT

Area (km^2)	23	Population 2011	71,150
OLG Group	3	(2031)	90,300
ILGRP Group	Sydney Metro	Merger 2011	286,867
		(2031)	376,150
Operating revenue (2013-14)	$111.4m	TCorp assessment	Moderate FSR Neutral Outlook

ILGRP options (preference in bold): **Merge with Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde (part)** (yellow) or combine as a JO.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although it does not meet the infrastructure and service management, the council satisfies the sustainability and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity - does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 90,300 by 2031 compared with the forecast merger population of 376,150. Our analysis suggests the council does not have sufficient scale to partner effectively with governments compared to the merger option.
- The City of Ryde Council, Hunter's Hill City Council and Lane Cove City Council submitted a business case which showed that a merger of Lane Cove, Hunter's Hill, Mosman, North Sydney, Willoughby and part of Ryde produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $280 million over 20 years (including the Government grant).
- In addition, our independent consultants Ernst and Young estimated net benefits from the merger of around $187m over 20 years using publically available data.
- These analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Willoughby to merge with neighbouring councils.

Sustainability - satisfies

- The council meets the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, own source revenue ratio and building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management – does not satisfy

- The council does not meet the criterion for infrastructure and service management.
- It forecasts improvements in the infrastructure backlog ratio and asset maintenance ratios but does not forecast meeting the respective benchmarks.
- The council's infrastructure backlog was 6.3% in 2014-15 and is forecast to reach 3.2% by 2019-20, which does not meet the benchmark. According to the council, its infrastructure spending has not been sufficient to reduce the infrastructure backlog, estimated at $38m. Nevertheless, the council considers it has improved its understanding of its assets over the last five years and highlights an independent assessment (by Morrison Low) indicating the reported backlog is higher than the actual backlog. However, as the council is reviewing the accuracy of the written down value of its infrastructure, we consider there is a risk the estimated backlog

might increase as a result of this review.

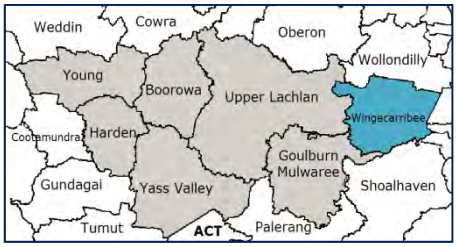
- The asset maintenance ratio was 69.0% in 2014-15 and is forecast to reach 70.0% by 2019-20, which does not meet the benchmark. The council states its asset maintenance expenditure has been below required levels. The council further states its calculation of this ratio is based on an historical methodology. This implies the calculation might not be accurate.
- The debt service ratio was 6.9% in 2014-15 and is forecast to reach 3.0% by 2019-20, which meets the benchmark.

Efficiency - satisfies

- The council meets the criterion for efficiency based on a forecast slight decline in real opex per capita over the outlook period.

Other relevant factors	
Social and community context	A large proportion of survey responses indicate residents consider North Sydney and Willoughby to be similar communities.
Community consultation	Information was provided to the community via media releases, social media, internet and information stalls. The council consulted residents via telephone, online and hard copy survey. Survey results show that 32% of respondents support standing alone, 27% support a merger between Willoughby, North Sydney and Lane Cove and 25% support a merger between Willoughby and North Sydney. The council also established a citizen's panel to evaluate different options. This panel considers standing alone is the best option due to reasons including concerns about democratic representation, the absence of merger benefits and the council's financially sound state.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received six submissions relating to Willoughby's proposal (including 2 early submissions). They focus on: the potential for a loss of local focus and identity, a preference to merge with North Sydney (not Ryde or Hunters Hill), a lack of consultation about the council's preference to stand-alone, concern that the benefits from NSROC are overstated, the council's lack of regard for forming a JO, questionable assumptions in the council's CIP, community support for some form of amalgamation, concerns about the council's organisational restructure and concerns that the council is not fit for the future and should not increase rates.

WINGECARRIBEE SHIRE COUNCIL – CIP



FIT

Area (km^2)	2,689	Population:	2011	46,150
OLG Group	4		(2031)	51,150
ILGRP Group	G			
Operating revenue (2013-14)	$68.0m	TCorp assessment		Moderate FSR Neutral Outlook
ILGRP option	Council in Tablelands JO (shaded area).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not propose another option for Wingecarribee, it was not required to demonstrate how it met each of the elements of scale and capacity. It therefore did not provide information on the other elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio and the own source revenue ratios by 2019-20.
- The council's building and infrastructure asset renewal ratio was 54% in 2014-15 and forecast to improve to 90.1% in 2019-20, which is close to the benchmark
- The council's forecasts rely on a successful application for and adoption of a special variation from 2016-17 of 41.2% cumulative over 4 years (30.8% above the rate peg). The additional funds will be used to meet the benchmark for operating performance and address a current funding gap for maintenance and renewal, which would reduce its backlog.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, and debt service ratios by 2019-20 and forecast improvement in the asset maintenance ratio.
- We note the council's infrastructure backlog improvement follows on from a re-calculation of its backlog using a new method. The council indicated it was previously overstating its backlog.
- The council's asset maintenance ratio is forecast to improve from 84.7% in 2014-15 to 94.1% in 2019-20, which is close to the benchmark.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors	
Social and community context	The council area has significant areas of State Forest, National Park and other protected lands that form part of the Sydney Water catchment area. The Shire is predominantly rural in character with agricultural producing lands separating towns and villages. The council notes it is one of the least disadvantaged shires in NSW based on the ABS SEIFA Index. Wingecarribee is ranked 125 out of 152 LGAs, (a higher rank indicates less disadvantage).
Community consultation	The council engaged with the broader community in relation to Fit for the Future. Four community information sessions were held, two in March and two in April during the preparation of the council's Fit for the Future Proposal. These sessions were to ensure the community was aware of Fit for the Future requirements and the council's progress with its proposal including key improvement strategies. The council did not identify the outcomes of its consultation.
Water and/or sewer	The council achieved 100% compliance for sewer and 90% compliance for water with the Best Practice Management Framework. Council is currently reviewing its pricing strategy to move from 31:69 access charge/user charge ratio to 25:75 ratio. Wingecarribee states this will be implemented in 2016-17 financial year and will achieve 100% compliance with best practice management framework for water. Further, the council currently manages its water and sewerage operations on a break-even basis. The council notes the removal of its water utility status would significantly weaken the council's scale and capacity.
Submissions	We received two submissions relating to Wingecarribee's proposal, with the key views or issues raised including: • expressing satisfaction with the council's performance and its continuing ability to determine its own affairs, and • where a council's FFTF proposal is based on increased rates and other charges these should be disclosed now and ratepayers should be given a direct say whether this is acceptable, or whether a merger may be a better option to avoid these increases.

WOLLONDILLY SHIRE COUNCIL – CIP

FIT

Area (km^2)	2,560	Population 2011	44,600
OLG Group	6	(2031)	57,700
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$44.2m	TCorp assessment	Weak FSR Neutral Outlook
ILGRP options (preference in bold)	**No change** or combine as a strong JO with Liverpool, Fairfield, Bankstown, Camden, Campbelltown (shaded area) and possible long term merger/s with Camden/ Campbelltown/ Wingecarribee.		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, it has a robust revenue base and scope to undertake new functions and major projects.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewal ratios by 2019-20.
- The council has an approved special rate variation from 2015-16 of 50.7% cumulative for 4 years (38.8% above the rate peg). This is the primary reason for the improvement in the council's financial performance over time, allowing it to just meet the benchmark for the operating performance ratio by 2019-20.

Infrastructure and service management - satisfies

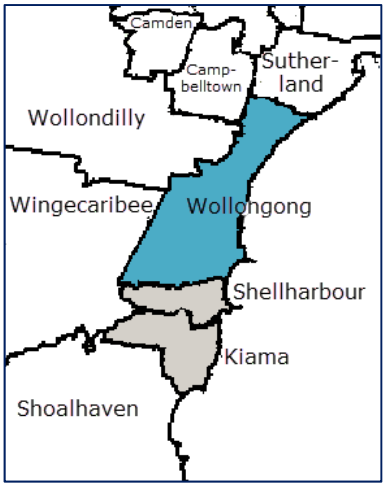
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the asset maintenance and debt service benchmarks by 2019-20.
- The council has forecast an infrastructure backlog ratio of 11.7% by 2019-20 which does not meet the benchmark.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on declining real operating expenditure per capita.

Other relevant factors	
Social and community context	Wollondilly notes it has a number of challenges including: a large area relative to its small population which results in high infrastructure costs, a large funding deficit of $80m which is expected to be partially addressed through the approved SRV, and significant growth in its population over the next 30 years.
Community consultation	No details of community consultation for the Fit for the Future process were included in the proposal.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received one submission in relation to Wollondilly Council's proposal. This submission was supportive of a merger with Camden or Campbelltown Councils as considerate states Wollondilly Council is performing poorly in relation to financial management and in progressing planning and development.

WOLLONGONG CITY COUNCIL – CIP



FIT

Area (km^2)	684	Population 2011	202,050
OLG Group	5	(2031)	232,450
ILGRP Group	Illawarra		
Operating revenue (2013-14)	$224.3m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP option	Council in Illawarra JO (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management, and efficiency criteria.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- In particular, the council has a robust revenue base, scope to undertake new functions and major projects and has shown effective regional collaboration.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the building and infrastructure asset renewal ratio and the own source revenue ratio by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the asset maintenance and debt service ratios by 2019-20. It does not meet the infrastructure backlog benchmark by 2019-20, but shows improvement over the outlook period.

Efficiency – satisfies

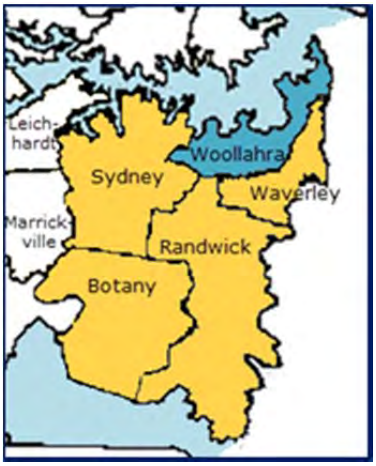
- The council meets the efficiency criterion based on a decrease in real operating expenditure per capita over the period to 2019-20.

Other relevant factors

Social and community context	The proposal did not provide any details of social and community context.
Community consultation	The proposal did not provide any details of community consultation.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions were received in relation to Wollongong Council's proposal.

WOOLLAHRA MUNICIPAL COUNCIL – CIP

NOT FIT



Area (km^2)	12	Population 2011	56,300
OLG Group	2	(2031)	67,250
ILGRP Group	Sydney Metro	Merger 2011	487,600
		(2031)	653,250
Operating revenue (2013-14)	$72.7m	TCorp assessment (Revised)	Moderate FSR Positive Outlook

ILGRP options (preference in bold): **Merge with Randwick, Waverley, Botany and Sydney** (yellow) or form strong JO with Randwick, Waverley, Botany and Sydney (shaded area).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the merger option. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 67,250 by 2031 compared with the forecast merger population of 653,250. Our analysis indicates the council does not have sufficient scale and capacity to effectively partner with governments compared with the merger option.
- The council did not submit a full merger business case. Instead it undertook its own assessment of the options.
- Randwick City Council submitted a business case which showed a merger with Woollahra Council, Waverley Council, Council of the City of Botany Bay and Council of the City of Sydney produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $416 million over 20 years (including the government grant).
- In addition, our independent economic consultants Ernst and Young estimated net benefits from the merger of $283m over 20 years using public data.
- These analyses showed large gains to the local community from a merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Woollahra to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over the outlook period.

Other relevant factors	
Social and community context	The council is located in Sydney's eastern suburbs and has its population are amongst the most socio-economically advantaged in NSW. The council borders Bondi Junction, a key strategic centre in the eastern suburbs. The council is home to key tourist destinations including Watsons Bay, Vaucluse and key beaches.
Community consultation	The council informed their communities of the FFTF process through focus groups, surveys, their websites, briefings and mailed information packs. Feedback from an online survey and a Micromex telephone survey indicated the majority of respondents opposed a merger. We consider the council did not provide a balanced assessment of the proposed FTFF reforms.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 27 submissions in relation to Woollahra Municipal Council. These are predominantly concerned with the loss of local focus and identity. The submissions also consider the council to be performing well and that there is no evidence to suggest residents will be better off under a merger. Three submissions support the merger. We also received two late submissions.

WYONG SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	840	Population 2011		154,350
OLG Group	7		(2031)	197,850
ILGRP Group	Central Coast	Merger	2011	322,650
			(2031)	386,900
Operating revenue (2013-14)	$149.7m	TCorp assessment		Moderate FSR Neutral Outlook

ILGRP options (no preference): Wyong (blue) to merge with Gosford (yellow) or form a multi-purpose JO (no separate water corporation until other options properly evaluated).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The ILGRP noted that the Central Coast would benefit from strong governance. It stated that "an amalgamation warrants further investigation, but if that option is rejected or deferred indefinitely, then a JO *should* be established and should assume responsibility for water along with other strategic functions" [emphasis added].
- Wyong's proposal is not consistent with the objectives for the Central Coast. The council ruled out both a merger and a multi-purpose Central Coast JO with Gosford. It proposes to stand alone with 'business improvements'. In particular, its proposal not to join a JO does not promote the objectives of strong governance for the Central Coast.
- The council's population is forecast to be 197,850 by 2031 compared to the forecast merger population of 386,900. Our analysis indicates the council does not have sufficient scale and capacity to effectively partner with governments compared to the merger option.
- The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- A merged council is also likely to undertake more integrated planning that will promote better growth in the Greater Sydney region.
- The council submitted a business case from Third Horizon. Based on this model, our analysis suggests the merger produces net benefits of around $101m over 20 years.
- In addition our independent economic consultants Ernst and Young have estimated gains from the merger of $196m over 20 years using publically available data.
- All analyses showed large gains to the local community from a merger. Variances in calculations result from different inputs and underlying methodologies.
- We note a submission from the Mayor of Wyong supported a merger with Gosford.

Sustainability – satisfies

- The council satisfies the sustainability criterion based on its forecast to meet the benchmarks for the operating performance ratio, own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately 0.8 percentage points to -0.7% in 2019-20, which is below the benchmark. However, we consider the council has sufficient scope to adjust its revenue strategy to meet the benchmark.

Infrastructure and service management - satisfies

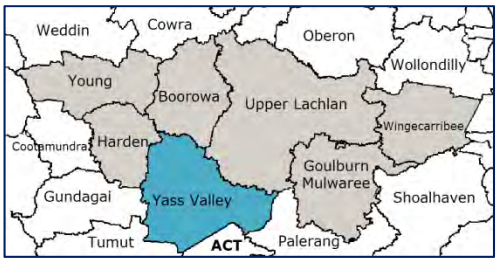
- The council meets the infrastructure and service management criterion based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.
- The debt service ratio will remain around 0.8% throughout the assessment period. While this is quite low, it meets the benchmark. The council noted that it only borrows when Local infrastructure Renewal Scheme (LIRS) funding becomes available.

Efficiency - satisfies

- The council meets the efficiency criterion based on a decrease in real operating expenditure per capita over the outlook period.

Other relevant factors	
Social and community context	The council considers the social and community differences between Wyong and Gosford lead to different strategic and delivery focus for the two councils. It considers greater regional collaboration, as well as investigation of joint service delivery with Gosford can achieve better strategic capacity outcomes.
Community consultation	The council undertook surveys to gauge FFTF understanding and community satisfaction/response to a merger. A phone survey of 2,300 residents and 200 businesses showed the majority of respondents 'strongly opposed' a merger. A third survey of council staff also found the majority (71%) opposed the merger.
Water and/or sewer	The council stated it has the third largest Water Authority in NSW after Sydney and Hunter Water with over $2.3b in assets. We note it runs the Water Authority with Gosford. It stated that it complies with the NSW Government's Best Practice Management of Water Supply and Sewerage Framework as verified by the 2012-13 FY Annual Audit.
Submissions	We received 11 submissions regarding Wyong's proposal. Nine submissions opposed a merger with Gosford. The concerns expressed included that Wyong's financial position would deteriorate through redirecting funds to cover Gosford's operating deficit and asset upgrades. As well, it would disenfranchise Wyong residents and take the 'local' out of local government. There were concerns that Gosford with its larger administration centre would take over Wyong. Two submissions supported a merger including a submission from the Mayor of Wyong. The reasons for support included that it would bring a unified voice, remove duplication, significantly increase strategic capacity and yield better outcomes for the region as a whole. One submission supporting a merger noting the flawed Third Horizon modelling in terms of using different discount rates for the different scenarios. Several submitters did not support the absorption of Wyong into Gosford and Lake Macquarie citing that this would create two distinctly different geographic areas requiring significantly different approaches. One submitter supported dividing Wyong between Gosford and Lake Macquarie.

YASS VALLEY COUNCIL – CIP



NOT FIT

Area (km^2)	3,999	Population 2011	15,600
OLG Group	11	(2031)	21,900
ILGRP Group	G		
Operating revenue (2013-14)	$18.6m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP option	Council in Tablelands JO (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion as a result of its forecast for a negative operating performance ratio by 2024-25.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FFTF) councils should meet, therefore the council is not fit.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP preferred option to stand alone and to collaborate to form the Tablelands JO.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – does not satisfy

- The council does not meet the sustainability criterion based on its forecast for a negative operating performance ratio by 2024-25 and a building and infrastructure asset renewal ratio below the benchmark by 2019-20.
- The council's FFTF proposal relies on a successful application for and adoption of a special variation from 2016-17 of 50.4% cumulative over 5 years (37.2% above the rate peg).
- In addition, the council has recently informed us it does not intend to proceed with the special variation discussed in its FFTF proposal until after the September 2016 elections due to the receipt of additional Roads to Recovery funding from the Federal Government. This unexpected change in approach by the council to the key improvement strategy suggests the council may not be able to return to the operating balance or surplus in the required timeframe.
- The operating performance ratio is forecast to be -13% without the rate increase, even with a possible 37% real increase in rates, the council does not achieve a surplus, and still leaves the council vulnerable to unanticipated shocks.
- The council has forecast it will meet the benchmark for the own source revenue ratio by 2019-20.
- The council has forecast the building and infrastructure asset renewal ratio will be 73.5% by 2019-20, which is below the benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the asset maintenance ratio and the debt service ratio by 2019-20.
- The council has forecast a reduction in its infrastructure backlog to 4.5% by 2019-20.
- The council is prioritising maintenance requirements over asset renewal, although it projects increased expenditure on renewals, to stabilise its infrastructure backlog including using debt in the short-term.

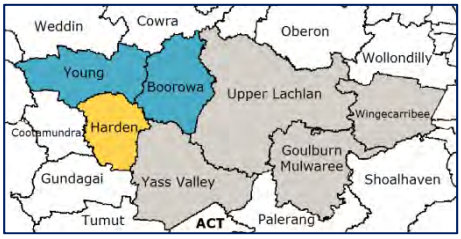
- The council's proposal notes the infrastructure backlog ratio stabilises from 2019-20 before slowly reducing from 2023-24 onwards.

Efficiency - satisfies

- The council meets the efficiency criterion based on its forecast for a decrease in real operating expenditure per capita over the outlook period to 2019-20.

Other relevant factors	
Social and community context	Yass Valley Council's proposal indicates its proximity to Canberra is seen as both a strength (eg, services, employment and growth) and weakness (eg, resident expectations for services and infrastructure).
Community consultation	The council consulted with its community on its Action Plan to become FFTF. The council developed the proposal by collaborating with a specially formed FFTF Community Working Group of 40 members (plus Councillors) to assist in framing and assessing various options to fund future services. The results of the council's consultation process appear to be inconclusive. Yass Council consulted on the basis of no rate increase and two SV scenarios, its proposal is a combination of the two SRV scenarios. Based on submissions provided by Yass Valley in its FFTF proposal the issue of whether rate increases are required to become Fit for the Future is a key issue for the community. Further, as noted in submissions, some members of the community are questioning the need for rises without the consideration of improvements to efficiency.
Water and/or sewer	Yass Valley achieved 100% compliance for sewer and water with the best practice management framework. Yass Valley does not have an infrastructure backlog for both water and sewer. Further, the council operates it water and sewer operations on a break-even basis. However, the council has not been paid a dividend from its water and sewer businesses as at June 2014.
Submissions	We received eight submissions in relation to Yass Valley Council's submission during the submission period. The submissions received had a common theme of dissatisfaction with the performance of the council, and one submission was in favour of mergers even though the ILGRP did not recommend this option for Yass Valley. For example: • A number of submissions consider the council is poorly run including its financial management, governance and strategic management. • One submission considers the decision to 'go it alone' ignores the interest of ratepayers, and considers smaller councils have high overheads. • Two anonymous submissions consider Yass Valley is not Fit for the Future based on how the council has prioritised (incorrectly) spending on land acquisition compared to infrastructure maintenance, and the use rate increases to maintain or improve infrastructure. • Three submissions raised the issue of limited consultation with a perceived bias. • A submission was also received about potential boundary changes for towns in Upper Lachlan and Palerang in the event of amalgamations for these respective councils. We also received two late submissions. One submission is directly related to the FFTF process: • The council's FFTF proposal and public consultation, in particular identifying the rate increases and associated works program is now contradicted by council resolution (ie, to not proceed with the proposed SV). The submission considers the council's FFTF proposal should be scrutinized and given it does not meet the FFTF benchmarks should be deemed unfit. The second submission discusses matters outside the scope for consideration.

YOUNG SHIRE COUNCIL AND BOOROWA COUNCIL – MERGER PROPOSAL



FIT IF COUNCILS RESOLVE TO MERGE

	Young Shire Council:	Boorowa Council:
Area (km^2)	2,693	2,578
OLG Group	11	9
Population 2011	12,699	2,558
(2031)	12,900	2,450
Proposed merger 2011	15,100	15,100
(2031)	15,350	15,350
ILGRP merger 2011	18,800	18,800
(2031)	18,550	18,550
Operating revenue (2013-14)	$16.4m	$8.6m
TCorp assessment	Sound FSR Negative Outlook	Moderate FSR Negative Outlook
ILGRP options (preference in bold)	**Merge with Boorowa/Harden** or council in Tablelands JO (all shaded).	**Merge with Harden and Young** or Rural Council in Tablelands JO (all shaded).

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The merger proposal for Young Shire Council (Young) and Boorowa Council (Boorowa) meets the criterion for scale and capacity.
- The councils' merger proposal also meets the criteria for sustainability, infrastructure and service management and efficiency.
- Young and Boorowa Shire Council's merger proposal is contingent on the inclusion of Harden Shire Council. Further, Boorowa Council has resolved to not support a two-way merger with Young Shire Council.
- Therefore, our assessment of **fit** is dependent on Young and Boorowa resolving to merge in the absence of Harden.
- In the event agreement cannot be reached, we find the councils are **deemed not fit**, as they have not demonstrated scale and capacity as stand-alone councils. In addition, the councils' business case shows ongoing operational deficits, which indicates they would become unsustainable as stand-alone councils without corrective action.

Scale and capacity – satisfies

- The merger is better than the stand-alone option, and is the best available option for these councils given neighbouring councils did not elect to join the merger proposal. It improves scale and capacity for Young and Boorowa.
- The proposal brings together councils with existing functional relationships and two of the three councils within the 'Hilltops' food and wine region.
- We calculate a merger between Young and Boorowa Shire Councils could produce net benefits of $31m over 20 years (NPV), based on LKS Quaero's business case for the councils.
- Young and Boorowa submitted a business case on a three-way 'Hilltops' merger with Harden, prepared by LKS Quaero.

- Young has indicated it supports a four-way merger between Young, Boorowa, Harden and Cootamundra, as a second preference. However, Cootamundra has rejected this option on the basis that it changes the focus of Cootamundra and the southern half of Harden away from the Riverina region.
- Our analysis of this "Hilltops' business case suggests adding Harden and Cootamundra to the merged Young-Boorowa will produce significant additional net benefits to the four local council areas. In particular, our analysis suggests merging the four councils could produce further benefits of $42 million to the local communities over 20 years. These benefits are in addition to the benefits from completing the current two merger proposals.

Sustainability - satisfies

- A merger between Young and Boorowa councils satisfies the criterion for sustainability.
- Our assessment is based on the available information on operating performance for all three Hilltops councils and our estimate of the expected merger benefits from a merger of two councils only.
- The merger business case estimates on-going merger savings of about $5.5m per annum for the three councils.
- Without Harden, we estimate 44% or about $2.4m per year of the estimated efficiency savings should still accrue to the two councils, which can be directed to improving the ratios, and in effect provide infrastructure and services desired by their communities.

Infrastructure and service management - satisfies

- The proposed merger satisfies the criterion for infrastructure and service management.
- The merged council meets the infrastructure backlog benchmark, based on LKS Quaero's analysis that on-going positive cash balances as a result of merger efficiencies can be directed towards improving the infrastructure backlog by 2025.

Efficiency - satisfies

- The proposed merger meets the criterion for efficiency based on declining real opex per capita over time.
- We find merger savings should further decrease real opex per capita, but at a lower level without Harden. Young and Boorowa, as at 2013-14, meet this criterion. Based on these factors, it is likely a merger between Young and Boorowa would continue to meet this criterion.
- Real opex per capita for the three councils, including Harden, was $2,570 in 2014-15 and is forecast to be $2,350 in 2019-20. In the absence of Harden, our analysis indicates real opex per capita should continue to decline, but occur by at a lower rate.

Other relevant factors	
Social and community context	The Hilltops councils have much in common. The consultant, LKS Quaero, notes the geographic proximity and economies are all dominated by the agricultural sector, the demographic profile is similar and the communities largely "play together" through shared facilities. Further, the councils face similar challenges including a lack of an integrated transport network, and the impact on the population from the retraction of agriculture as a large employer.
Community consultation	Both Young and Boorowa have undertaken extensive consultation over an extended period of time, with public forums on multiple occasions, community kiosks, and released the merger business case along with other material explaining the options considered. Young notes the community has conveyed its support of Council in leading the merger option and has urged Council to be an active partner in growing regional scale and capacity through pursuit of merger partners. Further, it notes the primary concerns of the community were the exposure to loss of services, the financial positions of potential partners, impacts on rates and charges and loss of staff. Boorowa in its proposal notes it received two submissions during the exhibition period relating to the proposed merger of Boorowa, Harden and Young Councils with both submissions being highly supportive of the merger.
Water and/or sewer	The councils' merger proposal did not address this factor. The OLG's Merger Proposal Template does not require this information to be provided.
Submissions	There were no submissions received in relation to Young and Boorowa councils' merger proposal.

D Analysis of merger business cases

This appendix provides a summary of the estimated benefits of selected merger options for Metropolitan Sydney councils. It includes the estimated benefits set out in the merger business cases provided in council proposals, as well as additional analysis of these mergers undertaken by IPART and Ernst & Young.

D.1 Business Case overview

A number of councils provided business cases and related submissions with respect to options for council mergers and various forms of joint organisation or shared service arrangements. In addition, some councils provided submissions on broader issues of the potential economies and diseconomies arising from council mergers. The submissions provided useful information.

As well, we commissioned Ernst & Young to undertake an independent study of the potential costs and benefits of selected council mergers in Metropolitan Sydney and review information included in council business cases. Specifically, IPART commissioned Ernst & Young to:

- To provide an estimate of the NPV of the benefits associated with the merger options identified by the ILGRP or councils for the Sydney metropolitan area.
- To review the business cases submitted by Sydney metropolitan councils with respect to estimated benefits.
- To review and critique IPART's assessment of the estimated NPV of the benefits of merger options included in submissions by councils with respect to the Sydney metropolitan area.

D.2 Estimating the value of merger benefits

Ernst & Young undertook a review of relevant literature on the potential benefits from mergers. Ernst & Young's broad conclusions were:

- The empirical evidence of economies from local council mergers is not clear cut. The measurement of benefits following a merger is often difficult because councils may redirect cost savings into service expansion. An implication of this action is that directly observed falls in costs may underestimate the total benefits from a merger.
- The extent of scale economies following a merger is likely to vary according to activity and the size of the councils.
- The studies identify a number of potential risks associated with local council amalgamations including costs of disruption and workplace cultural barriers.

Some submissions to IPART presented different views on whether council mergers would generate benefits. In a submission by Woollahra Municipal Council, Percy Allan & Associates argued that Sydney metropolitan councils showed no significant scale economies.[81] The City of Ryde Council also submitted a report by Professor Brian Dollery which argued that there is little evidence that forced council amalgamations will achieve cost savings.[82] However, a number of councils provided business cases which demonstrated that there were benefits associated with merger options.

D.2.1 Comparing the business cases

A number of the business cases submitted by councils to IPART provided estimates for the NPV and/or the undiscounted value of net benefits (or costs) of structural options including mergers and joint organisations. The estimates of net benefits are, by their nature, driven by input assumptions and the precise values are subject to some uncertainty.

The estimates of merger benefits and costs produced by different consultants and councils are not directly comparable because of the differences in methodology and assumptions used. For example, the time period over which benefits are assessed varied. Also, the discount rate used to calculate NPV varied between business cases. Typically, in the case of a council merger, a lower discount rate would give rise to a larger estimated NPV of benefits. In addition, fundamentally different approaches were used to estimate merger costs and potential merger related efficiencies.

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81 Percy Allan & Associates Pty Ltd, *Fit For The Future Research Report*, March 2015.

82 Professor Brian Dollery, *Compulsion Versus a Collaborative Regional Approach: An Emperical Analysis of Forced Amalgamation versus a Regional and Shared Services Approach*, May 2015.

Normalising the business cases

We have recalculated the estimates of NPV by using the information in the business cases provided and adjusting the assumptions to use a consistent 20-year time period, a discount rate of 9.5% nominal (7.0% real), and the assumption that the merger takes effect in 2016-17. The merger assistance grant from the NSW is also included in the IPART recalculations of the estimated NPV of benefits. We consider that extending the period of estimation to 20 years allows a better reflection of the long term benefits and costs of a merger.

We have also varied other selected assumptions underlying the consultant estimates, which have been identified in Table D.2.

We do not necessarily endorse other assumptions made by the consultants, but for this exercise we have retained the other assumptions in order to recalculate the estimate of net benefits. The recalculated estimates are subject to most of the assumptions and limitations that the original estimates were subject to.

The purpose of the recalculation was to standardise some elements of the business cases submitted. However, differences in underlying methodologies still make it difficult to directly compare the business case estimates submitted by different councils and different consultants.

Ernst & Young reviewed the assumptions used by IPART in the analysis of the metropolitan Sydney councils and found the assumptions were within the bounds of reasonableness, noting that IPART had applied a ceiling to the level of savings in one case to err on the side of conservatism, and that IPART has included merger grant funding and, where used by the original consultants and relevant, borrowing costs.

Ernst & Young's own independent assessment of the merger business cases prepared by local councils calculated net outcomes not materially different to IPART's calculations, after adjusting for the above three considerations.

Analysing the business cases

We also commissioned Ernst & Young to undertake a review of the business cases that provided estimates of merger costs and benefits that were submitted with respect to metropolitan Sydney mergers and to estimate the NPV associated with selected mergers.

The original estimates of the NPV of council merger benefits by consultants/councils, the recalculated estimates produced by IPART and the independent estimates produced by Ernst & Young for selected merger options for the Sydney metropolitan region are summarised in Table D.1.

The NPV of benefits as recalculated by IPART and those estimated by Ernst & Young are generally higher than those estimated by consultants and councils in their submissions. This result partly reflects the fact that the recalculations by IPART and estimated by Ernst & Young are for a longer time period (20 years) than used by the consultants and councils. Also, the IPART calculations include recognising benefits from mergers that were evident in either cost savings or, where they can be estimated, enhanced services.

The information provided in Table D.1 shows that the majority of business cases undertaken by consultants and councils with respect to specific merger options suggest that the NPV of benefits from the mergers are positive. Summing the projected NPV of merger benefits estimated by Ernst & Young for the eight preferred merger options for metropolitan Sydney gives a total of $1.3 billion.

In analysing the estimated NPVs:

- The estimated benefits are dependent on assumptions made. The estimated benefits will therefore vary according to assumptions made and are subject to some uncertainty.
- There are uncertainties about whether the potential benefits will be realised. For example, it will depend on the willingness of councils to pursue potential efficiency gains.
- The measured NPVs mostly relate to council finances. The calculations do not capture matters such as:
  - prospective gains from better partnering with government
  - potential gains from more integrated planning
  - likely gains from improved regional collaboration
  - possible diseconomies of scale from loss of local identity, and
  - potential diseconomies of scale from reduced local representation.

In summary, we consider that analysis of the business cases for metropolitan Sydney councils suggests that there are significant net benefits to be obtained from the mergers identified by the ILGRP.

Table D.1 Estimates of net present value of selected merger options for the Sydney metropolitan area

ILGRP preferred options				
Council Merger Option	**Council consultant estimate of NPV of merger: Various timeframes and assumptions used $m**	**Council Consultant**	**IPART 20-year NPV estimate using standardised assumptions based on council consultant business cases $m**	**Ernst & Young 20-year NPV estimate using standard assumptions (mid-point of range) $m**
Randwick, Waverley, Woollahra, Botany Bay, City of Sydney Council	146 (2017-2026)	Randwick City Council	416	283
Ashfield, Burwood, Canada Bay, Leichhardt, Marrickville, Strathfield	143 (2015-2023)	Morrison Low	396	194
Hunter's Hill, Lane Cove, Mosman, North Sydney, Willoughby, Ryde (part)	59[a] (2016-2023)	Morrison Low	280	187
Auburn, Holroyd, Parramatta, The Hills (part), Ryde (part)	42[a] (2016-2023)	Morrison Low	254	150
Hornsby, Ku-ring-gai	NA	KPMG	61	88
Manly, Warringah, Pittwater	48[b] (2015-2024)	KPMG	116	116
	234 (2015-2024)	SGS Economics & Planning (reference council model)	265	
Canterbury, Kogarah, Rockdale, Hurstville	98 (2016-2023)	Morrison Low	280	172
Fairfield, Liverpool	NA[c]	Fairfield City Council	NA	131
Total benefits	**NA**	**NA**	**1,803 – 1,953**[d,e]	**1,323**

a Efficiencies realised scenario

b Updated estimate forwarded by Manly Council. Not original KPMG branded estimate.

c Fairfield City Council estimated cumulative costs of $27 million from a merger of Fairfield and Liverpool. We consider the assumptions underlying the estimate to be based on a limited sample and to be contrary to other information provided to IPART regarding benefits from mergers.

d The summation of the IPART recalculations for the ILGRP mergers reflects the different underlying methodologies used by the different consultants.

e The sum of the IPART recalculations excludes Fairfield – Liverpool.

Notes:

The councils' consultants use different methodologies, forecast periods, and discount rates to estimate the net present value of the benefits of the mergers.

The councils' consultants and Ernst & Young note there is an array of risks about the estimates.

The IPART calculation of net present value uses the consultant's information and base data, with adjustments to some assumptions, and a consistent 20-year forecast period and a 9.5% nominal (7.0% real) discount rate. The IPART calculations are based on submitted business cases and are subject to the limitations of the models and data on which they are based.

D.3 Adjustments made by IPART to standardise the business case estimates

We made adjustments to the business cases submitted by councils. In all cases, the following adjustments were made:

- The estimates were rebased so as to present the data as if the merger option was effective from 2016-17.
- The NPV estimates are in 2015-16 base year terms. The discount rate used was 9.5% nominal or 7.0% real.
- The term over which the NPV is calculated was extended to 20 years. An inflation factor was applied to index the estimates of costs and savings.
- The merger assistance grant was included.
- Table D.2 details other adjustments that were made to the individual business case estimates.

Table D.2 Adjustments made by IPART to standardise the business case estimates

Merger options evaluated	Business case prepared by	Adjustments made by IPART in addition to standardising the discount rate, term, and base year
Randwick/Waverley	Randwick City Council	Removed cost of meeting FFTF ratios, as not a merger related cost.
Randwick/Waverley/ Woollahra/Botany Bay	Randwick City Council	Removed cost of meeting FFTF ratios, as not a merger related cost.
Randwick/Waverley/ Woollahra/Botany/ Sydney	Randwick City Council	Removed cost of meeting FFTF ratios, as not a merger related cost. Removed adjustment for rent foregone, as not a necessary consequence of merger.
Auburn/Burwood/ Canada Bay	Morrison Low	Removed the cost associated with an increase in staff over the long run from the cost-benefit calculations. The increase in staff costs is stated to be linked to an increase in services, which represents an offsetting benefit to the community.
Auburn/Holroyd/ Parramatta/The Hills (part)/ Ryde (part)	Morrison Low	Removed the cost associated with an increase in staff over the long run from the cost-benefit calculations. The increase in staff costs is stated to be linked to an increase in services, which represents an offsetting benefit to the community.
Botany Bay/Marrickville/ Rockdale	Morrison Low	Removed the cost associated with an increase in staff over the long run from the cost-benefit calculations. The increase in staff costs is stated to be linked to an increase in services, which represents an offsetting benefit to the community. Removed assumption of reduction in waste levy is a cost as this still represents a benefit to the community.
Hunter's Hill, Lane Cove, Mosman, North Sydney, Ryde (part), Willoughby.	Morrison Low	Removed the cost associated with an increase in staff over the long run from the cost-benefit calculations. The increase in staff costs is stated to be linked to an increase in services, which represents an offsetting benefit to the community.
Ashfield/Burwood/ Canada Bay/Leichhardt/ Marrickville/Strathfield (ILGRP merger)	Morrison Low	Removed the cost associated with an increase in staff over the long run from the cost-benefit calculations. The increase in staff costs is stated to be linked to an increase in services, which represents an offsetting benefit to the community.. Removed assumption of reduction in waste levy is a cost as this still represents a benefit to the community.
Hornsby, Ku-ring-gai	KPMG	Consultant data showed savings for selected years. IPART extrapolated the estimated savings using an inflation factor. IPART added merger assistance grant.

Merger options evaluated	Business case prepared by	Adjustments made by IPART in addition to standardising the discount rate, term, and base year
Manly/Warringah/ Pittwater	KPMG	Adjusted borrowing costs resulting from merger to reflect impact of merger assistance grant where relevant.
Manly/Warringah/ Pittwater	SGS Economics and Planning	Based on reference council model. Added merger assistance grant. Applied a ceiling to estimated savings.
Fairfield/Liverpool	Fairfield City Council	Fairfield City Council estimated cumulative costs of $27 million from a merger of Fairfield and Liverpool. We consider the assumptions underlying the estimate to be based on a limited sample and to be contrary to other models provided to IPART regarding benefits from mergers.
Canterbury/Kogarah/ Rockdale/Hurstville	Morrison Low	Removed the cost associated with an increase in staff over the long run from the cost-benefit calculations. The increase in staff costs is stated to be linked to an increase in services, which represents an offsetting benefit to the community.
Bankstown/Canterbury	Bankstown City Council	The information provided by Bankstown City Council only extended to annual estimates of savings. In order to estimate an indicative NPV of benefits, IPART included assumptions for the timing of costs/benefits, assumptions for inflation effects and assumptions for merger implementation costs. Given the assumptions used, the calculated NPV should be regarded as indicative.
Maitland/Dungog	Morrison Low	Removed the cost associated with an increase in staff over the long run from the cost-benefit calculations. The increase in staff costs is stated to be linked to an increase in services, which represents an offsetting benefit to the community.
Gosford/Wyong	Third Horizon	Scaled NPV results from Wyong.
Bombala/Cooma-M /Snowy River	KPMG	Consultant data showed savings for selected years. IPART extrapolated the estimated savings using an inflation factor. IPART added merger assistance grant.
Gloucester/Great Lakes	Morrison Low	Removed the cost associated with an increase in staff over the long run from the cost-benefit calculations. The increase in staff costs is stated to be linked to an increase in services, which represents an offsetting benefit to the community.
Orange/Cabonne	Morrison Low	Removed the cost associated with an increase in staff over the long run from the cost-benefit calculations. The increase in staff costs is stated to be linked to an increase in services, which represents an offsetting benefit to the community.

Merger options evaluated	Business case prepared by	Adjustments made by IPART in addition to standardising the discount rate, term, and base year
Parkes/Lachlan	Morrison Low	Insufficient information in business case to make adjustment.
Leeton/Narrandera	Morrison Low	Removed the cost associated with an increase in staff over the long run from the cost-benefit calculations. The increase in staff costs is stated to be linked to an increase in services, which represents an offsetting benefit to the community.
Murrumbidgee/ Jerilderie	SGS Economics and Planning	Insufficient information in business case to make any adjustment.
Queanbeyan, Palerang	LKS Quaero	Assumptions were made for the timing of merger related benefits and costs.
Berrigan/Jerilderie	SGS Economics and Planning	Insufficient information in business case to make any adjustment.
Deniliquin/Murray/ Wakool	LKS Quaero	Assumptions were made for the timing of merger related benefits and costs.
Deniliquin/Murray	LKS Quaero	Assumptions were made for the timing of merger related benefits and costs.
Boorowa/ Young merger	NA	Derived from LKS Quaero report on Boorowa/Harden/Young. Adjustment made to account for removal of Harden from merger.
Cootamundra/Harden	Council	Adjustment made to remove selected non-merger related costs.

E Ernst & Young consultant report - Fit for the Future: Review of Business Case Estimates of Merger Net Benefits for Sydney Metropolitan Councils

Fit for the future

Review of Business Case Estimates of Merger Net Benefits for Sydney Metropolitan Councils

IPART

Confidential Final Report

October 2015

Building a better working world

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1. Executive summary

1.1 Background

The NSW Government has been working with NSW councils since 2011 to achieve a shared vision of stronger local communities. As part of this process, in March 2012, the State appointed the Independent Local Government Review Panel (ILGRP) to review Local Government in NSW and make recommendations for reform.

The ILGRP's report was completed in October 2013.[1] Amongst a range of Fit for the Future ("FFTF") reforms, the ILGRP's preferred option was the merger of 32 Sydney metropolitan councils into 8 larger councils. This would replicate reforms undertaken in most other states.

Amalgamation Options							
Ashfield, Burwood, Canada Bay, Leichardt, Marrickville, Strathfield	Auburn, Holroyd, Parramatta, Ryde (part), The Hills (part)	Botany Bay, Randwick, Sydney, Waverley, Woollahra	Fairfield, Liverpool	Hornsby, Ku-Ring-Gai	Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde (part), Willoughby	Canterbury, Hurstville, Kogarah, Rockdale	Manly, Pittwater, Warringah

The NSW Government had requested all councils in NSW to submit a proposal demonstrating how they meet the criteria by 30 June 2015, which would then be assessed by IPART, as the appointed Expert Advisory Panel.

1.2 Scope and approach

EY has been instructed by IPART to:

- Model and estimate the long term costs and benefits in Net Present Value (NPV) terms, of the 8 council merger combinations in the Sydney Metropolitan Area identified as preferred merger options as outlined in the ILGRP report. In addition, IPART has requested EY undertake similar analysis for other sets of mergers:
  - Botany Bay, Randwick, Waverley and Woollahra Councils (without the City of Sydney Council)
  - Gosford and Wyong Councils, Bankstown and Canterbury Councils, Hawkesbury and the Hills Councils – these three merger scenarios did not form part of the ILGRP's preferred options but the Panel recommended that they be further explored.
  - Randwick and Waverley Councils, and Auburn, Burwood and Canada Bay Councils – these are not part of the ILGRP's preferred options but these councils have put forward voluntary merger proposals and business cases that IPART would like to further explore

[1] Final Report of the NSW Independent Local Government Review Panel, Revitalising Local Government, October 2013

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- Review and critique the merger business case models that have been put forward by Local Councils in Sydney. This includes providing an NPV estimate of the business cases, and reviewing and critiquing IPART's staff assessment of council merger business cases.

In essence, the task is to provide a comparative financial analysis of the merger proposals to inform IPART's response to the Government.

We have not been requested to review or compare the findings from our analysis with Council Improvement Proposals ("CIP") submitted by local councils and make no comment on these issues. Further, our review has been performed only on the merger business case models which presented estimates of the costs and benefits of the merger.

The key features of our approach are set out below:

- The focus of our work is on assessing the relative financial merits of the merger options presented based on the information provided. The focus is not on the absolute merits of any merger *per se*.

- Due to information and time constraints, our work necessarily:
  - Primarily involved on a 'top-down' review of the available evidence in respect of the relative merits of the options. In commercial practice the merits of a particular merger would typically be assessed by undertaking a detailed deep 'bottom-up' review of the costs, benefits and risks of a merger in the particular circumstances of the parties. It was not possible to adopt this approach within the constraints of this engagement.
  - Relies on the evidence provided and the other publically available information reviewed. While there is a large body of work on these issues, the available evidence presents a mixed picture of the extent of net benefits from a merger.
  - Focuses on the relative scope for efficiency improvements the merger options might provide, but also considers the non-financial benefits and costs the merger options might provide. Our work does not look at other gains from mergers such as better partnering with State and Federal Governments or more integrated planning.

Further details on the methodology we have applied to assess the business case for the ILGRP preferred merger options are outlined in Section 5 of this report.

To undertake our analysis we have:

- Relied on publicly available information in relation to the council merger business cases

- Conducted a literature review on the available evidence on the costs and benefits arising from local council mergers. This material included information on the experience from local council amalgamations undertaken elsewhere in Australia and overseas

- Obtained data on 2013/14 operating expenses of the relevant local councils, as reported in relevant published annual reports or annual financial statements

- Reviewed the merger business cases included in the submissions by the Sydney metropolitan local councils, focusing on the reasonableness of the assumptions employed and the methodology for quantifying the costs and benefits. All merger business cases were reviewed even if the merger was not supported by the relevant local council. As part of this review:

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- We have made inquiries with staff at IPART to confirm, clarify or request additional information. Where additional information was requested, this was only provided to the extent that IPART was able to obtain that information
- We were not asked to and have not had any direct consultations with the Sydney metropolitan local councils or the authors of the relevant merger business cases. For this reason, our analysis does not take into account the specific operating circumstances and business characteristics of each of the local council merger scenarios examined, which is typically important in identifying the extent to which merger cost savings may be achievable in any particular instance
- We have relied on the information presented within the business cases and have not undertaken an audit of the available information.

- Reviewed the preferred merger options made in the ILGRP report:
  - In this regard, we note while the ILGRP expressed a preference for a number of mergers, quantitative analysis was not undertaken to test the economic merits of the proposals
  - In estimating the long term costs and benefits of the ILGRP's preferred merger options, we have therefore considered the evidence from the available literature, the evidence based on our commercial experience with corporate acquisitions and/or mergers, as well as our consideration of the extent to which those savings are likely to be achievable for public sector organisations. We have also considered the analysis in the councils' merger business cases.

- Estimated the NPV of the merger costs and savings identified over a 20 year timeframe, applying a real discount rate of 7% which is consistent with the requirements of the NSW Government Guidelines for Economic Appraisals. We have also undertaken sensitivity analysis of the NPV outcomes using real discount rates of 4% and 10%.

1.3 Limitations

We have not independently verified, or accept any responsibility or liability for independently verifying, any information provided to us by IPART or information obtained in the public domain for the purpose of this review, nor do we make any representation as to the accuracy or completeness of the information.

Our work in connection with this assignment is of a different nature to that of an audit or a review of information, as those terms are understood in Australian Auditing Standards applicable to audit and review engagements. Our report to you is based on inquiries of and discussions with IPART, a review of the business and other documents made available to us, and analytical procedures applied to data provided.

Our work commenced on 18 August 2015 and was completed on 9 October 2015. In that time, we assessed the ILGRP preferred merger options (and 5 variations around those options) and reviewed 29 merger business cases presented by the councils. It was undertaken as a desktop exercise and we relied on the information submitted in the relevant merger business cases. As a result, there may be findings or information not included in this report, or our investigations may not have revealed, all relevant matters. The reliance that can be placed on our report may therefore be limited in that regard.

1.4 Key findings

1.4.1 Literature review

As part of this engagement, EY has reviewed a large amount of literature and empirical research on the impact of local government structural reform to inform our estimation of potential merger costs and benefits. Some of this literature has been generated from previous local government financial sustainability reviews in various Australian states. Others have been generated from council reorganisations outside of Australia.

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Full details of our review are documented in Section 3 of this report.

To briefly summarise, the key findings from our literature review are as follows:

- The extent to which cost savings have been achieved in previous local council reforms may be difficult to measure particularly over the longer term as any cost savings generated are most likely to have been re-directed towards service expansion over that timeframe. As such, the capacity of long term outcomes from actual experience to inform estimates of potential cost savings from local council amalgamations may be limited, without also including the cost savings that would have been put into enhanced service delivery.

- The available empirical evidence on the extent to which local council amalgamations will yield net savings in costs is mixed and tends to vary by activity. Econometric analysis does not provide strong support. Evidence from the Auckland local governance reforms suggests that potentially large opex savings could be achievable (although translation of New Zealand evidence into an Australian context must be done with caution).

- In principle, it is reasonable to expect that opportunities for cost savings to flow from the scale effects associated with local council amalgamations, however, their magnitude is likely to vary by type of activity and may diminish for councils that are already large. The available evidence suggests the key sources of savings are from removal of duplicated activities / functions, IT and in procurement. Governance and administration is potentially a key area where cost savings would materialise.

- There is limited evidence available on the financial costs associated with local council amalgamations.

  - The evidence from the QTC's assessment of merger costs in Queensland is the most relevant Australian evidence available. This indicated assessed merger costs of $195m over 4 years. The benefits shown in the report, however, did not provide sufficient data as to the time profile of the $129m of estimated merger benefits. If it is assumed that $15m is realised in year 1, $25m in year 2, $40m in year 3 and $49m in year 4, this would imply that merger costs were approximately 4x estimated annualised merger benefits. Alternatively, a more conservative ramp up profile – for example $10m in year 1, $20m in year 2, $40m in year 3 and $59m in year 4 – would yield a ratio of merger costs to estimated annualised merger benefits of 3.3x.

  - The Auckland Transition Authority in Auckland had incurred transition costs of $36.2m when it was dis-established in October 2010 however, this figure is likely to understate transition costs that would have been incurred post Day 1 of the new merged Auckland Council. Original estimates of merger costs indicated a range of 1.0x to 3.1x annualised efficiency gains.

  - The estimates from the proposed Wellington (NZ) local council amalgamations indicates very high ratios of merger costs to benefits (around 5x-7x for the preferred option) and it has been acknowledged that the approach has been to over-estimate costs and to under-estimate savings.

- There are a range of potential risks associated with local council amalgamations that are identified in literature, most commonly, costs of disruption, workplace cultural barriers, decreased local democracy and representation and other challenges associated with implementation. Whilst these exist, they can potentially be minimised through proper planning and implementation.

- There is a view the costs associated with amalgamation are large and often under-estimated, particularly costs associated with new systems, cultures and operating structures.

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1.4.2 Benchmarks from corporate transactions

EY has considered the key takeaways from our literature review against our own experience on cost savings that are potentially achievable from corporate transactions. These benchmarks are summarised in the table below.

Table 1: Benchmark synergies from corporate transactions

Rate of expenditure cost savings	15-25% of the target cost base in synergies	In a corporate transaction with similar businesses, synergies up to 30% of the target's cost base are often targeted. On average, 15% of the target cost base is targeted. Synergies are often highest in the support functions and overheads – the savings frequently reach 50% to 60% of the target's costs in some areas (e.g. the executive teams, back office support costs)
Time taken to achieve synergies	2-3 years average time for the full run rate of synergies to be realised	The time to fully realise synergies differs depending on the transaction complexity. The range for full synergy realization is between 2 to 5 years. Where the synergies are related to major infrastructure, capital expenditure or IT, these will typically be towards the upper end of the range. In most transactions the alignment of the core operating system or ERP has the longest lead time
Merger integration costs	0.9 – 1.1 average typical ratio of one-off integration costs to annualized synergy value	In some cases the implementation costs can be prohibitive to realising the potential synergies, particularly in cash flow constrained sectors.
Communication rate	~ 60% of companies announce successful achievement of synergies	Where transaction business case involves a synergy component, companies are often obliged to communicate the synergy targets. The communicated targets do not typically 'pay away' the full synergy estimate. Ongoing communication of synergy targets is highly variable and can be impacted by failure to achieve the targets, change in integration priorities or simply a lack of robust and reliable tracking.

Notwithstanding these broad benchmarks, in our experience, we would expect mergers in the public sector:

- To achieve more conservative levels of synergies in costs (e.g. the lower end of our scale may be the higher end of an achievable range). With local councils, concerns about risks to service levels may imply less aggressive cost reduction targets, or may result in cost savings being ploughed back into better services. In the case of the latter, the benefits are less visible but are nevertheless real benefits.
- To achieve realization of full benefits over a longer time frame (i.e. closer to 5 years)
- To incur larger one-off integration costs due to more complex stakeholder management and other factors.

1.4.3 Assessment of merger options

ILGRP preferred merger options

EY has estimated the potential costs and benefits associated with the merger options preferred by the ILGRP primarily using a "top-down" approach, over a 20 year timeframe. Our data on operating expenditure is based on those publicly reported for each council for 2013-14 financial year.

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This approach requires us to estimate a range of inputs to estimate the potential costs and benefits of the ILGRP merger options. In estimating the long term costs and benefits of the ILGRP preferred merger options, we have used the 'top down' method outlined in Section 1.2.

- We have conservatively estimated that potential opex savings of 10% to 15% p.a. of a cost base which comprises the total opex of the entities merging, less the opex of the entity with the largest cost base. This rate of efficiency gain is below the 15-25% rate usually targeted in corporate transactions. We have assumed a lower rate of savings in view of the mixed evidence around the achievement of efficiency gains in local council amalgamations. Whilst we expect that a large proportion of the potential opex savings will relate to rationalisation of back-office functions, we have applied the rate of savings to the total opex line. An alternative approach is to apply varying rates of cost savings to different categories of costs. For example, our experience with corporate transactions indicates that in the executive and corporate governance function, reduction in council members and consolidation of the executive team could potentially generate savings of 60-80%, supplier rationalisation could potentially generate savings of 15-25% in procurement costs and consolidation of IT functions and applications could potentially generate savings of 20-30%. It has not been possible to take a more disaggregated approach to identifying cost savings in this instance as we do not have access to cost data that have been appropriately deconstructed.

- Potential opex savings are assumed to be realised in full over a period of 5 years. The ramp-up rate we have assumed over the 5 year period is 30% by year 1, 60% by year 2, 80% by year 3, 90% by year 4 and 100% by year 5.

- Having considered the evidence in merger integration costs as summarised in Section 1.4.1 above, we have estimated once-off merger integration costs at the rate of 3.0 times the annualised expenditure saving. The exception to this are the mergers involving Marrickville, Ashfield, Burwood, Canada Bay, Leichardt and Strathfield Councils, Auburn, Holroyd and Parramatta Councils together with parts of the Hills and Ryde Councils, Botany Bay, Sydney, Waverley, Randwick and Woollahra Councils and Hunters Hill, Lane Cove, Mosman, North Sydney, Willoughby and part Ryde. We understand these four merger options were regarded by the NSW Parliamentary Budget Office, based on advice from the Office of Local Government, as being of "very high" complexity in their costing of council mergers. For these four merger options, we have therefore assumed merger integration costs at the rate of 4.0 times the annualized expenditure saving.[2]

- Merger integration costs are assumed to be incurred over 5 years, and front end loaded over this period. Specifically, we have assumed that 60% of these costs will be incurred in year 1, 20% in year 2, 10% in year 3, 7% in year 4 and 3% in year 5. This expenditure profile reflects our experience that the majority of the costs will be incurred in the first two years and will relate to initial setting up of the merger implementation program, staffing changes, integration of back office functions, initial business process redesign and consolidation of IT functions and applications. Costs incurred in years 3 to 5 will likely reflect residual costs associated with ongoing IT integration.

These estimates form our base case NPV analysis. The base case NPV of net merger benefit / (cost) outcomes for each ILGRP preferred merger scenario is summarised in Table 2 below. As mentioned earlier, our NPVs are calculated using real discount rates.

[2] NSW Parliamentary Budget Office (PBO) costing of council mergers, Briefing Note.

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Table 2: Top down analysis of ILGRP metropolitan local council preferred merger options over 20 years (Base Case)

	Merger scenario	NPV range 4% @ 2016 $'000	NPV range 7% @ 2016 $'000	NPV range 10% @ 2016 $'000
	ILGRP preferred merger options			
1	Manly + Warringah +Pittwater	131,470 - 197,204	92,589 - 138,883	66,177 - 99,266
2	Hornsby + Ku-ring-gai	100,408 - 150,611	70,713 - 106,070	50,542 - 75,812
3	Fairfield + Liverpool	148,921 - 223,381	104,879 - 157,318	74,961 - 112,442
4	Canterbury + Kogarah + Rockdale + Hurstville	195,898 - 293,847	137,963 - 206,945	98,608 - 147,912
5	Hunters Hill + Lane Cove + Mosman + North Sydney + Ryde (2/3) + Willoughby	221,023 - 331,535	149,624 - 224,437	101,384 - 152,076
6	Randwick + Waverley + Woollahra + Botany Bay + Sydney	335,015 - 502,522	226,793 - 340,189	153,672 - 230,508
7	Ashfield + Burwood + Canada Bay + Leichhardt + Marrickville + Strathfield	229,663 - 344,495	155,473 - 233,210	105,347 - 158,020
8	Auburn + Holroyd + Parramatta + The Hills (15%) + Ryde (1/3)	177,434 - 266,151	120,116 - 180,174	81,389 - 122,084
	Additional merger options identified by ILGRP or councils and requested by IPART			
9	Randwick + Waverley + Woollahra + Botany Bay	247,159 - 370,739	174,065 - 261,097	124,411 - 186,617
10	Bankstown + Canterbury	97,170 - 145,755	68,433 - 102,650	48,912 - 73,368
11	Gosford + Wyong	222,831 - 334,247	156,931 - 235,397	112,165 - 168,248
12	Randwick + Waverley	112,555 - 168,832	79,268 - 118,902	56,656 - 84,984
13	Auburn + Burwood + Canada Bay	100,262 - 150,393	70,611 - 105,916	50,468 - 75,703
14	Hawkesbury + The Hills	68,069 - 102,104	47,938 - 71,908	34,263 - 51,395

Our base case analysis indicates all of the ILGRP preferred merger options have large NPV positive estimate and will produce net merger benefits, lending strong support to the public interest for the mergers. Our NPV range for each merger scenario is reasonably wide and reflects the combination of assumptions we have adopted on potential merger benefits and costs. We expect the degree to which net merger benefits will be achievable in each scenario will depend on the specific circumstances of the relevant councils in each merger scenario. In some cases, it could be that potential net merger benefits would be closer to the low end of the range, whilst in other cases, net merger benefits may be higher.

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To understand the NPV impact of variations around our key assumptions, we have examined three hypothetical scenarios:

1. A delay in the achievement of merger cost savings – We have modelled a scenario where savings ramp up to full realisation at a constant rate over 5 years.
2. Understatement of merger costs – We have modelled the impact of a 50% increase in merger costs
3. A combination of the above two scenarios.

As modelled, the delay in achieving potential merger benefits reduces the NPV (@ 7%) of net merger benefits by 8.1%, on average across all merger options, whilst a 50% rise in estimated merger costs reduces NPV outcomes by 24.3%, on average across all merger options.

Nevertheless, in all of the above 3 scenarios, net merger outcomes remain positive for all merger options. The sensitivity analysis suggests the case for the mergers generating significant positive benefits is likely under a range of scenarios.

Merger options explored by local councils

We have reviewed the merger options submitted by the local councils. Some of the submissions explored alternative merger options to the ILGRP preferred options, even though most of the local councils did not support amalgamation. Where cost-benefit analysis was undertaken, the majority of the options we were instructed to review were prepared by Morrison Low, SGS Consulting and KPMG, with a handful either self-assessed or prepared by other consultants.

The extent of detail provided in the submitted merger business cases varied significantly. In some cases, forecast cash flows reflecting estimated merger costs and benefits were provided but no NPV result was calculated. In these cases, where possible, EY has inferred an NPV estimate based on the data provided. In a few cases, merger costs and merger benefits were not separated but net merger cash flows were provided. Additionally, in some cases, the merger costs and benefits were revised by the relevant council or its consultant subsequent to the original submission in response to inquiries made by IPART.

There were also variations in the level of discount rate applied and some of the merger business case analyses were undertaken in real terms whilst others were undertaken in nominal terms. The length of the cash flow period also varied between business cases.

All of the merger business cases we reviewed incorporated assumptions on merger integration costs, with the exception of the merger business case prepared by Bankstown Council for the merger of Bankstown and Canterbury. Key sources of costs include staff redundancies, ICT transition costs, branding and remuneration harmonisation.

All of the merger business cases we reviewed also identified net merger benefits except for the merger business case prepared by Fairfield Council for the merger of Fairfield and Liverpool Councils. Key sources of cost savings included staffing where there were duplicated functions and roles, reduction of governance costs due to having a governance structure which was scaled to the size of the merged council, savings in procurement functions through rationalisation of works units and materials, reduced IT costs through ICT consolidation and certain property-related savings due to a reduction in number of office sites.

NPVs reported (or inferred by EY) for all business cases were positive except for two mergers – the merger business case prepared by SGS assessing the impact of splitting Warringah Council into two, merging one half with Manly and one half with Pittwater to create two new councils, and the business case prepared by Fairfield and Liverpool Councils.

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Adjustments made by EY

EY has made two types of adjustments to the business cases submitted by the local councils:

- Standardisation adjustments - Due to the degree of variation in methodology between the submitted business cases, EY has applied a number of standardisation adjustments to the business cases to facilitate more meaningful comparison between the business cases as well as with our analysis of the ILGRP preferred merger options.

- Other adjustments to address specific assumptions. These are outlined in more detail in Section 5.3.2 and relate mainly to a small number of assumptions in specific merger business cases which were open to question.

The adjusted NPV outcomes of the business cases submitted by the local councils are summarised in Table 3 below.

Table 3: Local council merger options explored by local councils incorporating all EY adjustments (over 20 years)

Merger option	NPV 4% @ 2017 $'000	NPV 7% @ 2017 $'000	NPV 10% @ 2017 $'000
Kogarah + Rockdale + Hurstville	183,031	126,201	87,689
Canterbury + Kogarah + Rockdale + Hurstville	355,010	252,298	182,451
Kogarah + Hurstville	106,096	71,325	47,839
Botany Bay + Marrickville + Rockdale	322,114	229,641	166,650
Ashfield + Burwood + Canada Bay + Leichhardt + Marrickville + Strathfield	504,717	364,157	268,277
Hunters Hill + Lane Cove + Mosman + North Sydney + Ryde (part) + Willoughby	368,871	255,199	178,420
Willoughby + Lane Cove+ North Sydney	210,824	146,237	102,597
Willoughby + North Sydney	176,377	123,948	88,403
Auburn + Burwood + Canada Bay	144,009	99,548	69,508
Auburn + Holroyd + Parramatta + The Hills + Ryde (part)	323,578	220,160	150,408
Hornsby + The Hills	98,159	74,112	57,539
Hornsby + Ku-ring-gai	67,782	50,820	39,143
Hornsby + Ku-ring-gai + The Hills	216,055	164,369	128,715
Manly + Warringah + Pittwater (KPMG)	139,188	103,158	78,440
Manly Part Warringah + Pittwater Part Warringah (KPMG)	61,377	43,386	31,103
Manly+ Warringah (KPMG)	76,562	56,357	42,506
Manly + Warringah + Pittwater (SGS)	447,336	328,320	247,180
Manly + Warringah (SGS)	237,075	173,812	130,694

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Merger option	NPV 4% @ 2017 $'000	NPV 7% @ 2017 $'000	NPV 10% @ 2017 $'000
Pittwater + Warringah [Additional Option] (SGS)	227,595	166,777	125,332
Manly Part Warringah + Pittwater Part Warringah (SGS)	(335,096)	(247,788)	(188,177)
Fairfield + Liverpool	167,779	124,462	95,049
Bankstown + Canterbury	116,512	82,055	58,648
Gosford + Wyong	179,967	126,363	90,527
Randwick + Waverley + Woollahra + Botany Bay + Sydney	523,554	389,275	297,062
Randwick + Waverley	176,250	127,308	93,800
Randwick + Waverley + Woollahra + Botany Bay	497,300	365,084	274,499

Following the adjustments we have made, NPV outcomes have improved for all merger scenarios except for the scenario (prepared by SGS) where Warringah Council is split into two, merging one half with Manly and one half with Pittwater to create two new councils, which remains negative. We note there remain substantial variations between the merger business cases prepared by KPMG and SGS in relation to the various combinations of merger involving Manly, Pittwater and Warringah Councils. For example, based on the adjusted figures reported in the table above, the merger scenario which involves splitting Warringah Council has a negative NPV (at 7%) of $247m as assessed by SGS and a positive NPV of $43m as assessed by KPMG.

Overall findings on ILGRP preferred options

The chart below compares:

- The NPV outcomes for the ILGRP preferred merger options and the additional Bankstown + Canterbury, Gosford + Wyong, Randwick + Waverley, Auburn + Burwood + Canada Bay, and Hawkesbury + The Hills options that we have been asked to assess, based on EY's top-down methodology ("EY top-down approach"); with

- The NPV outcomes for the same options where they have been explored in local council submissions, incorporating the adjustments made by EY ("adjusted reported NPV").

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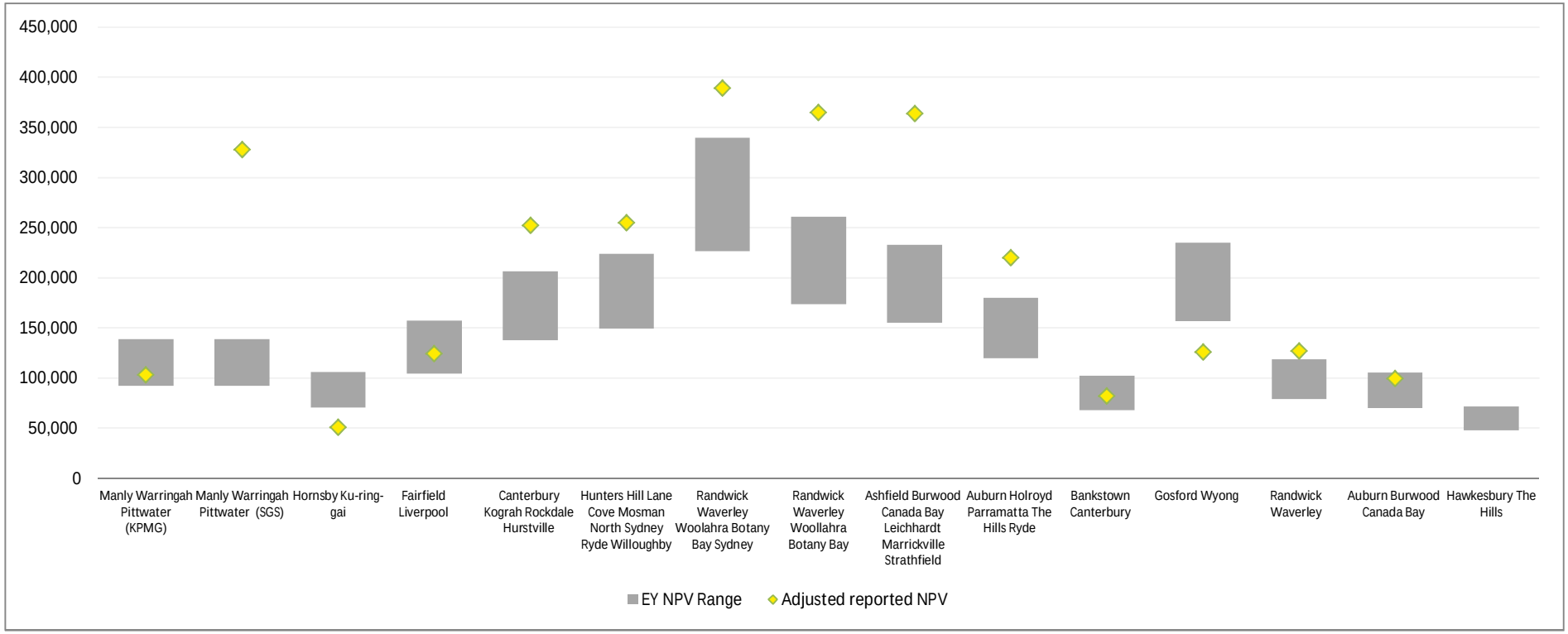
Figure 1: Comparison of EY NPV range against adjusted reported NPVs ($'000)



The adjusted reported NPV of net merger outcomes are all positive. In addition, they are higher than or within the NPV range based on EY's top down approach except for the mergers involving Hornsby+Ku-ring-gai Councils and Gosford+Wyong Councils.

Further analysis on the level of merger costs versus merger benefits in these scenarios indicates there is more variation around views on merger costs and merger benefits. In most cases, local councils' estimates of merger costs are lower than EY's, but there appears to be reasonable level of alignment in views on merger benefits with a few exceptions.

We are of the view our analysis is conservative but prudently so in light of the work that has been undertaken.

Irrespective of differing views on the size of potential merger benefits and merger costs, there is strong consensus that net merger outcomes are positive in all of the listed scenarios above. They are also robust based on our sensitivity analysis.

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2. Introduction

2.1 Background

The NSW Government has been working with NSW councils since 2011 to achieve a shared vision of stronger local communities. As part of this process, in March 2012, the State appointed the Independent Local Government Review Panel (ILGRP) to review Local Government in NSW and make recommendations for reform.

The ILGRP's report was completed in October 2013.[3] It established four key criteria which define a Fit for the Future (FFTF) council and proposed a range reforms to meet this objective.[4] Of most relevance to this report, the ILGRP preferred option was the merger of 32 Sydney metropolitan councils into 8 larger councils. This would replicate reforms undertaken in most other states.

Amalgamation Options							
Ashfield, Burwood, Canada Bay, Leichardt, Marrickville, Strathfield	Auburn, Holroyd, Parramatta, Ryde (part), The Hills (part)	Botany Bay, Randwick, Sydney, Waverley, Woollahra	Fairfield, Liverpool	Hornsby, Ku-Ring-Gai	Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde (part), Willoughby	Canterbury, Hurstville, Kogarah, Rockdale	Manly, Pittwater, Warringah

In response to the ILGRP Report, the State announced a $1 billion reform package to provide support and incentives to help councils become more sustainable.

The State Government expected that each council would use the ILGRP's proposals for their council as a point of commencement and consideration, and assess its current situation and demonstrate how it intends to become FFTF.

The NSW Government requested all councils in NSW to submit a proposal demonstrating how they meet the criteria by 30 June 2015, which will then be assessed by IPART, as the appointed Expert Advisory Panel.

2.2 Scope of work

EY has been instructed by IPART to:

- Model and estimate the long term costs and benefits in Net Present Value (NPV) terms, of the 8 council merger combinations in the Sydney Metropolitan Area identified as preferred merger options in the ILGRP report. In addition, IPART has requested EY to undertake similar analysis for three other sets of mergers – Gosford and Wyong

[3] Final Report of the NSW Independent Local Government Review Panel, Revitalising Local Government, October 2013
[4] These are scale and capacity, financial sustainability, effective infrastructure and service management, and efficiency.

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Councils, Bankstown and Canterbury Councils, and Hawkesbury and The Hills Councils. These three merger scenarios did not form part of the ILGRP's preferred options but the Panel recommended that they be further explored.

- Review and critique the merger business case models that have been put forward by Local Councils in Sydney. This includes providing an NPV estimate of the business cases, and reviewing and critiquing IPART's staff own assessment and analysis of the council merger business cases.

In essence, the task is to provide a comparative financial analysis of the merger proposals to inform IPART's response to the Government.

We have not been requested to review or compare the findings from our analysis with CIPs submitted by local councils and make no comment on such issues.

This report documents our analysis and findings.

2.3 Approach

The key features of our approach are set out below:

- The focus of our work is on assessing the relative financial merits of the merger options presented based on the information provided. The focus is not on the absolute merits of any merger *per se*.
- Due to information and time constraints, our work necessarily:
  - Primarily involved on a 'top-down' review of the available evidence in respect of the relative merits of the options. In commercial practice the merits of a particular merger would typically be assessed by undertaking a detailed deep 'bottom-up' review of the costs, benefits and risks of a merger in the particular circumstances of the parties.
  - Relies entirely on the evidence provided and the other publically available information reviewed. While there is a large body of work on these issues, there is a relatively limited amount of commercial evidence on the practical impacts of council mergers.
  - Focuses on the relative scope for efficiency improvements that the merger options might provide, but also considers the non-financial benefits and costs the merger options might provide.

Further details on the methodology we have applied to assess the business case for the ILGRP preferred merger options are outlined in Section 5 of this report.

To undertake our analysis we have:

- Relied on publicly available information in relation to the council merger business cases
- Conducted a literature review on the available evidence on the costs and benefits arising from local council mergers. Some of this material included information on the experience from local council amalgamations undertaken elsewhere in Australia and overseas
- Obtained data on 2013/14 operating expenses of the relevant local councils, as reported in relevant published annual reports or annual financial statements

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- Reviewed the merger business cases included in the submissions by the Sydney metropolitan local councils, focusing on the reasonableness of the assumptions employed and the methodology for quantifying the costs and benefits. All merger business cases were reviewed even if the merger was not supported by the relevant local council. As part of this review:
  - We have made inquiries with staff at IPART to confirm, clarify or request additional information. Where additional information was requested, this was only provided to the extent that IPART was able to obtain that information
  - We have not had any direct consultations with the Sydney metropolitan local councils. For this reason, our analysis does not take into account the specific operating circumstances and business characteristics of each of the local council merger scenarios examined, which is typically important in identifying the extent to which merger cost savings may be achievable in any particular instance
  - We have relied on the information presented within the business cases and have not undertaken an audit of the available information.
- Reviewed the preferred merger options in the ILGRP report:
  - In this regard, we note that while the ILGRP expressed preference for a number of mergers, quantitative analysis was not undertaken to test the economic merits of the proposals
  - In estimating the long term costs and benefits of the ILGRP preferred merger option, we have therefore considered the evidence from the available literature, the evidence based on our commercial experience with corporate acquisitions and/or mergers, as well as our consideration of the extent to which those savings are likely to be achievable for public sector organisations.
- Estimated the NPV of the merger costs and savings identified over a 20 year timeframe, applying discount rates which are consistent with the requirements of the NSW Government Guidelines for Economic Appraisals. We have also undertaken sensitivity analysis of the NPV outcomes using real discount rates of 4% and 10%.

2.4 Limitations

2.4.1 Restrictions on Report Use

The Report may only be relied upon by IPART pursuant to the terms and conditions referred to in the Agreement. Any commercial decisions taken by IPART are not within the scope of our duty of care and in making such decisions IPART should take into account the limitations of the scope of our work and other factors, commercial or otherwise, of which you should be aware of from sources other than our work.

EY disclaims all liability to any party other than IPART for all costs, loss, damage and liability the third party may suffer or incur arising from or relating to or in any way connected with the provision of the Report to the third party without our prior written consent. If others choose to rely in any way on the Report they do so entirely at their own risk.

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2.4.2 Basis of Our Work

We have not independently verified, or accept any responsibility or liability for independently verifying, any information provided to us by IPART or information obtained in the public domain for the purpose of this review, nor do we make any representation as to the accuracy or completeness of the information.

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Our work in connection with this assignment is of a different nature to that of an audit or a review of information, as those terms are understood in Australian Auditing Standards applicable to audit and review engagements. Our report to you is based on inquiries of and discussions with IPART, a review of the business and other documents made available to us, and analytical procedures applied to data provided.

Our work commenced on 18 August 2015 and was completed on 2 October 2015. In that time, we assessed the ILGRP preferred merger options (and 5 variations around those options) and reviewed 29 merger business cases presented by the councils. It was undertaken as a desktop exercise and we relied on the information submitted in the relevant merger business cases. As a result, there may be findings or information not included in this report, or our investigations may not have revealed, all relevant matters. The reliance that can be placed on our report may therefore be limited in that regard.

In undertaking the work we have acted under the direction of IPART to complete the agreed scope of work and have not considered the interests of any other parties.

2.4.3 Information received

All the information we have received is the responsibility of IPART and the relevant councils. We have not sought to establish the reliability of information given to us except as specifically stated in the report. Consequently, we give no assurance on such financial information.

References to EY in the report relate to our advice, recommendations and analysis and do not indicate that we take any responsibility for the information concerned or are assembling or associating ourselves with any financial information including prospective financial information. Appendix A provides a full list of the documents we have reviewed.

The underlying assumptions and projections contained with this Report are subject to significant uncertainties and contingencies often outside the control of EY or IPART. If events do not occur as assumed, actual financial information may vary significantly from that in this Report. Accordingly, EY does not confirm or guarantee the achievement of the forecast financial information in this Report, as future events by their very nature, are not capable of independent substantiation.

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3. Potential impacts of local government structural reform

There is a significant amount of available academic and empirical research on the impact of local government structural reform. Some of this literature has been generated from previous local government financial sustainability reviews in various Australian States. This section of our report provides a brief summary of the literature that we have reviewed.

3.1 ILGRP Report

As noted earlier, the ILGRP 's preferred option was the merger of 32 Sydney metropolitan councils into 8 large councils. Whilst the recommendation was not supported by quantitative analysis, it noted there was evidence that amalgamations were an effective way of achieving efficiency and economies of scale, service improvements and strategic capacity. The evidence cited by the Panel is reproduced in the table below.

Table 4: Summary of Attributes of Different Forms of Consolidation.

	Amalgamation	Boundary Change	Shared Services	Regional Collaboration
Efficiency and Economies of Scale	Strong link	Potentially strong link subject to size/disposition of re-shaped councils	Strong link	Weak link
Strategic Capacity	Strong link	As above – benefits will flow to larger 'new' councils	Potential medium-strong link subject to organisation structure and governance	Weak link
Service improvement and innovation	Strong link	As above	Strong link (but limited to services that are effectively shared)	Potential link subject to nature and scope of collaboration
Potential Diminution of Local Democracy	Distinct risk, but can be managed	Some risk depending on nature of 'new' councils – can be managed	Risk where extensive decision-making is ceded to joint authority – may be difficult to manage	Little or no risk

Source: Table 4, Revitalising Local Government, Final Report of the NSW Independent Local Government Review Panel, October 2013, page 72.

The Panel also noted that:

> *"The principal arguments used against amalgamations are that there is no direct, general relationship between council size and the efficiency of service delivery; that mergers will fail to produce worthwhile cost savings; that local identity and representation will suffer; and that regional cooperation and shared services can deliver the desired outcome."*[5]

[5] Revitalising Local Government, Final Report of the NSW Independent Local Government Review Panel, October 2013, page 73

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However, it considered (amongst other things):

- The evidence shows for some local government functions, notably infrastructure and back-office functions, increased scale can and does bring efficiencies and cost savings
- A number of before and after case studies of individual amalgamations have shown significant efficiency gains, although not necessarily in the form of rate cuts because savings have been ploughed back into other service and infrastructure improvements
- Mechanisms such as Community Boards and new approaches to place management, community engagement and customer service make it possible to maintain local representation and identity within larger council areas.

3.2 Evidence from previous Australian local government inquiries

As has been observed in a number of articles, since 2000, Australian local government has been exhaustively evaluated by a range of national and state-based public inquiries. These include:

- The House of Representatives Standing Committee on Economics, Finance and Public Administration (2004) *Rates and Taxes: A Fair Share for Responsible Local Government* ("Hawker Report")
- The South Australian Financial Sustainability Review Board inquiry into the long term financial performance of South Australian local government (2005)
- The Financial Sustainability of NSW Local Government ('Allan Report') (2006) Are Councils Sustainable?
- The Local Government Association of Tasmania ("LGAT") (2007), Review of the Financial Sustainability of Local Government in Tasmania
- The Queensland Local Government Reform Commission ("QLGRC") (2007) Report of the Local Government Reform Commission, which began with the Size, Shape and Sustainability ("SSS") program launched by the Local Government Association of Queensland ("LGAQ") in early 2005 and concluded with the final report of the Queensland Treasury Corporation ("QTC") on Financial Sustainability in Queensland Local Government (October 2008).

Whilst the principal focus of most of these inquiries was on the financial sustainability of local government, they also sought to examine structural reform options through amalgamation. Some of the observations and findings of these inquiries that are relevant to this report are summarised in Table 5 below.

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Table 5: Selected Australian local government inquiries

Inquiry	Relevant observations and findings
Hawker Report (2004)	• In general, large councils had a 'more secure and adequate financial base, are better able to plan and contribute to economic development, are more effective community advocates, and interact more effectively with government and business. • Structural reform can deliver economies of scale and can enable councils to employ a wider range of professionals so they can offer a wider range and usually higher quality of services • Amalgamations yielded savings as evidence in the South Australian and Victorian amalgamation episodes, Western Australian projections that structural reform of small councils could produce notional annual savings equating to 5.2 per cent of total municipal expenditure, and sizeable savings projections from five NSW mergers • The report also cautioned that amalgamation may not be viable in the case of small remote councils or large (geographically) councils in sparsely settled areas. Furthermore, cost-shifting by state governments could diminish the efficiency enhancing effects of amalgamation. • The overall conclusion from the report was that in some circumstances, amalgamations of local government bodies is the most direct way of achieving a more efficient and cost effective local government sector.
South Australian Financial Sustainability Review Board (FSRB)	• The inquiry focused on the long term financial performance of South Australian local government and was commissioned by the state's Local Government Association. • In relation to structural reform, the report noted that there was no strong relationship between a council's organisational size and either a strong financial position or a good annual financial performance' • The report expressed the view that amalgamation involves significant costs and often displayed "exaggerated benefits". In this context, it questioned the validity of forecasts of recurrent cost savings of $19.4m per annum and one-off savings of $3.9m from the mid-1990s amalgamations in SA.
Allan Report (2006)	• This report was the outcome of a NSW Local Government and Shires Association inquiry into the financial sustainability of NSW Local Government. • Many of the report's recommendations reflected in those made by the Hawker Report and the FSRB Report. • The inquiry also considered the administration and management of local councils and benchmarked the administrative performance of nine volunteer councils against other councils, public institutions and private enterprises worldwide. It concluded that the results showed that local government was capable of performing as well as or better than other public and private organisations. • In relation to size and efficiency, the report questioned the empirical basis for the concept and concluded that the available evidence was inconclusive, except perhaps for the smallest councils. It offered that an alternative approach would be cooperative service provision for those services with scale economies through service sharing, joint processing and external outsourcing, notably financial transaction processing, IT and procurement.
LGAT (2007)	• The LGAT commissioned Access Economics to examine the financial sustainability of Tasmanian local government. • The report advocated a preference for increased cooperation and resource sharing amongst councils over amalgamations. It was observed that forced amalgamations offered limited prospects of achieving lasting community benefit and that the main benefits of amalgamation can usually be achieved by other means.
LGAQ (2005), QLGRC (2007)	• The LGAQ's 2004 study considered the long run viability of councils. It identified a number of challenges faced by local government and made a number of recommendations for local council consolidation including resource sharing, merger/amalgamation and major boundary changes. • With respect to amalgamation, the LGAQ argued that the benefits which can flow from council amalgamation could include a 'sufficient resource base', a reduction in the 'total costs of government', scale economies, lower staff levels, an 'opportunity to review' operations, rationalization of assets, 'cross-border' facility and service utilization, better promotion of economic development, improved growth management, the 'formalization' of communities of interest, increased political lobbying power, and potential for 'full-time' elected representatives. However, it also recognised that the potential costs embraced 'exposure' to liabilities of other local authorities, addressing 'major difference in rates', fewer grants, high costs of 'integrating' constituent councils, dealing with 'widely differing organisational cultures', creating 'differing levels of service in some areas', diluting existing representation, and the loss of direct representation by small

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Inquiry	Relevant observations and findings
	areas. • The Queensland Government subsequently abandoned the LGAQ's program and moved in favour of forced amalgamations. The QLGRC was appointed to review all councils (except City of Brisbane). • The QLGRC recommended the reduction of the number of local councils from 157 to 73, and this was accepted by government. • The QLGRC rejected the notion of a one size fits all response, but acknowledged the need to take a region-by-region approach.
QTC (2008)	• The QTC reviewed 24 claims for amalgamation cost funding lodged by councils and tabled its report in October 2008. • It observed that savings from local government amalgamations are more difficult to measure as local governments may utilise savings achieved from improved economies of scale to increase the range and/or to improve the quality of services offered. That is, they are subsequently less visible in terms of impact on profitability or operating surpluses (particularly since they are not for profit organisations) • The QTC report also referred to a 2007 report by Alan Morton, *Outcomes from Major Structural Change of Local Government*, which estimated administrative cost savings from the Cairns, Ipswich and Gold Coast amalgamations of 1992/93 to be between 1.1 per cent and 3.1 per cent per annum. • QTC's final assessment was based on total costs claimed of $194.8m, which were offset by actual savings identified of $118.1m and estimated potential future benefits of $11.1m (i.e. total benefits of $129m) over a period of 4.3 years. Before taking into account funding for amalgamation, this yielded $65.6m in net cost. • Based on the claims submitted to and assessed by the QTC, the key sources for efficiency savings were in IT (31%), councilor remuneration (25.5%), senior officer / staff costs (31.9%), and buildings / relocations (3.8%). Future potential benefits identified included asset utilisation / procurement (~12%), combined town plans (19.2%), and a range of other benefits (election costs, group insurance, IT savings etc.) (69%).

In summary, the evidence examined suggests that state and territory local government policy makers have shown support for amalgamations as a means of achieving more efficient local government authorities.

There is considerable precedent for structural reform of local government in Australia. This includes Victoria (1993), South Australia (mid-1990s), Queensland (2008) and more recently, Western Australia. Whilst there is debate as to the precise magnitude of potential benefits and costs in these reforms, there does not appear to evidence of systemic failure.

3.3 Academic research

Academic research both internationally and in Australia overall presents a mixed picture of the relationship between size and economies of scale in local government amalgamations. Whilst theory suggests that economies of scale should exist where fixed costs constitute a large proportion of total cost, this concept is supported, but not always, by empirical findings. One school of thought that has emerged from these findings is that local council amalgamation cannot be argued to more effective than other alternative models of council cooperation in achieving economies of scale and scope. Aulich et al (2011) provides a convenient summary of the findings of a range of studies, which is reproduced in Table 6 below.

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Table 6: Econometric research into economies of scale in local government, 2000-2010

Author / Date	Data	Estimation technique	Dependent variable	Explanatory variable	Findings
Soul (2000)	177 NSW LGAs 1995-1996	Simple regression analysis	Gross per capital expenditure; per capita expenditure on economic services	Population	Evidence of both economies of scale and diseconomies of scale
Byrnes et al (2003)	177 NSW LGAs, 2001-2001	Standard regression analysis	Average cost of collecting domestic waste bins	No. of bins; population; income; bin density; No. of bins per square kilometre	Limited evidence of economies of scale
McDavid (2001)	327 Canadian local governments, 1996-1997	Standard regression analysis	Residential solid waste collection cost	Households served per truck	Evidence of economies of scale
Callan and Thomas (2001)	110 Massachusetts municipalities for 1997	Seeming unrelated regression	Total annual cost of disposal and recycling	Housing density; Provider; Frequency; Grants	No evidence of economies of scale
Bradbury and Stephenson (2003)	154 countries in the United States, 1992-1997	Standard regression analysis	Government expenditures per capita and net government expenditures per capita	Demographics; Income; wealth; commission size; government transfers, ideology	Evidence of economies of scale in highway expenditure
Bel and Costa (2006)	189 Spanish municipalities	Standard regression analysis	Total cost of waste management services	Quantity of waste; per cent recycling; wage level; frequency of collection; population density; tourism; landfill; and mode of production	Evidence of economies of scale for lower population
Dijkgraaf and Gradus (2007)	453 Dutch municipalities for the year 2002	Standard regression analysis	Total cost of waste management services	Pick up points; Inhabitants per point; density; unsorted waste; glass; paper; vegetable waste; public and private competition; neighbouring municipality	Evidence of economies of scale for lower populations
Holcombe and Williams (2009)	487 municipalities with populations > 50,000 in USA, 1990 to 2000	Standard regression analysis	Total per capita municipal government expenditure; disaggregated function government expenditure	Demographics; population densities; and municipal functions	Constant returns to scale; diseconomies in policing and water services while highway services inversely related to population density
Bel and Fageda (2009)	65 municipalities of Galicia 2005	Standard regression analysis	Total cost of waste management services	Volume of waste; recycling; frequency of waste collection; tourist activity; incineration; mean wage; and contracted	Evidence of economies of scale in smaller municipalities

Source: Aulich, Gibbs, Gooding, McKinley, Pillora & Samson, May 2011, Consolidation in local government, A fresh look, Table A2

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One of the criticisms against some of the existing studies is the use of population as a proxy for output. It is suggested that this approach is only valid if there is a positive correlation between population and service output. However, service outputs for different local government areas with similar size populations may vary because residents have different needs depending on their demographic and economic profiles.

Most of the academic research in Australia around the relationship between size and efficiency has been undertaken by Professor Brian Dollery of the University of New England. Key findings from some of Professor Dollery's more recent research are summarised below.

- Drew, Kortt and Dollery (2014), Economies of scale and local government expenditure: Evidence from Australia:
  - The study acknowledges the findings from existing empirical evidence are mixed. Whilst the evidence suggests that amalgamation may improve the administrative and technical capacity of local government, it is not only costly but also has other adverse, disruptive, and often unintended consequences such as the loss of "local voice" and "local democracy".
  - The study also found that after controlling for population density, there is little evidence to support a relationship between council size (as proxied by population size) and economies of scale.
- Dollery, Kortt and Sinnewe (2015), Is Biggest Best? A Comparative Analysis of the Financial Viability of the Brisbane City Council
  - This research paper was recently published in the Australian Journal of Public Administration and submitted to the NSW Parliamentary Inquiry into the Fit for Future Reforms. It seeks to compare the performance of the Brisbane City Council (being the largest local council in Australia with an aggregate population of 1,079,392 persons (or around 380,000 households) as at 30 June 2011) with that of the City of Sydney Council.
  - Based on a comparison of four financial performance indicators, the study found that the Brisbane City Council was outperformed in 3 of the 4 indicators. The study concluded this evidence casts considerable doubts over the "bigger is better" assumption.

3.3.1 Other evidence

In August 2011, Deloitte Access Economics ("Deloitte") prepared an analysis which explored the impacts of local government structural reform in Tasmania for the Property Council.[6] The report noted that Tasmania is the only state or territory where no council has a population greater than 75,000. In terms of average geographic size, Tasmania's councils are the nation's smallest (and this is without taking account of the vast mass of land which is state or national park).

A key conclusion emerging from the report was that:

> *"The characteristics of Tasmania's councils coupled with the experiences of past reforms suggest that, if well conceived and effectively managed, efficiency gains in the order of 10% to 20% of operating expenses are achievable from local government structural reform in Tasmania."*[7]

[6] Deloitte Access Economics, Local Government Structural Reform in Tasmania, Property Council of Australia – Tasmania, August, 2011.
[7] Ibid, page iii

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Furthermore, Deloitte considered that there was potential to exceed this level of cost savings:

> *"...econometric analysis suggests that the gains could potentially exceed this. Indeed, under a stylised reform scenario modelled in this report, whereby 12 councils in the state's south are consolidated into a single council, the analysis finds that:*
>
> - *Efficiency gains of up to 35% could be achieved.*
> - *Based on the operating expenses of these councils in 2009-10, a $110 million annual saving in the aggregate cost of administering local government across these regions could be realised."*[8]

Deloitte also reported presented evidence of potential cost savings associated with range of past local council structural reforms in Australia. This data is reproduced below.

Table 7: Estimates of savings associated with council structural reform

Source	Description of structural reform / analysis	Area of saving	Quantification of saving
Local Government Boundary Reform Board (1998)	Voluntary structural reform of 118 councils to 68 councils in South Australia	Recurrent savings	$19.4m (1998 dollars
		Estimated one-off savings	$3.9m (1998 dollars)
Local Government Boundary Reform (1998)	Estimated possible savings from further structural reform in South Australia. Looked only at councils with a population of less than 80,000 in metro areas	Metro councils – total costs in waste, management, sport & recreation, road maintenance, footway maintenance, stormwater drainage maintenance and road& footpath construction	9%
		Metro councils – per capita development management costs	44%
		Non-metro councils – per capita administration costs	2.5%
		Non-metro councils – per capita development management councils	10%
		Non-metro councils (with population of more than 10,000 prior to structural reform) – total costs in waste, management, sport & recreation, road maintenance, footway maintenance, stormwater drainage maintenance and road & footpath construction	4.5%
		Non-metro councils (with population of less than 10,000 prior to structural reform) – total costs in waste, management, sport & recreation, road maintenance, footway maintenance, stormwater drainage maintenance and road & footpath construction	9%
Department of Local	Voluntary consolidation of Cities of Geraldton	Northam – recurrent saving	$422,256

[8] Ibid, page iii.

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Source	Description of structural reform / analysis	Area of saving	Quantification of saving
Government (2010)	and Greenough (new council created 1 July 2007) and voluntary consolidation of the Town and Shire of Northam (new council created 1 July 2007) in Western Australia		
KPMG (2002)	Estimation of savings that would result from consolidation of Waratah Wynyard Council and Burnie City Council, both in Tasmania, based on consultation with councils	Saving on operating expenditure	5%
KPMG analysis, reported in Local Government Board Report (1997)	Estimation of savings achieved from different structural reform options in Tasmania (Southern Tasmania and Greater Hobart reported here)	Southern Tasmania: • Works & maintenance • Community & development • Administration • Governance Greater Hobart: • Works & maintenance • Community & development • Administration • Governance	• 9% • 4% • 45% • 35% • 8% • 5% • 30% • 40%

We note that the merger business case submission by Woollahra Council includes a report by Percy Allan & Associates which pointed to evidence that increasing population yields a lower level of gross expenditure per capita up to a point, after which increasing population results in higher levels of gross expenditure per capita. It concluded that no significant efficiency gain would be generated by merging Woollahra Municipal Council with other councils as proposed by the ILGRP as it was already above the optimal size where savings would be expected.[9]

3.4 Evidence from New Zealand local council amalgamations

The experience from local council amalgamations in other countries can provide some insights into the potential level of costs and savings that can emerge from amalgamation. EY fully acknowledges that caution should be exercised in translating such overseas experience to Australian local council amalgamations. Nevertheless, we consider that such case studies can provide useful insights to the potential sources of costs and benefits arising from amalgamations.

3.4.1 Auckland Council

In 2007, the government established the Royal Commission on Auckland Governance ("the Commission") to examine governance arrangements in the Auckland region. Following the release of the its findings in March 2009, the government decided to extinguish the existing city, district and regional councils and replace them with a single local authority – the new Auckland Council. The new council was established in November 2010 and replaced the previous 8 local authorities of the Auckland region. The

[9] Woollahra Municipal Council, Fit for the Future Research Report, Percy Allan & Associates, March 2015.

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Auckland Transition Agency ("ATA") was also established to plan and manage all matters in relation to the reorganisation to ensure that the Auckland Council was ready to function as of 1 November 2010.

Estimates of potential efficiencies to be generated by the amalgamation of the 8 local authorities in February 2009 are outlined in the table below.[10] The reorganisation efficiencies, estimated by Taylor Duignan Barry ("TDB"), were assumed to be progressively realised from 1 January 2012 through to 1 January 2015.

Table 8: TDB's analysis of the Commission's preferred option for reorganization of Auckland Local Governance

Commission's preferred option indicative range of efficiency gains	Low $m p.a.	% of total planned expenditure by predecessor councils for 2008/09	High $m p.a.	% of total planned expenditure by predecessor councils for 2008/09	Medium $m p.a.
Capex efficiency gains	22	2%	37	3%	30
Opex efficiency gains	54	3%	77	4%	65
Total efficiency gains	76	2.5%	113	3.5%	95

Source: Taylor Duignan Barry, 28 October 2010, Securing Efficiencies from the Reorganisation of Local Governance in Auckland, page 13

Total integration costs were estimated to range from around 1x annual efficiency gains under an optimistic scenario, to just over 3x annual efficiency gains under a pessimistic scenario.[11]

Table 9: TDB's estimated merger integration costs for the re-organisation of the Auckland Councils

	Pessimistic	Optimistic	Base Case
Annual efficiency gains	$76m	$113m	$95m
Total integration costs	$237m	$118m	$178m
Merger costs / Annualised efficiency gain	3.1x	1.0x	1.9x

Source: Taylor Duignan Barry, 9 February 2009, Financial Analysis of the Re-organisation of the councils in the Auckland region, page 6.

In 2010, TDB reviewed the extent to which efficiencies had already been achieved by the ATA up to October 2010. It was noted that the ATA had by that stage put in place plans for FTE reductions to occur by 1 July 2012 by eliminating duplication of roles. Specifically:

- In the first 12 months, the ATA had achieved FTE reductions of around 13% of FTEs employed by the predecessor councils pre-merger

[10] Taylor, Duignan Barry, Securing Efficiencies from the Reorganisation of Local Governance in Auckland, October 2010, Auckland Transition Agency.
[11] The low (high) scenario combined high (low) integration costs with low (high) savings. As such the ratio of integration costs to savings was 3.1x in the low scenario and 1.0x in the high scenario.

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- By 1 July 2012, the ATA was expecting to fully realise FTE reductions totalling 16% of FTEs employed by the predecessor councils pre-merger.

Almost all of these reductions were anticipated to occur in managerial/supervisory positions. The number of employees in front line or public facing positions was to remain virtually unchanged. Cost savings were also expected to occur in a number of specific administrative processes, including:

- One rather than eight Long Term council Community Plans was required under the new structure
- One audit process, albeit for a larger entity
- Rationalisation of insurance providers.

The ATA's financial statements up to the date it was disestablished in October 2010 (i.e. after 17 months of operation) indicated that it had incurred approximately $36.2m in transition costs.

TDB reported that the ATA's plans that would yield opex-related efficiencies of some $95m p.a. (i.e. exceeding the 2009 "high" estimate of $77m by $19m) when fully realised in 2012/13, comprising personnel savings of $91m p.a. and non-personnel savings of around $4m p.a. $75m of this would be realised in 2011/12. These efficiencies were described as being well in excess of the efficiencies originally estimated in TDB's 2009 report.[12] Additional savings ($47m) were also expected in the areas of procurement and business processes, tighter budgeting and capex, although at October 2010, these had not been specifically identified and initiated. Temporary transition-related costs in 2011/12 were forecast to be around 1.5% of total rates revenue.

Auckland Council's 2013/14 Annual Plan noted that it had managed to achieve operational savings of $145m per year and that "*Much of this cost reduction has been achieved with little impact on council services, with our focus on reducing corporate costs and delivering services by staff rather than consultants*."[13]

3.4.2 Wellington region local government reorganisation

In December 2014, the Local Government Commission announced a proposal to form a Greater Wellington Council which would combine existing nine councils (Masterton District Council; Carterton District Council; South Wairarapa District Council; Upper Hutt City Council; Hutt City Council; Wellington City Council; Porirua City Council; Kapiti Coast District Council, and the Greater Wellington Regional Council). The Greater Wellington Council will have all of the responsibilities of the regional council and the city and district councils. Decision-making will be shared between the governing body (mayor and councillors) and eight local boards. The mayor and councillors would be responsible for high-level decisions affecting all of Wellington. The local boards would control council budgets and decisions for local matters in established communities. Local boards would be created for Wairarapa; Upper Hutt; Lower Hutt; Kapiti Coast; Porirua-Tawa; Ohariu; Lambton; and Rongotai.

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[12] Taylor, Duignan Barry, Securing Efficiencies from the Reorganisation of Local Governance in Auckland, October 2010, Auckland Transition Agency, page 18. Exceeding the "high" case estimate by $19m implies that the opex savings achieved was just under 5% of 2009 council opex.
[13] Auckland Council, 2013-14 Annual Plan, Vol. 1 page 6.

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The Local Government Commission identified and evaluated a number of other alternative options for reform but identified a single Greater Wellington Council as its preferred option. It noted that:

> *"This approach provides the greatest scope to improve the performance of local government in Wellington Region. Across each of the evaluation criteria, this option is either the best option, or near the best option, of those considered. It is the most expensive option to implement, but offers substantial potential for financial savings of just over $30 million per annum."*[14]

In undertaking its evaluation, the Local Government Commission was required to consider potential savings from the change. It considered work that was previously undertaken by NZIER for the Hutt City Council in 2012, which explored scale and cost effectiveness. The Commission expressed agreement with NZIER's observation that savings from local council mergers are often thought to arise from 3 sources – savings from economies of scale, strategic capacity improvement through economies of scope and service delivery improvements. However, of these, only the first is capable of being objectively measured and quantified. The Commission also expressed the view that whilst such potential savings are possible, the opportunities to secure benefits by scale will:

- Vary with activity
- Depend on how the amalgamated council will run
- Depend on the levels of service it chooses to provide.

It also considered that there were a range of non-financial benefits that could accrue from amalgamation including:

- Potential benefits from better aligning decision-making with perceptual, political and functional communities of interest
- Potential benefits from arrangements that enable more timely and better decision-making which is not subject to on-going re-litigation.

Whilst these benefits were difficult to measure, the Commission considered that they were real benefits.

With respect to the potential for future reductions in rates, the Commission offered a view on why reductions in rates are unlikely to emerge:

> *"One of the observations and criticisms that frequently emerges in relation to estimates of potential savings from amalgamation is that few if any have demonstrated reductions in rates as a consequence of the change. All of the councils in the "affected area" are forecasting ongoing rates increases. All face significant future capital works programmes to deal with the renewal of infrastructure. All face rising environmental standards and increasing service level expectations from residents. These factors mean that it is most unlikely that any potential savings from local government reform would be passed on to ratepayers through rates reductions. It is far more likely that savings provide the scope to address the many issues that current councils are unable to deal with, or to reduce the level of risk that the Wellington*

[14] Local Government Commission, Draft proposal for reorganisation of local government in Wellington, Vol 2, Technical Report: Evaluation of the options and the draft proposal, December 2014 with Feb 2015 adjustment, Page 13. Estimates from the same report suggest that total opex of the nine councils pre-merger amount to around $933m.

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communities are exposed to, or to reduce debt, or to improve service standards."[15]

In quantifying the potential impacts of the amalgamation, the Commission drew on advice of its consultants (McGredy Winder & Co, Brian Smith Advisory Services, Stimpson & Co, and Deloitte). Brian Smith Advisory Services produced the estimates of the savings that could be achieved under each option. Stimpson & Co developed the estimates of the transition costs and co-ordinated the financial assumptions between the different pieces of work. Deloitte produced estimates of the IT related costs that would be associated with the transition to each of the options. Deloitte's work was then integrated into the estimates of total transition cost reported by Stimpson & Co.

The framework for estimating merger cost savings assumed:

- A rapid approach to transition will be adopted, seeking to do as much integration and set-up as possible during the transition period before the first election for a new council
- Where possible the new council will adopt the 'best of breed' approach from within the merging councils rather than develop a new platform approach critical systems that support paying staff, paying suppliers, managing accounts receivable and accounts payable, financial planning and performance, and managing rates collection must be in place on day one of any new council
- To support critical systems, IT infrastructure will need to be consolidated by day one of operation
- The second priority is for those that provide customer facing systems, including complaints, customer contact and online channels, etc.
- A transition board will be in place and manage the process of appointing an interim chief executive so that transition decisions can be made in the most timely way.

The assessment of savings was based on the experience with the establishment of the Auckland Council, management experience, expert assessments (that is, the Deloitte work on IT costs), and insights or investigations by others, including the applicants, consultants who did work to support the applications or alternative applications, and work that New Zealand Transport Agency has done on opportunities for savings in relation to roading, etc. In estimating savings, the approach was to work on the basis of a range of possible savings and to err on the side of underestimating savings. In estimating transition costs the approach was to err on the side of overestimating them.[16]

Some of the key assumptions driving potential savings are outlined below.

- *"Regulatory savings will be gradually realised, but will not be fully realised until year 4 with the introduction of a new district (or unitary) plan.*
- *No savings will be made with respect to solid waste, property, harbour and coastal management, public transport services, flood protection, or economic development.*

[15] Local Government Commission, Draft proposal for reorganisation of local government in Wellington, Vol 2, Technical Report: Evaluation of the options and the draft proposal, December 2014 with Feb 2015 adjustment, Page 213
[16] Ibid., Page 214.

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- *Savings in operating and capital costs for water, wastewater and stormwater will be gradual and no more than 2% of current operating costs and 1% of forecast capital expenditure by year 4. These savings will arise from streamlined management, the removal of duplication, economies of scale in asset management, rationalised operating, management and construction contracts and better capital project planning and delivery.*
- *Savings in operating and capital costs for roading will be gradual and no more than 1% of current operating costs and 1% of forecast capital expenditure by year 4. These savings will arise from streamlined management, the removal of duplication, economies of scale in asset management, rationalised operating, management and construction contracts, and better capital project planning and delivery.*
- *Savings in community facilities expenditure will be gradual but no more than 1% of operating expenditure and capital works, and will arise from streamlined management, economies of scale, and rationalised operating, maintenance and construction contracts.*
- *Part of the reduction in staffing for corporate and support functions will take place on the establishment of the new council, but the balance will not be able to be achieved for a year or more as the transition is made to new business systems and operating practices.*
- *Governance and senior management costs for each new entity will reflect the current market for similar roles and the number of councillors will reflect the nature of the option.*
- *The potential costs of the operation of local boards in the One Wellington Council with local boards option, reflect the scale of support structure likely to be required to support the operation of local boards, drawing on the experience of Auckland Council in evolving these structures." (page 215-6)*

Table 10: Comparison of the "reasonably practicable options" regarding the costs of transition and potential savings

	Enhanced Local Efficiency						One Wellington Council	
	One Wairarapa Territorial Authority	One Hutt Valley Territorial Authority	One Western Territorial Authority	Three Territorial Authorities	One Wairarapa & One Hutt Valley Territorial Authority, plus WCC, PDC & KCI	Stronger Regional Delivery	Without Local boards	With local boards
Annual savings, year 4/5 ($m)	1.3	5.5	24.8	31.6	6.9	36.3	40.4	30.4
Transition Costs								
Transition Board	1.0	2.0	5.0	8.0	3.0	7.6	10.1	10.3
New council start-up	1.0	2.0	5.0	8.0	3.0	7.6	10.1	10.3
IT system delivery costs	25.0	40.0	67.5	133.0	65.5	79.0	127.5	127.5
Business process change	4.0	6.0	9.8	20.0	10.2	23.7	48.2	48.2
Other	0.2	0.4	1.0	1.6	0.6	1.5	2.0	2.0
HR costs	0.1	1.6	6.6	8.3	1.7	10.2	11.3	11.3
Total estimated cost of transition	32	52	95	179	84	129	209	210
Net present value ($m) @ 7%	-13.7	8	143			199	154	58
Payback period (years)	25	10	5	6	12	5	7	9

Source: Local Government Commission, Draft proposal for reorganisation of local government in Wellington, Vol 2, Technical Report: Evaluation of the options and the draft proposal, December 2014 with Feb 2015 adjustment, page 216

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The Commission observed that:

- The largest potential saving of around $40 million per annum equates to 4% of total current local government operating expenditure in the region. This also equates to slightly more than the 16% p.a. rates increases planned in the first three years of the 2012-2022 long term plans.

- The most significant transition cost under each option is the cost of delivering IT systems and infrastructure. IT costs assume that merging councils would migrate to the best of breed solution in one of the current councils. These costs account for more than 80% of the estimated transition costs for each option other than the Stronger Regional Delivery option of transferring functions to the Greater Wellington Regional Council. Total cost estimates were derived by developing the programme of work that was expected to be required prior to the go-live date for a new council and the ongoing work that would follow over the subsequent 3-5 years to complete the migration from separate systems to a common set of council-wide systems.

- HR costs reflect potential redundancy costs and a provision for harmonising employment and remunerations conditions across merging councils. This accounts for between less than 1% (for the merger of the Wairarapa councils under the Enhanced Local Efficiency option) and 5% of transition costs for the larger amalgamation options under the One Wellington Council options. Estimates are based on the experience of the Auckland Transition Agency which equated to one third of the estimated savings from staffing.

Overall, it was observed that "*the case for change in Wellington is not as compelling as it was in Auckland*", however, overall this option was considered to most enable Wellington to develop the level of leadership to lift its global competitiveness and attractiveness.

3.5 Summary of findings from literature review and NZ experience

We summarise the key takeaways from the material reviewed in this section as follows:

- The extent to which cost savings have been achieved in previous local council reforms may be difficult to measure given that councils are most likely to re-direct cost savings to service expansion. As such, the capacity of outcomes from actual experience to inform estimates of potential cost savings from local council amalgamations may be limited.

- The available empirical evidence on the extent to which local council amalgamations will yield net savings in costs is mixed and tends to vary by activity. Econometric analysis does not provide strong support. Evidence from the Auckland local governance reforms suggests that opex savings close to 5% could potentially be achievable (although translation of New Zealand evidence into an Australian context must be done with caution).

- In principle, it is reasonable to expect that opportunities for cost savings to flow from the scale effects associated with local council amalgamations, however, their magnitude is likely to vary by type of activity and may diminish for councils that are already regarded as being large. The available evidence suggests that the key sources of savings are from removal of duplicated activities / functions and in procurement. As such, governance and administration is potentially a key area where cost savings would materialise.

- There is limited evidence available on the financial costs associated with local council amalgamations.

  - The evidence from the QTC's assessment of merger costs in Queensland is the most relevant Australian evidence available. This indicated assessed merger costs of $195m over 4 years. The benefits shown in the report, however, did not provide sufficient data as to the time profile of the $129m of estimated merger benefits. If

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it is assumed that $15m is realised in year 1, $25m in year 2, $40m in year 3 and $49m in year 4, this would imply that merger costs were approximately 4x estimated annualised merger benefits. Alternatively, a more conservative ramp up profile – for example $10m in year 1, $20m in year 2, $40m in year 3 and $59m in year 4 – would yield a ratio of merger costs to estimated annualised merger benefits of 3.3x. Assuming benefits would ramp up to full levels over time rather than emerge after one year suggests that merger costs in the Queensland local council amalgamations could have been in the range 3x – 4x annualised expenditure savings.

- The Auckland Transition Authority in Auckland had incurred transition costs of $36.2m when it was dis-established in October 2010 however, this figure is likely to understate transition costs that would have been incurred post Day 1 of the new merged Auckland Council. Original estimates of merger costs indicated a range of 1.0x to 3.1x annualised efficiency gains.
- The estimates from the proposed Wellington local council amalgamations indicates very high ratios of merger costs to benefits (around 5x-7x for the preferred option) and it has been acknowledged that the approach has been to over-estimate costs and to under-estimate savings.

- There are a range of potential risks associated with local council amalgamations that are identified in literature, most commonly, costs of disruption, workplace cultural barriers, decreased local democracy and representation and other challenges associated with implementation. Whilst these exist, they can potentially be minimised through proper planning and implementation.

- There is a view that the costs associated with amalgamation are large and often under-estimated, particularly costs related to new systems, cultures and operating structures.

3.6 Implications for EY analysis

EY has considered the key takeaways from our literature review against our own experience on cost savings that are potentially achievable from corporate transactions. These benchmarks are summarised in the table below.

Table 11: Benchmark synergies from corporate transactions

Benchmarks	
15-25% of the target cost base in synergies	In a corporate transaction with similar businesses, synergies up to 30% of the target's cost base are often targeted. On average, 15% of the target cost base is targeted. Synergies are often highest in the support functions and overheads – the savings frequently reach 50% to 60% of the target's costs in some areas (e.g. the executive teams, back office support costs)
2-3 years average time for the full run rate of synergies to be realised	The time to fully realise synergies differs depending on the transaction complexity. The range for full synergy realization is between 2 to 5 years. Where the synergies are related to major infrastructure, capital expenditure or IT, these will typically be towards the upper end of the range. In most transactions the alignment of the core operating system or ERP has the longest lead time
0.9 – 1.1 average typical ratio of one-off integration costs to annualized synergy value	In some cases the implementation costs can be prohibitive to realising the potential synergies, particularly in cash flow constrained sectors.
~ 60% of companies announce successful achievement of synergies	Where transaction business cases involve a synergy component, companies are often obliged to communicate the synergy targets. The communicated targets do not typically 'pay away' the full synergy estimate. Ongoing communication of synergy targets is highly variable and can be impacted by failure to achieve the targets, change in integration priorities or simply a lack of robust and reliable tracking.

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Notwithstanding these broad benchmarks, in our experience, we would expect mergers in the public sector:

- To achieve more conservative levels of synergies in costs (e.g. lower end of our scale may be higher end of an achievable range). With local councils, concerns about risks to service levels may imply less aggressive cost reduction targets, or may result in cost savings being ploughed back into better services. In the case of the latter, the benefits are less visible but are nevertheless real benefits that should be included in any NPV analysis.

- To achieve a realization of the full benefits over a longer time frame (i.e. closer to 5 years)

- To incur larger one-off integration costs due to more complex stakeholder management and other factors.

We consider that the findings from our literature review lend broad support for these assumptions.

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4. The merger options

4.1 The Independent Local Government Review Panel Report

The merger options for Sydney metropolitan councils identified as preferred merger options by the ILGRP are summarised in Table 12 below.

Table 12: ILGRP's preferred metropolitan local council merger options

Group	Councils	Options (preferred in bold)
1	Ashfield, Burwood, Canada Bay, Leichardt, Marrickville, Strathfield	• Amalgamate or • Combine as strong Joint Organisation
2	Auburn, Holroyd, Parramatta, Ryde (part), The Hills (part)	• Amalgamate (eastern two thirds of Ryde to be included with North Shore group) and • Move northern boundary of Parramatta to M2 (balance of The Hills to remain an individual council) or • Adjust Parramatta's boundaries to include parts of Ryde and The Hills and combine Auburn, Holroyd and Parramatta as a strong Joint Organisation
3	Botany Bay, Randwick, Sydney, Waverley, Woollahra	• Amalgamate or • Combine as a strong Joint Organisation
4	Fairfield, Liverpool	• Amalgamate or • Combine as a strong Joint Organisation with Bankstown, Camden, Campbelltown and Wollondilly
5	Hornsby, Ku-Ring-Gai	• Amalgamate or • Combine as strong Joint Organisation and • Boundary with Parramatta shifted to M2
6	Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde (part), Willoughby	• Amalgamate or • Combine as strong Joint Organisation
7	Canterbury, Hurstville, Kogarah, Rockdale	• Amalgamate or • Combine as a strong Joint Organisation, also including Sutherland and • Adjust Rockdale boundary at airport
8	Manly, Pittwater, Warringah	• Amalgamate or • Combine as strong Joint Organisation

These preferred merger options are illustrated in the map below.

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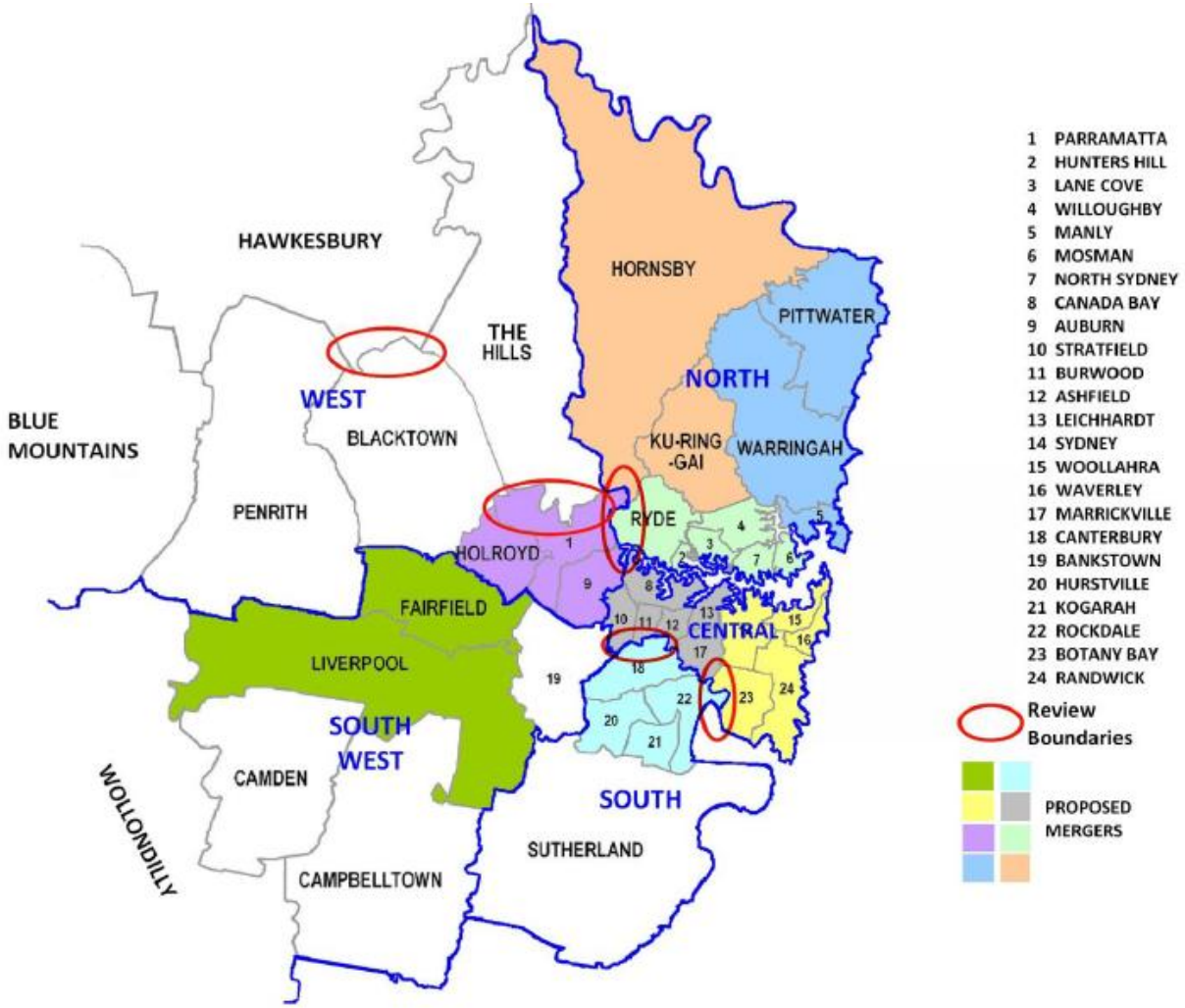
Figure 2: Preferred Merger Options for Sydney Metropolitan Councils



We note that the ILGRP Report did not provide an assessment of the costs and benefits associated with the preferred merger options.

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4.2 The merger options explored by the councils

4.2.1 Summary of the council merger options

The merger options that have been explored by the local councils in their submissions are presented in Table 13 below. Several of the submissions explored merger options that were different to the ILGRP preferred options, even though most of the local councils did not support amalgamation. The options shown in blue text are those which do not reflect ILGRP preferences.

The majority of the submissions included cost-benefit analysis reports that were prepared by Morrison Low, SGS Consulting and KPMG, with a handful either self-assessed or prepared by other consultants.

Table 13: Summary of council merger options explored in submissions

Morrison Low	SGS Consulting[17]	KPMG	Other[18]
Kogarah + Rockdale + Hurstville	Manly + Pittwater + Warringah	Hornsby + The Hills	Fairfield + Liverpool [assessed by Fairfield]
Canterbury + Kogarah + Rockdale + Hurstville	Manly + Warringah	Hornsby + Ku-Ring Gai	Bankstown + Canterbury [assessed by Bankstown]
Kogarah + Hurstville	Manly + Pittwater	Hornsby + The Hills + Ku-Ring Gai	Gosford + Wyong [assessed by Third Horizon]
Botany + Marrickville + Rockdale	Manly + Part Warringah + Pittwater + Part Warringah	Manly + Warringah + Pittwater	Randwick + Waverley [Randwick Council]
Ashfield + Burwood + Canada Bay + Leichardt + Marrickville + Strathfield		Manly + Part Warringah + Pittwater + Part Warringah	Randwick + Waverley + Woollahra + Botany Bay [Randwick Council]
Ashfield + Leichardt + Marrickville		Manly + Warringah	Randwick + Waverley + Woollahra + Botany Bay + Sydney [Randwick Council]
Hunters Hill + Lane Cove + Mosman + North Sydney + Ryde + Willoughby			
Willoughby + Lane + Cove + North Sydney			
Willoughby + North Sydney			
Auburn + Burwood + Canada Bay			
Auburn + Holroyd + Parramatta + The Hills + Ryde			

[17] We note that SGS also prepared business cases for Randwick Council involving various options (e.g. Randwick + Woollahra + Waverley, Randwick + Woollahra + Waverley + Botany Bay (with and without the airport) however insufficient information has been included in these reports for EY to assess the merger analysis.
[18] Reports prepared by Grant Thornton do not contain sufficient information to enable an assessment of the merger scenarios.

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4.2.2 Methodology for assessing merger impacts

Morrison Low

In the reports prepared by Morrison Low ("ML"), the methodology for assessing merger impacts has been to:

- Construct the base case for the merged council using the current long term financial plans of the individual councils
- Model merger impacts across short (1-3 years), medium (4-5 years) and long (6-10 years) terms. This analysis typically examines costs and benefits associated with staffing changes, IT consolidation, material and contracts procurement, and asset rationalisation. All transitional costs are typically modelled as taking place within the first three years.

Table 14 below contains an example of how ML models the time profile associated with costs and benefits from various sources.

Table 14: Example of ML cost-benefit analysis methodology.

Item	Short Term (1 – 3 years)		Medium term (4 – 5 years)		Long Term (6-10 years)	
	Cost	Benefit	Cost	Benefit	Cost	Benefit
Governance		Reduction in total cost of councillors				
Staff	Redundancy costs associated with Senior Staff	Reduction in total costs of Senior Staff Reduction through natural attrition	Redundancy costs associated with any reduction in staff numbers Increase in staff costs associated with typical increase in services and service levels from merger	Reduction in staff numbers in areas of greatest duplication	Increase in staff costs associated with typical increase in services and service levels from merger	
IT	Significant costs to move to single IT system across entire council					Benefits arise from single IT system and decrease in staff
Materials and Contracts		Savings from Procurement and network level decisions over asset expenditure		Savings from Procurement and network level decisions over asset expenditure Savings from moving to large regional waste contract		Savings from Procurement and network level decisions over asset expenditure
Assets			Rationalisation of plant and fleet			
Transitional Body	Establish council and structure, policies, procedures Branding and signage	Government grant				

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Key assumptions employed to estimate costs and benefits are generally based on one of the following:

- Estimated impacts based on discussion with management of the relevant councils
- Estimated impacts based on ML's previous experience (e.g. savings from rationalisation of works units and waste collection)
- Estimated impacts based on the experience in the Auckland and Wellington local council amalgamations, or previous local council amalgamations in NSW.

Some of the assumptions that typically appear in the ML reports are:

- For non-management positions, that the merged council adopts a natural attribution policy to not fill positions in the short term (except for staff in core and front line positions which would have to be replaced), leading to short term savings on staff remuneration
- Over longer term, FTE numbers will rise as the merged council increases service levels post-merger. To support this, ML cites research conducted for the ILGRP which noted that each of the councils involved in the 2004 NSW mergers had more staff after the merger than the combined councils together.
- Transition costs comprise transition management unit costs (based on Auckland experience but sized for the number of local councils in the case being examined), ICT costs (based on Wellington local council amalgamation estimates, but scaled for the number of local councils in the case being examined), branding, initial redundancy costs and remuneration harmonisation.

SGS

SGS has adopted a reference council approach to estimate merger costs and benefits. This is described as the council which achieves the best economies of scale currently (i.e. pre-merger). This effectively assumes that the lowest cost council (the reference council) reflects "best practice" and that the merged council's costs will converge around this target.[19]

Key aspects of SGS' approach are:

- Merger costs are estimated based on past amalgamation experience, both domestically and offshore
- Merger savings are applied to cost categories that are likely to be subject to economies of scale. For the merger scenarios involving Warringah, for example, SGS conducted simple linear regression to test the relationship between per capital service costs and population for 11 cost categories. This analysis indicated that six categories were affected by economies of scale – governance, administration, public order & safety, environment, recreation & culture, and transport & communications

[19] Although a Warringah is identified as the reference council in the merger involving Warringah, Manly and Pittwater Councils, this is no longer the case in the merger scenario involving a split of Warringah Council.

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- Expenditure savings are assumed to grow in line with average projected long term financial plan growth rates for the councils involved in the relevant merger scenario
- Merger costs (excluding redundancies) are estimated as a percentage of current operating expenses and assumed to be spread over the first 2 years.

SGS also used an "average efficiencies" model in the Northern Beaches report which was an econometric model used to estimate efficiency gains.

KPMG

KPMG's methodology is similar to Morrison Low's approach in the sense that it considers individual groups of expenditures. Analysis is therefore undertaken on the potential for FTE reductions, savings in materials and contracts and expenses classified as "other" in the financial accounts of the councils, which often includes expenditure which may be amenable to scale economies.

Merger implementation costs were considered to relate principally to IT and facility consolidation, redundancies, staff retraining and costs of funding the merger implementation. Redundancies for staff (except for senior staff) are assumed to occur from year 4 onwards, reflecting a 3 year no forced redundancy period. With respect to costs of funding the merger implementation, KPMG's analysis for Warringah for example, assumed costs would be funded by cash / cash equivalents where upfront costs were less than 10% of cash and cash equivalents. Otherwise, they would be debt funded. Interest rate assumptions were adopted to enable estimation of interest forgone on cash assets and debt funding.

Benchmarks on merger costs and benefits were based on analysis of local council mergers in Toronto and Auckland. Benchmarks are scaled to the size of the relevant merger.

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5. Assessment of the merger options

5.1 The ILGRP preferred merger options

EY has been requested by IPART to undertake an analysis of the costs and benefits associated with the 8 sets of amalgamations involving the Sydney metropolitan local councils. In addition, IPART has requested EY to undertake similar analysis for other sets of mergers:

- Botany Bay, Randwick, Waverley and Woollahra Councils (without the City of Sydney Council)
- Gosford and Wyong Councils, Bankstown and Canterbury Councils, Hawkesbury and the Hills Councils – these three merger scenarios did not form part of the ILGRP's preferred options but the Panel recommended they be further explored.
- Randwick and Waverley Councils, and Auburn, Burwood and Canada Bay Councils – these are not part of the ILGRP's preferred options but these councils have put forward a voluntary merger business case that IPART would further explore

We note whilst the ILGRP Report considered that amalgamations were an effective way of achieving efficiency and economies of scale as well as service improvements and strategic capacity, the panel did not provide an assessment of the costs and benefits associated with the preferred merger options.

5.1.1 Expected costs and financial benefits from merger

The types of financial benefits we would expect from a merger include synergies in the following areas:

- Governance functions – for example Mayoral/Councilor salaries/on-costs, executive management
- Back office support functions – for example, payroll, IT, HR, finance, legal and administration
- Procurement savings – for example utilities, outsourced IT contracts
- Direct service delivery e.g. waste management, road maintenance

The degree to which financial synergies can be typically realised for different types of costs will vary, as will the time taken to realise these savings.

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5.1.2 Assumptions underpinning potential merger cost-benefit estimates

EY has estimated the potential costs and benefits associated with the ILGRP's preferred merger options using a "top-down" approach, over a 20 year timeframe. Given the approach that has been taken for this exercise, as outlined in Section 2.3, and the limitations that this implies for our analysis, we consider that a top-down approach is the only feasible approach to take. Furthermore, our approach focuses only on operating expenditure and not capital expenditure, as estimating impacts on the latter is generally best undertaken in consultation with management of each local council and this has not been possible in this exercise.

Operating expenditure figures are those publicly reported for each council for 2013-14.

Our model requires us to adopt a number of high level assumptions in estimating the potential costs and benefits of the ILGRP preferred merger options. As discussed in Section 3.6, our model inputs have been informed by a literature review, our experience with synergies that are achievable in corporate transactions, and our consideration of the extent to which those savings are achievable for public sector organisations.

- We have conservatively estimated that potential opex savings of 10% to 15% p.a. of a cost base which comprises the total opex of the entities merging, less the opex of the entity with the largest cost base. This rate of efficiency gain is below the 15-25% rate usually targeted in corporate transactions. We have assumed a lower rate of savings in view of the mixed evidence around the achievement of efficiency gains in local council amalgamations. Whilst we expect that a large proportion of the potential opex savings will relate to rationalisation of back-office functions, we have applied the rate of savings to the total opex line. An alternative approach is to apply varying rates of cost savings to different categories of costs. For example, our experience with corporate transactions indicates that in the executive and corporate governance function, reduction in council members and consolidation of the executive team could potentially generate savings of 60-80%, supplier rationalisation could potentially generate savings of 15-25% in procurement costs and consolidation of IT functions and applications could potentially generate savings of 20-30%. It has not been possible to take a more disaggregated approach to identifying cost savings in this instance as we do not have access to cost data that have been appropriately deconstructed.

- Potential opex savings are assumed to be realised in full over a period of 5 years. The ramp-up rate we have assumed over the 5 year period is 30% by year 1, 60% by year 2, 80% by year 3, 90% by year 4 and 100% by year 5.

- Once-off merger integration costs have been estimated to be incurred at the rate of 3.0 times the annualised expenditure saving. The exception to this are the mergers involving Marrickville, Ashfield, Burwood, Canada Bay, Leichardt and Strathfield Councils, Auburn, Holroyd and Parramatta Councils together with parts of the Hills and Ryde Councils, Botany Bay, Sydney, Waverley, Randwick and Woollahra Councils and Hunters Hill, Lane Cove, Mosman, North Sydney, Willoughby and part Ryde. We understand that these four merger options were regarded by the NSW Parliamentary Budget Office, based on advice from the Office of Local Government, as being of "very high" complexity in their costing of council mergers. For these four merger options, we have therefore assumed merger integration costs at the rate of 4.0 times the annualized expenditure saving.[20]

- Our assumption with respect to merger integration costs reflects a more conservative view of merger integration costs than typically incurred in corporate transactions. In other words, we have assumed higher costs will be incurred. As previously shown in Table 11, integration costs in corporate transactions are on average 0.9 to 1.1x

[20] NSW Parliamentary Budget Office (PBO) costing of council mergers, Briefing Note - 2015.

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estimated annualized synergy value. We have adopted a more conservative assumption to reflect our expectation that there are likely to be more complex stakeholder management costs and more variances in systems and processes between local councils as compared with corporations. As noted above, the evidence from the Queensland local council amalgamations indicate a 3-4x annualized merger savings assumption to be reasonable.

- Merger integration costs are assumed to be incurred over 5 years, and front end loaded over this period. Specifically, we have assumed 60% of these costs will be incurred in year 1, 20% in year 2, 10% in year 3, 7% in year 4 and 3% in year 5. This expenditure profile reflects our experience that the majority of the costs will be incurred in the first two years and will relate to initial setting up of the merger implementation program, staffing changes, integration of back office functions, initial business process redesign and consolidation of IT functions and applications. Costs incurred in years 3 to 5 will likely reflect residual costs associated with ongoing IT integration.

An example of our methodology is illustrated diagram below.

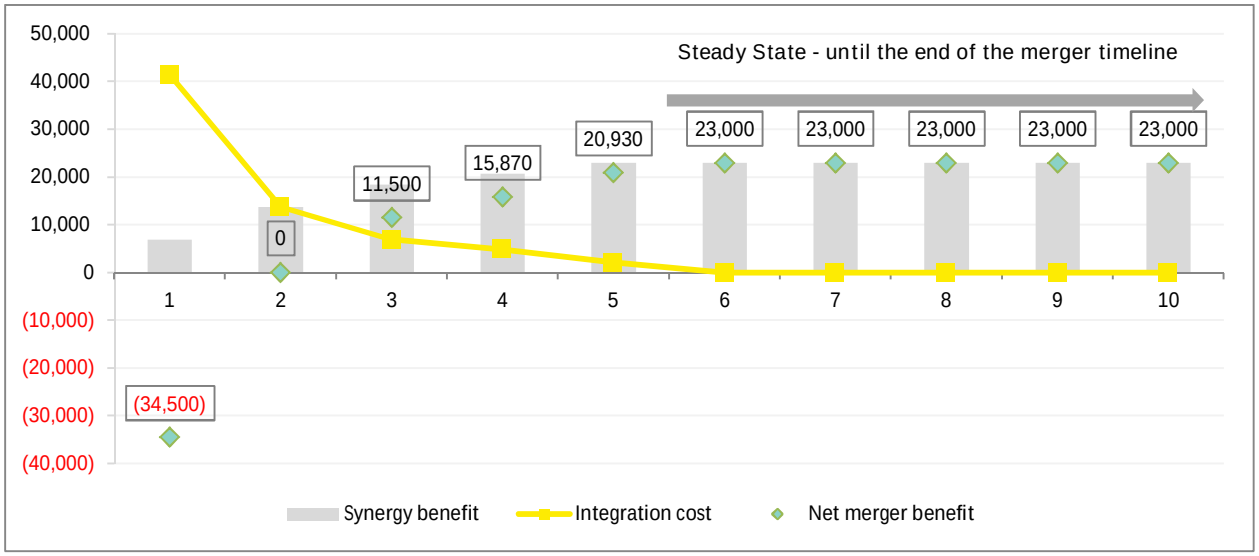
Figure 3: Stylised 4 into 1 merger example of EY's methodology

Assumed cost base of entities:

- Entity #1 $130m
- Entity #2 $50m
- Entity #3 $100m
- Entity #4 $80m

Cost base subject to merger synergies: $230m

Assumed efficiency saving rate of 10% and integration costs of 3x annualised efficiency savings.



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5.1.3 Results of top-down analysis

The potential net merger benefit / (cost) outcomes for each ILGRP preferred merger scenario based on the methodology described above is summarised in the table below.

Table 15: Top down analysis of ILGRP metropolitan local council preferred merger options (Base Case) (over 20 years)

	Merger option	NPV range 4% @ 2016 $'000	NPV range 7% @ 2016 $'000	NPV range 10% @ 2016 $'000
	ILGRP preferred merger options			
1	Manly + Warringah +Pittwater	131,470 - 197,204	92,589 - 138,883	66,177 - 99,266
2	Hornsby + Ku-ring-gai	100,408 - 150,611	70,713 - 106,070	50,542 - 75,812
3	Fairfield + Liverpool	148,921 - 223,381	104,879 - 157,318	74,961 - 112,442
4	Canterbury + Kogarah + Rockdale + Hurstville	195,898 - 293,847	137,963 - 206,945	98,608 - 147,912
5	Hunters Hill + Lane Cove + Mosman + North Sydney + Ryde (2/3) + Willoughby	221,023 - 331,535	149,624 - 224,437	101,384 - 152,076
6	Randwick + Waverley + Woollahra + Botany Bay + Sydney	335,015 - 502,522	226,793 - 340,189	153,672 - 230,508
7	Ashfield + Burwood + Canada Bay + Leichhardt + Marrickville + Strathfield	229,663 - 344,495	155,473 - 233,210	105,347 - 158,020
8	Auburn + Holroyd + Parramatta + The Hills (15%) + Ryde (1/3)	177,434 - 266,151	120,116 - 180,174	81,389 - 122,084
	Additional merger options identified by ILGRP and Councils and requested by IPART			
9	Randwick + Waverley + Woollahra + Botany Bay	247,159 - 370,739	174,065 - 261,097	124,411 - 186,617
10	Bankstown + Canterbury	97,170 - 145,755	68,433 - 102,650	48,912 - 73,368
11	Gosford + Wyong	222,831 - 334,247	156,931 - 235,397	112,165 - 168,248
12	Randwick + Waverley	112,555 - 168,832	79,268 - 118,902	56,656 - 84,984
13	Auburn + Burwood + Canada Bay	100,262 - 150,393	70,611 - 105,916	50,468 - 75,703
14	Hawkesbury + The Hills	68,069 - 102,104	47,938 - 71,908	34,263 - 51,395

The base case analysis indicates all of the ILGRP preferred merger options are NPV positive and will produce net merger benefits, lending support to the business case for the preferred merger options. Our NPV range for each merger scenario is reasonably wide and reflects the combination of assumptions we have adopted on potential merger benefits and costs. The degree to which net merger benefits will be achievable in each scenario will likely depend on the specific circumstances of the relevant councils in each merger scenario. In some cases, it could be that potential net merger benefits would be closer to the low end of the range, whilst in other cases, net merger benefits may be higher.

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Where certain services are already outsourced by the councils that are the subject of the merger, it is likely a lower level of synergy would be achieved through the merger than would otherwise be the case. For example:

- In the Ashfield + Burwood + Canada Bay + Leichardt + Marrickville + Strathfield merger, we understand three of the councils – Canada Bay, Burwood and Ashfield – already outsource their collection of waste. As such, cost savings will arise only through outsourcing waste collection of the remaining councils and integration into a single contract.

- Similarly, opportunities for procurement cost savings may also be limited in the Auburn + Holroyd + Parramatta + The Hills + Ryde (part) merger scenario as we understand these councils currently engage in collective procurement through shared panel contracts. The size and timing of cost savings will therefore depend not only on the merged council's ability to leverage its buying power but also on the timing for existing contracts to unwind.

We also consider the two merger options which involve the splitting of a council (i.e. Ryde and The Hills) will likely be more complex to implement and as a result, this may impact the potential level of net merger benefits achievable. As noted, we have adopted a higher level of merger integration costs for these merger options.

EY has been asked to specifically comment on the ILGRP's preferred option to merge the City of Sydney with Randwick, Waverley, Woollahra and Botany Bay. It should be noted that the methodology that we have employed to assess net merger benefits / (costs) does not of itself provide us with a sufficient basis to conclude whether the City of Sydney should be merged with these other councils or whether it should stand-alone. As shown in the table above, the option involving a merger of Randwick, Waverley, Woollahra, Botany Bay and the City of Sydney has a higher net benefit than the merger option which excludes the City of Sydney. This result arises because:

- The entity with the largest cost base is different in each case so the calculation of potential opex savings will differ

- The total operating expenditure of the councils excluding the largest council is significantly larger in the merger option which includes the City of Sydney ($373m) than in the merger option which excludes the City of Sydney ($248m).

We reiterate the methodology we have employed is a top-down approach which is limited in its ability to consider individual council circumstances. To this extent, the question of whether the City of Sydney should be merged or remain a stand-alone council is one that would particularly benefit from detailed bottom-up analysis.

Notwithstanding this, on the basis of the analysis EY has undertaken, we do not consider there are compelling reasons to conclude the merger of the City of Sydney with Randwick, Waverley, Woollahra and Botany Bay would not generate efficiency gains. The City of Sydney covers an area that has a different range of activities and services as compared with the remaining councils. However, there is no obvious reason why a merger option including the City of Sydney would not yield cost savings at the levels we have assumed. We note that a number of cities in Australia and in New Zealand have councils that cover the whole city, albeit often smaller cities.

5.1.4 Sensitivity analysis

To understand the NPV impact of variations around our key assumptions, we have examined three hypothetical scenarios:

1. A delay in the achievement of merger cost savings – We have modelled a scenario where savings ramp up to full realisation at a constant rate over 5 years.
2. Understatement of merger costs – We have modelled the impact of a 50% increase in merger costs
3. A combination of the above two scenarios.

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The results are summarised in the tables below.

Table 16: ILGRP metropolitan local council preferred merger options – Scenario 1: More conservative ramp-up of merger benefits (over 20 years)

	Merger option	EY top-down indicative NPV Range ($'000)		
		4% Discount Rate	7% Discount Rate	10% Discount Rate
ILGRP preferred merger options				
1	Manly Warringah Pittwater	123,919 - 185,879	85,547 - 128,321	59,592 - 89,388
2	Hornsby Ku-ring-gai	94,641 - 141,962	65,335 - 98,003	45,512 - 68,268
3	Fairfield Liverpool	140,368 - 210,552	96,902 - 145,353	67,502 - 101,253
4	Canterbury Kogarah Rockdale Hurstville	184,648 - 276,971	127,470 - 191,206	88,796 - 133,194
5	Hunters Hill Lane Cove Mosman North Sydney Ryde (part) Willoughby	206,940 - 310,410	136,490 - 204,735	89,101 - 133,652
6	Randwick Waverley Woollahra Botany Bay Sydney	313,669 - 470,503	206,884 - 310,326	135,055 - 202,582
7	Ashfield Burwood Canada Bay Leichhardt Marrickville Strathfield	215,030 - 322,545	141,825 - 212,738	92,584 - 138,876
8	Auburn Holroyd Parramatta The Hills Ryde (part)	166,129 - 249,193	109,572 - 164,358	71,529 - 107,294
Additional merger options identified by ILGRP and Councils and requested by IPART				
9	Randwick Waverley Woollahra Botany Bay	232,965 - 349,448	160,826 - 241,239	112,031 - 168,047
10	Bankstown Canterbury	91,590 - 137,385	63,228 - 94,843	44,045 - 66,067
11	Gosford Wyong	210,034 - 315,051	144,996 - 217,494	101,004 - 151,506
12	Randwick Waverley	106,091 - 159,136	73,239 - 109,859	51,018 - 76,527
13	Auburn Burwood Canada Bay	94,504 - 141,756	65,240 - 97,861	45,446 - 68,170
14	Hawkesbury The Hills	64,160 - 96,240	44,292 - 66,439	30,854 - 46,281

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Table 17: ILGRP metropolitan local council preferred merger options – Scenario 2: 50% increase in merger costs (over 20 years)

	Merger options	EY top-down indicative NPV Range ($'000)		
		4% Discount Rate	7% Discount Rate	10% Discount Rate
ILGRP preferred merger options				
1	Manly Warringah Pittwater	112,012 - 168,018	74,033 - 111,050	59,592 - 89,388
2	Hornsby Ku-ring-gai	85,547 - 128,321	56,542 - 84,813	45,512 - 68,268
3	Fairfield Liverpool	126,880 - 190,320	83,860 - 125,791	67,502 - 101,253
4	Canterbury Kogarah Rockdale Hurstville	166,904 - 250,357	110,314 - 165,471	88,796 - 133,194
5	Hunters Hill Lane Cove Mosman North Sydney Ryde (part) Willoughby	172,632 - 258,948	103,478 - 155,217	89,101 - 133,652
6	Randwick Waverley Woollahra Botany Bay Sydney	261,667 - 392,500	156,846 - 235,269	135,055 - 202,582
7	Ashfield Burwood Canada Bay Leichhardt Marrickville Strathfield	179,381 - 269,071	107,523 - 161,284	92,584 - 138,876
8	Auburn Holroyd Parramatta The Hills Ryde (part)	138,587 - 207,880	83,070 - 124,606	71,529 - 107,294
Additional merger options identified by ILGRP and Councils and requested by IPART				
9	Randwick Waverley Woollahra Botany Bay	210,579 - 315,868	139,181 - 208,771	112,031 - 168,047
10	Bankstown Canterbury	82,789 - 124,183	54,719 - 82,078	44,045 - 66,067
11	Gosford Wyong	189,851 - 284,777	125,481 - 188,221	101,004 - 151,506
12	Randwick Waverley	95,896 - 143,845	63,382 - 95,073	51,018 - 76,527
13	Auburn Burwood Canada Bay	85,423 - 128,135	56,460 - 84,690	45,446 - 68,170
14	Hawkesbury The Hills	57,995 - 86,992	38,331 - 57,497	30,854 - 46,281

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Table 18: ILGRP metropolitan local council preferred merger options – Scenario 3: Delay in potential merger benefit delay + 50% increase in merger costs (over 20 years)

	Merger options	EY top-down NPV Range ($'000)		
		4% Discount Rate	7% Discount Rate	10% Discount Rate
ILGRP preferred merger options				
1	Manly Warringah Pittwater	60,887 - 121,773	42,097 - 84,194	29,448 - 58,897
2	Hornsby Ku-ring-gai	46,501 - 93,002	32,151 - 64,302	22,491 - 44,981
3	Fairfield Liverpool	68,969 - 137,937	47,685 - 95,370	33,357 - 66,714
4	Canterbury Kogarah Rockdale Hurstville	90,725 - 181,450	62,727 - 125,454	43,880 - 87,760
5	Hunters Hill Lane Cove Mosman North Sydney Ryde (part) Willoughby	113,567 - 227,133	78,520 - 157,039	54,927 - 109,855
6	Randwick Waverley Woollahra Botany Bay Sydney	172,138 - 344,276	119,016 - 238,032	83,256 - 166,512
7	Ashfield Burwood Canada Bay Leichhardt Marrickville Strathfield	118,006 - 236,012	81,589 - 163,178	57,075 - 114,149
8	Auburn Holroyd Parramatta The Hills Ryde (part)	91,170 - 182,339	63,034 - 126,069	44,095 - 88,190
Additional merger options identified by ILGRP and Councils and requested by IPART				
9	Randwick Waverley Woollahra Botany Bay	114,465 - 228,931	79,141 - 158,282	55,362 - 110,724
10	Bankstown Canterbury	45,002 - 90,004	31,114 - 62,228	21,766 - 43,531
11	Gosford Wyong	103,198 - 206,397	71,351 - 142,702	49,913 - 99,825
12	Randwick Waverley	52,127 - 104,254	36,040 - 72,081	25,212 - 50,423
13	Auburn Burwood Canada Bay	46,434 - 92,868	32,104 - 64,209	22,458 - 44,916
14	Hawkesbury The Hills	31,524 - 63,049	21,796 - 43,592	15,247 - 30,494

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As can be seen from Table 16 to Table 18 above, the NPV range of net merger outcomes reduces in each case compared with our base case estimates.

As modelled, the delay in achieving potential merger benefits reduces the NPV (@ 7%) of net merger benefits by 8.1%, on average across all merger options, whilst a 50% rise in estimated merger costs reduces NPV outcomes by 24.3%, on average across all merger options.

Nevertheless, in all of the above 3 scenarios, net merger outcomes remain positive for all merger options.

In addition to the above three sensitivity scenarios, we have analysed the extent of the

- Reduction in potential merger benefits that would need to occur such that the NPV outcomes (at 7%) would shift from positive to negative; and
- Increase required in estimated merger costs that would need to be incurred in order to reduce the NPV outcome (at 7%) to shift from positive to negative.

Our calculations indicate that NPV outcomes (at 7%) would shift from positive to negative if:

- Potential opex savings are delayed by 11 years and fully realised over 5 years for low-medium complex merger options and 9 years for very complex merger options. That is, for low-medium complex merger options, there would not be any opex savings from year 1 to year 10 of the merger. Instead, they will begin in year 11 and end in year 20 in the following ramp up profile: 20% of opex savings in year 11, 40% in year 12, 60% in year 13, 80% in year 14, 100% in year 15 to year 20; or
- Estimated merger integration costs increased by 250% from the base case assumptions for low-medium complex merger options and 170% for highly complex merger options.

5.2 The merger options explored by the councils

5.2.1 Summary of local council merger options explored in submissions

Table 19 below sets out the local council merger options we have been asked to analyse. The NPV figures shown below reflect those calculated in the cost-benefit analysis ("CBA") in the relevant submission (or implied by the figures supplied in the submission). That is, the NPV figures do not incorporate any re-calculation based on adjusted assumptions or inputs by EY.

In some cases, merger costs and benefits forecast cash flows were provided but no NPV result was calculated. In these cases, where possible, EY has inferred an NPV estimate based on the data provided. Additionally, In some cases, the merger costs and benefits, and hence NPV outcomes, have been revised by the relevant council or its consultant subsequent to the original submission in response to queries from IPART. Where this has occurred, a revised NPV outcome has been noted in Table 19.

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Table 19: Local council merger options as presented by local council cost-benefit analysis submitted

Merger options	As reported / EY inferred NPV $'000[21]	Key assumptions & comments
Canterbury + Kogarah + Rockdale + Hurstville	$98,078	• CBA report prepared by Morrison Low for Rockdale • Analysis in report starts in 2016 and finishes in 2023 • Discount rate applied – 7% • IPART has informed us that Morrison Low has advised that all costs and benefits and discount rates are expressed in nominal terms • Tables in the submitted report and the NPV results have been subsequently updated by Morrison Low and EY has relied on the updated data
Kogarah + Rockdale + Hurstville	$37,110	
Kogarah + Hurstville	$20,700	• CBA report prepared by Morrison Low for Hurstville • Analysis in report starts in 2016 and finishes in 2023 • Discount rate applied – 7% • IPART has informed us that Morrison Low has advised that all costs and benefits and discount rates are expressed in nominal terms • IPART has informed us that Morrison Low has advised that the NPV is calculated as at 2014. • Tables in the submitted report have been subsequently updated by Morrison Low and EY has relied on the updated data
Botany Bay + Marrickville + Rockdale	$83,000	• CBA report prepared by Morrison Low for Botany Bay and Rockdale • Analysis in report starts in 2016 and finishes in 2023 • Discount rate applied – 7% • IPART has informed us that Morrison Low has advised that all costs and benefits and discount rates are expressed in nominal terms • Tables in the submitted report have been subsequently updated by Morrison Low and EY has relied on the updated data
Ashfield + Burwood + Canada Bay + Leichardt + Marrickville + Strathfield	$143,000	• CBA report prepared by Morrison Low for Inner West Councils • Analysis in report starts in 2015 and finishes in 2023 • Discount rate applied – 7% • IPART has informed us that Morrison Low has advised that all costs and benefits and discount rates are expressed in nominal terms • Tables in the submitted report have been subsequently updated by Morrison Low and EY has relied on the updated data

[21] All of the reported NPV's include the grant funding from government except for: Manly + Warringah + Pittwater (SGS), Manly + Warringah (SGS), Manly / Part Warringah + Pittwater / Part Warringah (SGS), Pittwater + Warringah (SGS), Bankstown + Canterbury and Gosford + Wyong.

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Merger options	As reported / EY inferred NPV $'000[21]	Key assumptions & comments
Hunters Hill + Lane Cove + Mosman + North Sydney + Ryde (part) + Willoughby	$59,000	• CBA report prepared by Morrison Low for Hunters Hill, Lane Cove and Ryde • Analysis in report starts in 2016 and finishes in 2023 • Discount rate applied – 7% • IPART has informed us that Morrison Low has advised that all costs and benefits and discount rates are expressed in nominal terms • IPART has informed us that Morrison Low has advised that the NPV is calculated as at 2014. • Data shown is for the 'efficiencies realised' scenario
Willoughby + Lane Cove + North Sydney	$33,800	• CBA report prepared by Morrison Low for Willoughby • Analysis in report starts in 2016 and finishes in 2023 • Discount rate applied – 7% • IPART has informed us that Morrison Low has advised that all costs and benefits and discount rates are expressed in nominal terms • IPART has informed us that Morrison Low has advised that the NPV is calculated as at 2014.
Willoughby + North Sydney	$31,600	
Auburn + Burwood + Canada Bay	$32,100	• CBA report prepared by Morrison Low for Auburn • Analysis in report starts in 2016 and finishes in 2023 • Discount rate applied – 7% • IPART has informed us that Morrison Low has advised that all costs and benefits and discount rates are expressed in nominal terms • IPART has informed us that Morrison Low has advised that the NPV is calculated as at 2014. • Tables in the submitted report have been subsequently updated by Morrison Low and EY has relied on the updated data
Auburn + Holroyd + Parramatta + The Hills + Ryde (part)	$41,800	• CBA report prepared by Morrison Low for Holroyd • Analysis in reports starts in 2016 and finishes in 2023 • Discount rate applied – 7% • IPART has informed us that Morrison Low has advised that all costs and benefits and discount rates are expressed in nominal terms • IPART has informed us that Morrison Low has advised that the NPV is calculated as at 2014. • Data shown is for the 'efficiencies realised' scenario
Hornsby + The Hills	$51,509	• CBA reports prepared by KPMG • Analysis in report starts in 2014 and finishes in 2023 • Discount rate applied – 9.5% nominal (inferred from other KPMG reports) • Net merger benefits identified annually but NPV of net merger benefits not stated. The NPV figures stated are inferred based on assumptions employed in the report.
Hornsby + Ku-Ring Gai	$37,751	
Hornsby + Ku-Ring Gai + The Hills	$115,500	
Manly + Warringah + Pittwater (KPMG)	$44,998	• CBA report prepared by KPMG, as originally submitted • Analysis in report starts in 2015 and finishes in 2024, however, merger cash flows begin
Manly / Part Warringah + Pittwater / Part	$13,746	

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Merger options	As reported / EY inferred NPV $'000[21]	Key assumptions & comments
Warringah (KPMG)		in 2016.
Manly + Warringah (KPMG)	$16,815	• Discount rate applied – 9.5% nominal • All costs and benefits expressed in nominal terms
Manly + Warringah + Pittwater (SGS)	$233,858	• CBA report prepared by SGS • Analysis in report starts in 2015 and finishes in 2024 • Discount rate applied – 5.5% nominal • NPV figures stated are based on nominal figures. • Data shown is for the reference council model.
Manly / Part Warringah + Pittwater / Part Warringah (SGS)	($179,327)	
Manly + Warringah (SGS)	$123,454	
Pittwater + Warringah (SGS)	$118,285	
Fairfield + Liverpool	($15,443)	• CBA report prepared by Fairfield Council • Analysis in report starts in 2016 and finishes in 2025 • Discount rate applied – 7% real is inferred • Report provided annual data on expected costs and savings, but NPV result was not calculated. Negative NPV of $15.4m is inferred based on EY calculations assuming data is expressed in real terms.
Bankstown + Canterbury	$82,167	• Information prepared by Bankstown Council • Cost savings in report are only estimated for one year. • EY has assumed that the cost savings is in 2014 dollar terms and the savings extend to 10 years. • Report provided data on expected annualised net savings from merger but NPV result was not calculated and no discount rate was assumed. • NPV of $82.2m based on EY calculations and assumes annual savings occur over 10 years, with a real discount rate of 7% • No merger implementation cost estimated
Gosford + Wyong	$42,400	• [Confidential]
Randwick + Waverley	$103,344	• Report originally prepared by SGS but subsequently updated by Randwick • Analysis in report assumed to start in 2017 and finishes in 2026. • Report provided data on expected annualised net savings from merger • Discount rate applied – 4.5% nominal
Randwick + Waverley + Woollahra + Botany Bay	$277,637	
Randwick + Waverley + Woollahra + Botany Bay + Sydney	$145,566	

Based on the information presented in the reports reviewed, EY has tested the mathematical accuracy of the analyses presented. In most cases, the results of our calculations were reasonably close to the NPV figures reported (and as subsequently revised) in the reports. The chart below identifies those merger business cases where variances exceeded $1m.

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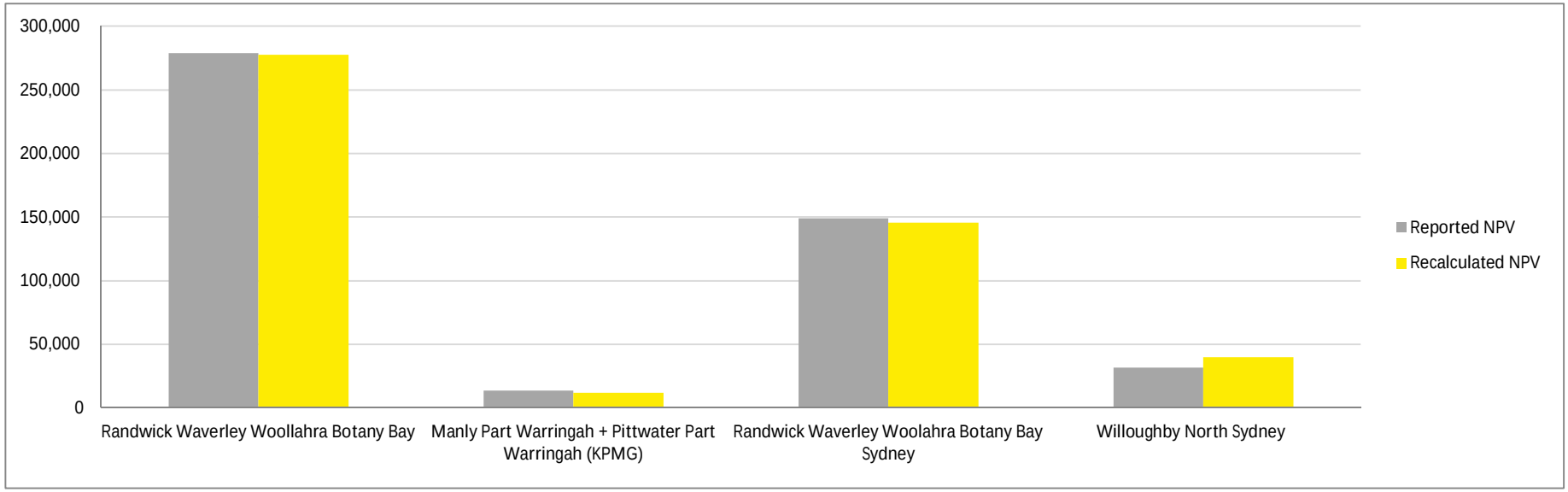
Figure 4: Reported NPVs versus EY calculations ($'000) – Variances > $1m



The largest mathematical variance based on our checks appears to be in the Willoughby + North Sydney merger business case. We have not had further access to the local councils or their respective consultants to reconcile these differences.

5.2.2 Assumptions underpinning submitted merger business cases

This section of our report provides a high level overview of the key assumptions that have been employed by councils and their consultants in undertaking their merger business case analyses. Appendix B contains a detailed outline of the key assumptions employed.

Merger integration costs

All of the merger business cases we reviewed incorporated assumptions on merger integration costs, with the exception of the information prepared by Bankstown Council for the merger of Bankstown and Canterbury.

Reports prepared by Morrison Low typically apply transition costs principally in the first three years and rely on estimates based on the proposed amalgamation of nine local councils to create a single council for Wellington. As we have discussed earlier, the integration cost estimates for the proposed Wellington reorganization appear to be high, albeit there is limited evidence generally available on the size of these costs. Morrison Low also included estimates for staff redundancy in the transition period although this is limited to Tier 1 and Tier 2 staff. With respect to other staff, Morrison Low assumes that redundancies will occur after a no forced redundancy period (3 years) but in the transition period, it is assumed a natural attrition policy will apply. Other merger transition costs include ICT costs, branding and in some cases, remuneration harmonisation.

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In the reports prepared by KPMG, merger integration costs have been estimated based on case study examples. Upfront costs generally were estimated as a proportion of total annual expenditure of the merged entity and apportioned across costs for different types of activities based on a comparative study of the amalgamation experience in Toronto. Effort was made to estimate redundancy costs based on the specific circumstances of individual councils.

SGS estimated merger transition costs as a percentage of operating expenses based on a UK case study. Merger costs were assumed to occur in the first 2 years.

For the remaining merger business cases we reviewed, merger integration costs were generally estimated based on case study examples or on discussions with the relevant councils.

Potential cost savings

Where merger cost savings were identified, key sources of cost savings included staffing where there were duplicated functions and roles, reduction of governance costs due to having a governance structure which was scaled to the size of the merged council, savings in procurement functions through rationalisation of works units and materials, reduced IT costs through ICT consolidation and certain property-related savings due to a reduction in the number of office sites.

Estimates of cost savings were based mainly on case studies of amalgamation experience elsewhere (mainly New Zealand) as well as on discussions with management of the relevant councils. In most cases, cost savings were assumed to commence upon transition, although some staff redundancies were assumed to be delayed due to protections offered under the Local Government Act.

Key risks identified

All of the merger business cases we reviewed identified key risks arising from the merger, particularly around the obvious financial risks such as transitional and implementation costs being more significant than set out in the business cases or that the efficiencies projected are not delivered.

Reports prepared by KPMG also identified other financial and non-financial risks such as the risk of the merged entity not being able to achieve financial sustainability over the longer term, strategic risks, risk to service quality and effectiveness, risk to the effectiveness of local representation and risk to effective implementation and management over time.

Reports prepared by Morrison Low discussed other key risks identified such as the risk that cultural integration of the different councils could negatively impact morale and the staff turnover rate. This could reduce business performance and prolong the time taken to achieve the projected efficiencies. Service levels are also at risk to rise across the merged council, standardizing on the highest level of those services that are being integrated. Meanwhile, should the financial performance of the merged council be less than projected, this could result in the need to reduce services, find further efficiency gains or increase rates to address the operating deficit. In addition, developing a governance model that represents the communities of interest across the proposed merger area could also prove to be challenging.

5.3 EY analysis

We have made two types of adjustments to the business cases submitted by the local councils:

- Standardisation adjustments
- Other adjustments

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5.3.1 Standardisation adjustments

Many of the merger business cases were presented in different ways, based on different timelines, using both nominal and real cash flows, and different discount rates. Some included the impact of the grant funding from the State. We have standardised the business cases to facilitate more effective comparison between them and with the NPV results of EY's top-down approach as applied to the ILGRP preferred merger scenarios. The key adjustments were to:

- Extend the analysis to 20 year timeframe, with all costs and benefits commencing FY 2017
- Discount real net merger benefits / (costs) using a 7% real discount rate, or discount nominal net merger benefits / (costs) using 9.675% nominal discount rate (i.e. inflated by 2.5 % inflation assumption)
- Exclude grant funding from merger benefits.

The impact of the standardisation adjustments that we have made are reflected in the figures shown in Table 20.

Table 20: Local council merger options explored by local councils incorporating standardisation adjusted by EY (over 20 years)

Merger scenario	NPV 4% @ 2016 $'000	NPV 7% @ 2016 $'000	NPV 10% @ 2016 $'000
Kogarah Rockdale Hurstville	132,171	90,273	61,711
Canterbury Kogarah Rockdale Hurstville	276,676	196,961	142,441
Kogarah Hurstville	73,944	48,613	31,418
Botany Bay Marrickville Rockdale	193,949	138,221	99,817
Ashfield Burwood Canada Bay Leichhardt Marrickville Strathfield	315,420	229,108	169,546
Hunters Hill Lane Cove Mosman North Sydney Ryde (part) Willoughby	244,461	166,466	113,582
Willoughby Lane Cove North Sydney	127,218	86,403	58,721
Willoughby North Sydney	119,503	83,807	59,407
Auburn Burwood Canada Bay	111,181	76,359	52,741
Auburn Holroyd Parramatta The Hills Ryde (part)	169,629	110,387	70,217
Hornsby The Hills	98,159	74,112	57,539
Hornsby Ku-ring-gai	67,782	50,820	39,143
Hornsby Ku-ring-gai The Hills	216,055	164,369	128,715
Manly Warringah Pittwater (KPMG)	116,046	84,934	63,650
Manly Part Warringah + Pittwater Part Warringah (KPMG)	33,328	21,298	13,177
Manly Warringah (KPMG)	60,855	43,989	32,469

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Merger scenario	NPV 4% @ 2016 $'000	NPV 7% @ 2016 $'000	NPV 10% @ 2016 $'000
Manly Warringah Pittwater (SGS)	447,336	328,320	247,180
Manly Warringah (SGS)	237,075	173,812	130,694
Pittwater Warringah [Additional Option] (SGS)	227,595	166,777	125,332
Manly Part Warringah + Pittwater Part Warringah (SGS)	(335,096)	(247,788)	(188,177)
Fairfield Liverpool	(49,456)	(40,823)	(34,407)
Bankstown Canterbury	167,057	130,225	104,651
Gosford Wyong	179,967	126,363	90,527
Randwick Waverley Woollahra Botany Bay Sydney	276,610	191,503	134,444
Randwick Waverley	166,860	119,423	87,066
Randwick Waverley Woollahra Botany Bay	465,025	338,555	252,314

5.3.2 Other adjustments

As discussed in Section 5.2, the merger business cases explored by the local councils are based on a range of assumptions. Most of the assumptions were adequately justified and are considered reasonable given the available evidence, however, a small number were more open to question. These are:

- Assumed increase in service levels and FTE requirements – In most of the merger business cases prepared by Morrison Low, an assumption is made for FTE increases from around year 4 onwards to support an increase in service levels. Morrison Low reports indicate this is based on research conducted for the ILGRP which noted that each of the councils involved in the 2004 NSW mergers had more staff after the merger than the combined councils together. Whilst it may be true that councils may direct initial cost savings towards higher levels of service provision and this may lead to a future increase in FTEs, we consider that for the purpose of modelling the NPV impacts of each merger, the objective should be to capture the first-round direct impacts of the merger. Hence, we consider the merger business cases should include the full benefits of rationalisation, including both cost savings and enhanced service levels. .

- Branding costs assumption in Fairfield + Liverpool business case – Fairfield Council's merger business case for the amalgamation of Fairfield and Liverpool Councils has assumed a branding cost assumption of $0.5m per annum from 2016 to 2025. Whilst we do not dispute that costs will be incurred for re-branding, we question whether such costs would amount to $10m over 10 years. This assumption also stands out in comparison with the branding cost assumptions in the other merger business cases explored, particularly given the relative size of the merger. On this basis, we consider a more conservative branding cost assumption of $2m over 2 years should be applied.

- Absence of merger cost savings in Fairfield + Liverpool merger business case – Fairfield Council's merger business case applied a methodology for estimating savings in operating costs from a merger, which results in no merger cost savings. Instead, the analysis predicts a rise in costs post-merger. We do not consider this is a reasonable outcome as some degree of cost savings, however minimal, would be expected from a reduction in the number of mayors and councillors and from FTE numbers in back-office functions. It has also been assumed that any savings that arise would do so in 2022/23. We consider a more reasonable assumption is to assume cost savings from year 1. We have adjusted the merger business case by applying an assumption for cost savings similar to our top-down approach.

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- Temporary office relocation costs in Fairfield + Liverpool merger business case - We also note Fairfield Council has assumed there will be relocation costs over five years at the rate of $1.75m per annum as it will be necessary to temporarily lease a building whilst a permanent new building is constructed. Whilst it is not unreasonable to expect the merged council will have its staff relocated to one premise, we question whether Fairfield Council has overlooked cost savings which might arise from moving from the current premises occupied by each council to the new merged office. To the extent these existing office locations are owned or leased, there would be cost savings either in the form of sites which could be sold, or leasing costs forgone.

- Merger assumptions in Bankstown merger business case - Bankstown Council's merger business case identified some cost savings in governance and administration and in certain other areas. These costs however, are assumed to be fully realised in year 1. We consider that it would be more reasonable to assume that cost savings will flow through over time. As such as we have applied a 5 year ramp up similar to that in our top down approach. We also note that the business did not include any consideration of merger costs. We have adjusted the merger business case by applying an assumption for merger integration costs similar to our top-down approach.

- Relocation costs during transition in Randwick & Waverley Council's merger business case – Randwick and Waverley Councils conducted an analysis of a number of merger options. In the merger option involving the City of Sydney, it was assumed that it would be necessary to relocate a number of staff to a single location being Town Hall House. This assumption generates a significant loss of rental revenue as Town Hall House is currently leased out to the commercial tenants. Whilst it is not unreasonable to expect that the merged council would seek to have most of its staff housed in a single premise, no analysis has been presented on whether alternative lower cost options have been explored. In the absence of a better estimate, we have removed the relocation costs in this option and replaced it with relocation costs similar to the Randwick + Waverley + Woollahra option.

- Expenditure made to meet the FFTF ratios in Randwick & Waverley's merger business case – We understand Randwick Council has calculated the net merger benefits of the various merger options by estimating the efficiencies for each option based on a service oriented financial model designed by SGS in 2013. The costs of the amalgamation process were also estimated as part of the analysis. Additional expenditure was also allowed in order to meet the FFTF ratios, eliminate the infrastructure backlog and repay debt for each option. Whilst it may be true that councils could direct initial cost savings towards meeting the FFTF ratios, address infrastructure backlog and debt repayment, these cost savings should nevertheless be recognised as they resulted from the merger. We have therefore made an adjustment to remove this expenditure from all the amalgamation options presented by the Randwick Council.

- Forgone waste reduction levy in various Morrison Low merger business cases – Various merger business cases prepared by Morrison Low have identified cost savings which would arise from a rationalisation of existing arrangements and contracts in waste management. In addition, it has also been assumed the cost savings would then be applied to reduce existing waste collection levies. As such, the business case identifies forgone waste collection levy revenue as a merger cost. We have adjusted the relevant business case to remove the impact of the forgone levy revenue. As noted earlier, we consider that such cost savings should be included in the business case.

- Funding of merger costs in KPMG Pittwater, Manly and Warringah merger business case – The merger business case has identified funding costs of the merger as a merger integration cost. We have adjusted the business case estimates to remove such costs.

The table below presents the NPV results of the merger options incorporating all of the above adjustments.

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Table 21: Local council merger options explored by local councils incorporating all EY adjustments (over 20 years)

Merger scenario	NPV 4% @ 2017 $'000	NPV 7% @ 2017 $'000	NPV 10% @ 2017 $'000
Kogarah + Rockdale + Hurstville	183,031	126,201	87,689
Canterbury + Kogarah + Rockdale + Hurstville	355,010	252,298	182,451
Kogarah + Hurstville	106,096	71,325	47,839
Botany Bay + Marrickville + Rockdale	322,114	229,641	166,650
Ashfield + Burwood + Canada Bay + Leichhardt + Marrickville + Strathfield	504,717	364,157	268,277
Hunters Hill + Lane Cove + Mosman + North Sydney + Ryde (part) + Willoughby	368,871	255,199	178,420
Willoughby + Lane Cove+ North Sydney	210,824	146,237	102,597
Willoughby + North Sydney	176,377	123,948	88,403
Auburn + Burwood + Canada Bay	144,009	99,548	69,508
Auburn + Holroyd + Parramatta + The Hills + Ryde (part)	323,578	220,160	150,408
Hornsby + The Hills	98,159	74,112	57,539
Hornsby + Ku-ring-gai	67,782	50,820	39,143
Hornsby + Ku-ring-gai + The Hills	216,055	164,369	128,715
Manly + Warringah + Pittwater (KPMG)	139,188	103,158	78,440
Manly Part Warringah + Pittwater Part Warringah (KPMG)	61,377	43,386	31,103
Manly+ Warringah (KPMG)	76,562	56,357	42,506
Manly + Warringah + Pittwater (SGS)	447,336	328,320	247,180
Manly + Warringah (SGS)	237,075	173,812	130,694
Pittwater + Warringah [Additional Option] (SGS)	227,595	166,777	125,332
Manly Part Warringah + Pittwater Part Warringah (SGS)	(335,096)	(247,788)	(188,177)
Fairfield + Liverpool	167,779	124,462	95,049
Bankstown + Canterbury	116,512	82,055	58,648
Gosford + Wyong	179,967	126,363	90,527
Randwick + Waverley + Woollahra + Botany Bay + Sydney	523,554	389,275	297,062
Randwick + Waverley	176,250	127,308	93,800
Randwick + Waverley + Woollahra + Botany Bay	497,300	365,084	274,499

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Following the adjustments we have made, NPV outcomes have improved except for the scenario (prepared by SGS) where Warringah Council is split into two, merging one half with Manly and one half with Pittwater to create two new councils, which remains negative. We note there remain substantial variations between the merger business cases prepared by KPMG and SGS in relation to the various combinations of merger involving Manly, Pittwater and Warringah Councils. For example, based on the adjusted figures reported in the table above, the merger scenario which involves splitting Warringah Council has a negative NPV (at 7%) of $247m as assessed by SGS and a positive NPV of $43m as assessed by KPMG (with EY adjustments).

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6. Key findings

The table below compares:

- The NPV outcomes for the ILGRP preferred merger options and the additional Bankstown/Canterbury and Gosford/Wyong options that we have been asked to assess, based on EY's top-down methodology ("EY top-down approach"); with
- The NPV outcomes for the same options where they have been explored in local council submissions, incorporating the adjustments made by EY as outlined in Section 5.3 ("adjusted reported NPV").

Table 22: ILGRP metropolitan local council preferred merger options (over 20 years)

	Merger scenario	4% Discount Rate		7% Discount Rate		10% Discount Rate	
		EY top-down NPV Range ($'000)	Adjusted Reported NPV ($'000)	EY top-down NPV Range ($'000)	Adjusted Reported NPV ($'000)	EY top-down NPV Range ($'000)	Adjusted Reported NPV ($'000)
ILGRP preferred merger options							
1A	Manly Warringah Pittwater (KPMG)	131,470 - 197,204	139,188	92,589 - 138,883	103,158	66,177 - 99,266	78,440
1B	Manly Warringah Pittwater (SGS)	131,470 - 197,204	447,336	92,589 - 138,883	328,320	66,177 - 99,266	247,180
2	Hornsby Ku-ring-gai	100,408 - 150,611	67,782	70,713 - 106,070	50,820	50,542 - 75,812	39,143
3	Fairfield Liverpool	148,921 - 223,381	167,779	104,879 - 157,318	124,462	74,961 - 112,442	95,049
4	Canterbury Kogarah Rockdale Hurstville	195,898 - 293,847	355,010	137,963 - 206,945	252,298	98,608 - 147,912	182,451
5	Hunters Hill Lane Cove Mosman North Sydney Ryde (part) Willoughby	221,023 - 331,535	368,871	149,624 - 224,437	255,199	101,384 - 152,076	178,420
6	Randwick Waverley Woollahra Botany Bay Sydney	335,015 - 502,522	523,554	226,793 - 340,189	389,275	153,672 - 230,508	297,062
7	Ashfield Burwood Canada Bay Leichhardt Marrickville Strathfield	229,663 - 344,495	504,717	155,473 - 233,210	364,157	105,347 - 158,020	268,277
8	Auburn Holroyd Parramatta The Hills Ryde (part)	177,434 - 266,151	323,578	120,116 - 180,174	220,160	81,389 - 122,084	150,408
Additional merger scenarios identified by ILGRP and Councils and requested by IPART							
9	Randwick Waverley Woollahra Botany Bay	247,159 - 370,739	497,300	174,065 - 261,097	365,084	124,411 - 186,617	274,499
10	Bankstown Canterbury	97,170 - 145,755	116,512	68,433 - 102,650	82,055	48,912 - 73,368	58,648
11	Gosford Wyong	222,831 - 334,247	179,967	156,931 - 235,397	126,363	112,165 - 168,248	90,527

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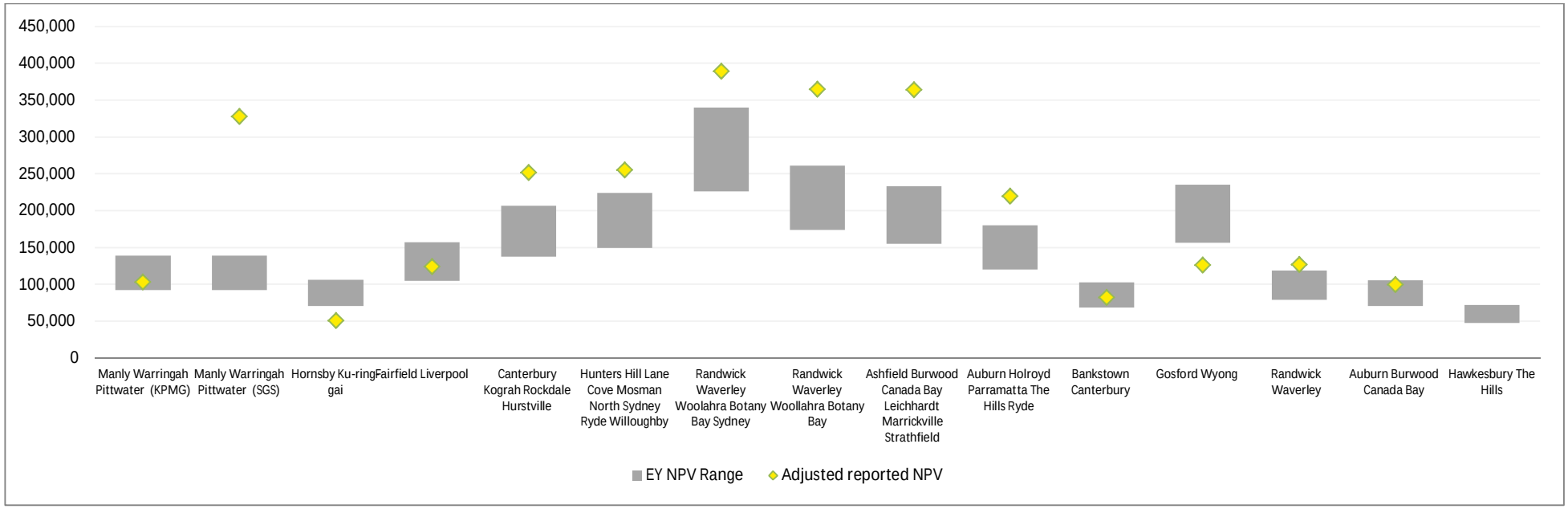
	Merger scenario	4% Discount Rate		7% Discount Rate		10% Discount Rate	
		EY top-down NPV Range ($'000)	Adjusted Reported NPV ($'000)	EY top-down NPV Range ($'000)	Adjusted Reported NPV ($'000)	EY top-down NPV Range ($'000)	Adjusted Reported NPV ($'000)
12	Randwick Waverley	112,555 - 168,832	176,250	79,268 - 118,902	127,308	56,656 - 84,984	93,800
13	Auburn Burwood Canada Bay	100,262 - 150,393	144,009	70,611 - 105,916	99,548	50,468 - 75,703	69,508
14	Hawkesbury The Hills	68,069 - 102,104	N/A	47,938 - 71,908	N/A	34,263 - 51,395	N/A

The adjusted reported NPV of net merger outcomes are all positive. In addition, they are higher than or within the NPV range based on EY's top down approach except for the mergers involving Hornsby+Ku-ring-gai Councils and Gosford+Wyong Councils. This is illustrated in the chart below.

Figure 5: NPV of net merger benefits – EY NPV range against adjusted reported NPVs ($'000)



We have undertaken further analysis on the above comparison by separating merger benefits. The results of this analysis is summarised in the charts below. We note the reports prepared by Hornsby + Ku-Ring-Gai do not provide sufficient data for us to separately analyse the merger benefits and merger costs.

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Figure 6: NPV of merger benefits - EY NPV range versus adjusted reported NPVs (7%) ($'000)

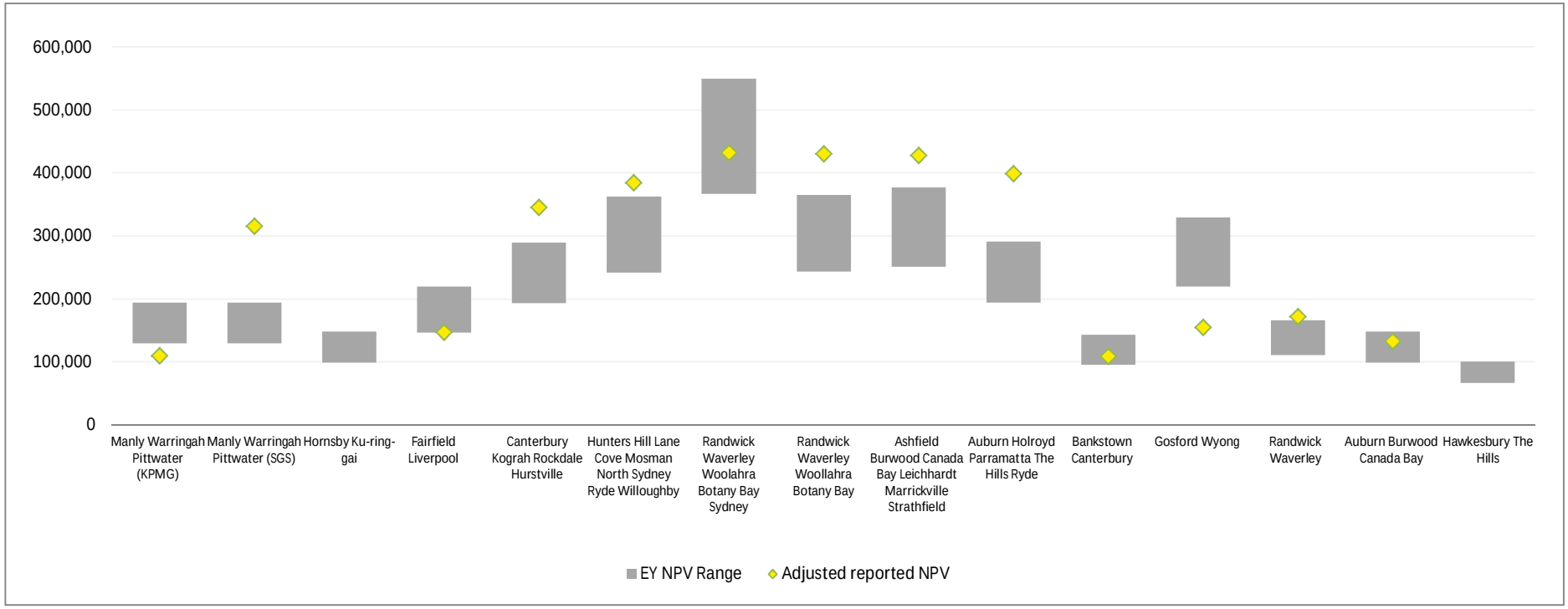

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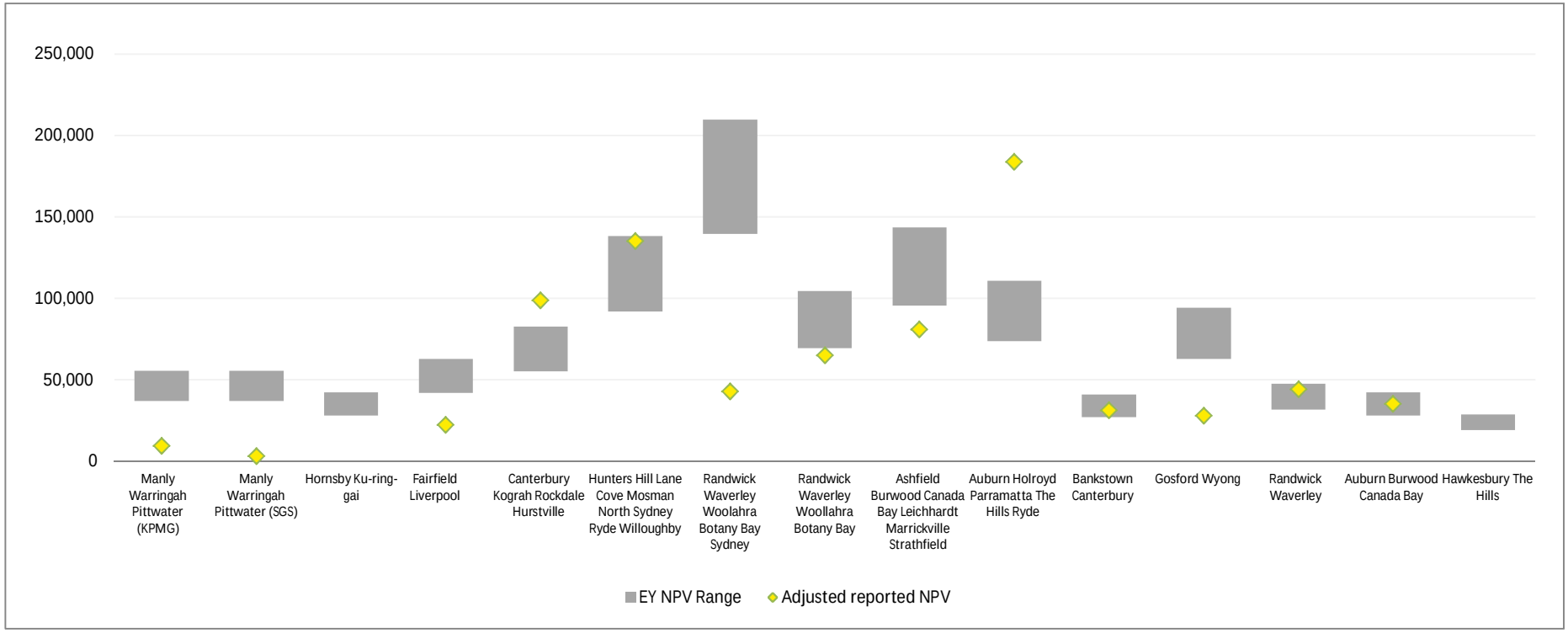
Table 23: NPV of merger integration costs - EY NPV range versus adjusted reported NPVs (7%) ($'000)



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It is evident there is substantially more variations around views on merger costs and merger benefits. In most cases, local councils' estimates of merger costs are lower than EY's, but there appears to be a reasonable level of alignment in views on merger benefits with a few exceptions. Overall, EY's top-down analysis yields net merger outcomes that are more conservative than many of the analysis undertaken.

We are of the view that our analysis is conservative but prudently so in light of the work that has been undertaken.

Irrespective of differing views on the size of potential merger benefits and merger costs, there would be appear to be consensus that net merger outcomes are positive in all of the listed scenarios above. They also appear to be reasonably robust based on the sensitivity analysis.

EY acknowledges that there are a range of non-financial costs and benefits that will impact any merger. Some of the benefits include:

- Additional capacity for improved and consistent planning decisions
- Improved scale to better partner with government
- Greater resource bases for amalgamated councils
- Additional capacity for local government to improve the range and quality of its services
- Improved ability to attract skilled staff and capacity to offer better staff career development options

Offsetting these non-financial benefits are the challenges noted earlier in this report associated with managing the disruption that inevitably accompanies most mergers, managing cultural differences and addressing staff morale.

These non-financial costs and benefits have not been quantified in our analysis due to the inherent difficulties of valuing such impacts. Nevertheless, the impact of these costs and benefits is a relevant consideration in any merger.

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Appendix A Merger business cases reviewed

Merger business cases reviewed			
Consultant's name	Title of report	Date	Options analysed
Morrison Low	Rockdale Council Fit for the Future – Merger Business Case Modelling	March 2015	Kogarah Rockdale Hurstville Canterbury Kogarah Rockdale Hurstville
Morrison Low	Kogarah Council Fit for the Future Merger Business Case Modelling	March 2015	Kogarah Hurstville
Morrison Low	Airport Councils Fit for the Future – Shared Modelling	March 2015	Botany Bay Marrickville Rockdale
Morrison Low	Inner West Councils Fit for the Future – Shared Modelling	February 2015	Ashfield Burwood Canada Bay Leichhardt Marrickville Strathfield
Morrison Low	Review of ILGRP recommendations relating to a proposed merger of the whole of Hunters Hill, Lane Cove, Mosman, North Sydney, Willoughby and two thirds of Ryde Council.	19 June 2015	Hunters Hill Lane Cove Mosman North Sydney Ryde Willoughby
Morrison Low	Willoughby City Council Fit for the Future Assessment of Options	June 2015	Willoughby Lane Cove North Sydney Willoughby North Sydney
Morrison Low	Sydney Olympic Park City Council Merger Business Case	June 2015	Auburn Burwood Canada Bay
Morrison Low	Holroyd City Council Merger vs Stand-Alone Business Case	June 2015	Auburn Holroyd Parramatta The Hills Ryde
KPMG	Analysis of local government reform options in the Northern Sydney area	22 May 2014	Hornsby The Hills Hornsby Ku-ring-gai Hornsby Ku-ring-gai The Hills
KPMG	Independent review of structural options for Manly Council & Pittwater Council	1 April 2015	Manly Warringah Pittwater Manly Part Warringah + Pittwater Part Warringah Manly Warringah
SGS Consulting	Local Government Structural Change – Supplementary Study	February 2015	Manly Warringah Pittwater Manly Part Warringah + Pittwater Part Warringah Pittwater Warringah Manly Warringah
Fairfield Council	Chapter 2 Fit for the Future Financial criteria and measures	June 2015	Fairfield Liverpool
Bankstown Council	Bankstown City Council: fit for the future (information prepared by Bankstown Council)	30 July 2015	Bankstown Canterbury

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Merger business cases reviewed			
Third Horizon	Wyong Shire Council Fit for the Future Cost-Benefit Analysis of Local Government reform options	12 June 2015	Gosford Wyong
Randwick Council (using an updated report from SGS Consulting)	Randwick City Council Fit for the Future Options Analysis	May 2015	Randwick Waverley Woollahra Botany Bay Sydney Randwick Waverley Randwick Waverley Woollahra Botany Bay

It should be noted that in some cases, the data in the merger business cases submitted to IPART were amended following inquiries made by IPART. We have applied the amended data where this has been provided to us.

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Appendix B Local council submitted merger business cases – key assumptions

Source Document & Merger Options	Valuation assumptions	Key merger assumptions	
		Merger costs	Merger cost savings
SGS (Warringah) Options: 1. Status quo – three separate councils 2. Manly + Warringah + Pittwater 3. Manly + Warringah 4. Pittwater + Warringah 5. Form 2 new councils by splitting Warringah – i.e. Manly + Part Warringah; Pittwater + Part Warringah	• Discount rate of 5.5% nominal • Base year 2015 • Nominal cash flows to 2024 • Concludes that Option 2 has the preferred outcome • Uses the reference council model	• Captures transitions costs associated with systems and processes as these can be objectively measured. • Redundancy costs are excluded as assumed to be offset by savings from staff natural attrition policy in the first 3 years • Estimates based on a UK case study which assumed 1.4% of current operating expenses • Merger costs of $3m to $5.5m (measured as present value over 10 years) but assumed to be incurred in first 2 years • Merger costs are higher in option 5 due to the formation of 2 councils	• SGS has identified the following services as those which are subject to economies of scale - governance, administration, public order and safety, environment, recreation & culture, and transport & communications. Per capita service costs used as a measure of cost. • Other than governance costs, cost savings in the remaining categories modelled on the basis of achieving the per capita cost achieved by the most efficient council in the merger scenario • Governance costs are dependent on the number of councilors so modelled separately. Option 2 assumes 13 councillors whilst options 3 through 5 assume 10 councillors per council (same as current number in Warringah). Therefore Option 5 has double the governance costs of options 3 and 4. • Cost savings are assumed to commence 3 years from current time (i.e. in FY18) to reflect a transition period for moving to the new structure. • Cost savings are assumed to grow in line with growth in operating expenditure (excluding depreciation) which is based on projected long term financial plan growth rates.
KPMG (Pittwater & Manly) Options: 1. Status quo – three separate councils 2. Form 2 new councils by splitting Warringah – i.e. Manly + Part Warringah; Pittwater + Part Warringah 3. Manly + Warringah + Pittwater 4. Manly + Warringah (Alternative option)	• Discount rate: 9.5% nominal, 7% real • Nominal cash flows • Inflation of 2.5% p.a. • Merger cash flows from 2016 to 2024	• Captures estimated redundancy costs as well as implementation costs comprising IT and facility consolidation, staff retraining and cost of financing transition costs • Total upfront costs estimated at 4.7% of total annual expenditure and apportioned across cost types based on Toronto case study • Total upfront costs assumed to be funded by cash or cash equivalents where upfront costs were less than 10% of cash and cash equivalent. Interest forgone estimated based on RBA's interbank overnight cash rate of 2.3% p.a. Otherwise funded by debt at a cost equal to weighted average small business lending rate (6.6% p.a.) • Redundancy costs varied from the 4.7% average due to assumptions underpinning the	• Staffing reductions estimated based on experience in Toronto and Auckland. Option 2 assumes 3.3% reduction, Option 3 assumes 8% and Option 4 assumes 5.6%. • Salary and wages costs assumed to grow at 3.1% p.a. consistent with the average level used by the Northern Beaches Council in long term financial plans • Assumes that there are no forced redundancies in first year of implementation. Combined with natural attrition of approximately 11 per cent, 25% of redundancies were assumed to occur each year over the four year period from 2015 – 2019. • 2% savings assumed in materials and contracts based on scaling of the 3% saving achieved in the Auckland case study. Reduction only applied to those cost items within materials & contracts which were regarded as variable.

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Source Document & Merger Options	Valuation assumptions	Key merger assumptions	
		Merger costs	Merger cost savings
		efficiency package e.g. 4-12 weeks' pay assumption depending on staff tenure. Staff tenure was estimated with respect to the average employee turnover rate of 10.9 per cent across each of the councils. Consideration was given to staffing efficiencies achievable by branch and average salaries and on-costs accruals from Manly and Pittwater.	• 2% savings in other expenses after considering make-up of other expenditure and excluding costs that are not scalable. • No quantification of avoided annual facilities expenditure although KPMG considered that there may be additional financial benefits from merging councils should opportunities for asset rationalisation be pursued.

KPMG (Hornsby)
 	
Options:
Hornsby + The Hills
Hornsby + Ku-Ring Gai
Hornsby + Ku-Ring Gai + The Hills
	• Data was not discounted
	• 10 year nominal cash flows from 2014 to 2023
		• Costs associated with the merger included estimated redundancy costs as well as implementation costs comprising IT and facility consolidation, staff retraining and costs of debt financing (or foregone interest on cash or cash equivalents). Estimates were based on case study examples.
		• Total upfront costs were estimated at 4.7 per cent of total annual expenditure and apportioned across cost types based on Toronto's comparative study
		• For Hornsby, redundancy costs were estimated based on:
		  • The estimated staffing efficiencies by division
		  • Average salaries and accruals (annual leave and long service leave) by division
		  • An assumption about the average tenure of employees (based on turnover rates) to determine the redundancy liability as a function of annual salaries.
		• For neighbouring councils, the estimated redundancy costs were based on the ratio for Hornsby of redundancy costs as a proportion of total upfront costs.
		• Total upfront costs assumed to be funded by cash or cash equivalents where upfront costs were less than 10% of cash and cash equivalent. Interest forgone estimated based on assumptions consistent with Hornsby Shire Council's long term financial projections. Otherwise funded by debt at a cost equal to weighted average small business lending rate (6.8% p.a.)
			• Data was based on detailed assumptions for Hornsby council but publicly available data for other neighbouring councils.
			• For Hornsby, staffing efficiencies were estimated at between 4 per cent and 7 per cent of the establishment.
			• It was estimated that there would be an efficiency saving of 3% of applicable expenses in materials and contracts, informed by the comparative study of Auckland. A similar approach was adopted for the neighbouring councils.
			• 3% savings in other expenses after considering make-up of other expenditure and excluding bad and doubtful debts; bank charges and cash collection expenses; contributions/levies to other levels of government; councillor expenses (mayoral and councillors' fees and other expenses); and • donations, contributions and assistance.

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Source Document & Merger Options	Valuation assumptions	Key merger assumptions	
		Merger costs	Merger cost savings

Morrison Low (Kogarah)
 	
Options:
Kogarah + Hurstville
Kogarah + Hurstville + Rockdale ("St George")
Kogarah + Hurstville + Rockdale + Canterbury (St George and Canterbury)
	• Discount rate 7%
	• 8 year cash flows from 2016 to 2023
	• ML has advised that all cash flows and discount rate are expressed in nominal terms
	• ML has advised that the base year for Kogarah + Hurstville is 2014.
		• Costs associated with the merger options that were quantified include the cost of a transition body, ICT costs, rebranding, remuneration and harmonisation. The costs for the transition body were estimated based on the experience of Auckland and Wellington.
		• Costs incurred by the transition body are assumed to relate to pre-day 1 costs, which relate principally to a range of strategy, planning and change management activities.
		• The costs for ICT were based on analysis undertaken by Deloitte for Wellington and have been scaled. The estimated cost for branding is "based on other amalgamation experience."
		• The estimate for redundancy costs was based on assumed redundancy in Tier 1 and Tier 2 positions with the cost calculated using information from the Council's annual reports. Costs are assumed to be incurred in 2016 and 2019. Whilst not stated, the latter costs are presumed to reflect protections in the Local Government Act.
		• The estimate for remuneration harmonisation is founded on average employee costs for similar sized councils as well as between the councils
		• Bulk of transition costs assumed to take place within the first 3 years of the merger.
			• Some savings related to governance costs due to fewer number of Mayors and councilors. Governance savings commence in 2016.
			• The estimates for staffing reductions were calculated based on the strata of staff.
			• Assumed FTE reduction in:
			  • Executive management
			  • Corporate support personnel of around 5-15%. The starting point assumption was a reduction of 35%, but this was moderated following a review of organizational structures.
			  • Number of staff in works units of 20%, based on ML experience.
			  • Assumed rationalisation of plant and fleet of around 30%, based on ML experience.
			• Savings from ICT benefits due to reduced IT costs and costs of staff required to support it will arise in the long term at the rate of $4.8 - $7.9m p.a.
			• Staff costs are assumed to increase in the long term (6-10 years) following earlier falls. ML believes that longer run there will be an increase in service levels following the merger based on evidence considered by the ILGRP.

Morrison Low (Rockdale)
 	
Options:
Botany + Rockdale + Marrickville
	• Discount rate 7% (Nominal)
	• 9 year cash flows from 2015 to 2023 advised to be in nominal terms
		• Costs associated with the merger options that were quantified include the cost of a transition body, ICT costs, rebranding, remuneration and harmonisation. The costs for the transition body were estimated based on the experience of Auckland and proposed reorganization in Wellington.
		• The costs for ICT were based on analysis undertaken by Deloitte for Wellington and have been scaled. The estimated cost for branding is "based on other amalgamation experience."
		• The estimate for redundancy costs was based on assumed redundancy in Tier 1 and Tier 2 positions with the cost calculated using information from the Council's annual reports.
			• Some savings related to governance costs due to fewer number of Mayors and councilors. Governance savings commence in 2016.
			• Assumed FTE reduction in:
			  • Executive management
			  • Corporate support personnel of around 15-20%. The starting point assumption was a reduction of 35%, but this was moderated following a review of organizational structures.
			  • Number of staff in works units of 20%, based on ML experience
			  • Assumed rationalisation of plant and fleet of around 20%, based on ML experience.
			• Materials and contracts savings are estimated at 3% rising to 5%. This estimate is based on ML experience

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Source Document & Merger Options	Valuation assumptions	Key merger assumptions	
		Merger costs	Merger cost savings
		Costs are assumed to be incurred in year 1 (2015) and year 4 (2018). Whilst not stated, the latter costs are presumed to reflect protections in the Local Government Act. • The estimate for remuneration harmonisation is founded on average employee costs for Sutherland Shire Council have been compared with that of the Airport councils combined and individually. • Bulk of transition costs assumed to take place within the first 3 years of the merger.	and analysis. • Savings from ICT benefits due to reduced IT costs and costs of staff required to support it will arise in the long term at the rate of $7.8m p.a. • Assumed reduction of property assets of 5% • Staff costs are assumed to increase in the long term (6-10 years) following earlier falls. ML believes that longer run there will be an increase in service levels following the merger based on evidence considered by the ILGRP.

Morrison Low (Holroyd)
 	
Options:
Holroyd + Parramatta + Auburn + The Hills (part) + Ryde (part)
 	
Note: Based on efficiencies realised scenario (Scenario 1 or base case). Alternative scenarios were also presented including efficiencies not realized and a scenario based on Holroyd Council assumptions.
	• Discount rate 7% (Nominal)
	• Base year 2014, as advised by ML
	• 8 year cash flows starting from 2016 advised to be in nominal terms
		• Costs associated with the merger options that were quantified include the cost of a transition body, ICT costs, rebranding, remuneration harmonisation. The costs for the transition body were estimated based on the experience of Auckland and proposed reorganization in Wellington. Additional costs ($2m) over and above these costs were allowed to address the splitting of The Hills and Ryde.
		• The costs for ICT were informed by analysis undertaken by Deloitte for Wellington. The high end of the range has been assumed due to complexity associated with splitting The Hills and Ryde.
		• The estimated cost for branding ($6m) is "based on other amalgamation experience."
		• The estimate for redundancy costs was based on assumed redundancy in Tier 1 and Tier 2 positions with the cost calculated using information from the Council's annual reports. Redundancy costs modelled on 38 weeks for Tier 1 and 2 management and 26 weeks for corporate services personnel. Costs are assumed to be incurred in 2016 and 2019. Whilst not stated, the latter costs are presumed to reflect protections in the Local Government Act.
		• The remuneration harmonisation costs are estimated by comparing the average employee costs for similar councils to that of the combined councils as well as between the five
			• Some savings related to governance costs due to fewer Mayors and councilors. 15 Councillors and a Mayor are assumed. Governance savings commence in 2016.
			• Assumed FTE reduction in:
			  • Executive management of positions across Tiers 1 through 4 levels. Assumes reduction to one General Manager and from 13 directors to 4 in the short term. Also assumes a 30% reduction across the existing Tier 3 and Tier 4 managerial positions over the medium term.
			  • Corporate support personnel of around 35% informed by the Auckland experience. The starting point assumption was a reduction of 35%.
			  • Number of staff in works units of 20%, based on ML experience
			  • Assumed rationalisation of plant and fleet of around 20%, based on ML experience
			• Further savings in staff costs based on a natural attrition policy
			• Materials and contracts savings are estimated at 2% rising to 4%. This estimate is based on ML experience and analysis.
			• Savings from ICT benefits due to reduced IT costs and costs of staff required to support it will arise in the long term at the rate of $7m p.a.
			• Assumed reduction of property assets of 5%
			• Staff costs are assumed to increase by 2% from year 4 onwards following earlier natural attrition period. ML believes that longer run there will be an increase in service levels following the merger based on evidence considered by the ILGRP.

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Source Document & Merger Options	Valuation assumptions	Key merger assumptions	
		Merger costs	Merger cost savings
		councils. • Bulk of transition costs assumed to take place within the first 3 years of the merger.	

Morrison Low (Auburn)
 	
Options:
Auburn + Burwood + Canada Bay
	• Discount rate 7% (Nominal)
	• 8 year cash flows starting from 2016 advised to be in nominal terms
		• Costs associated with the merger options that were quantified include the cost of a transition body, ICT costs, rebranding and remuneration harmonisation. The costs for the transition body were estimated based on the experience of Auckland and proposed reorganization in Wellington.
		• The costs for ICT were based on analysis undertaken by Deloitte for Wellington ($30m)
		• The estimated cost for branding is "based on other amalgamation experience."
		• The estimate for redundancy costs during the transition period was based on assumed redundancy in Tier 1 and Tier 2 positions with the cost calculated using information from the Council's annual reports. Redundancy costs modelled on 38 weeks for Tier 1 and 2 management and 26 weeks for corporate services personnel.
		• The remuneration harmonisation costs are estimated by comparing the average employee costs for similar councils to that of the combined councils as well as between the three councils.
		• Bulk of transition costs assumed to take place within the first 3 years of the merger.
			• Some savings related to governance costs due to fewer Mayors and councilors. 15 Councillors and a Mayor are assumed. Governance savings commence in 2016.
			• Assumed FTE reduction in:
			  • Executive management of positions across Tiers 1 through 4 levels. Assumes reduction to one General Manager and from 8 directors to 4 in the short term. Also assumes a 40% reduction across the existing Tier 3 and Tier 4 managerial positions over the medium term.
			  • Corporate support personnel of around 35% informed by the Auckland experience.
			  • Number of staff in works units of 20%, based on ML experience
			  • Assumed rationalisation of plant and fleet of around 20%, based on ML experience
			• Materials and contracts savings are estimated at 2% rising to 3% then to 4% in the medium and longer term. This estimate is based on ML experience and analysis.
			• Savings from ICT benefits due to reduced IT costs and costs of staff required to support it will arise in the long term at the rate of $3m p.a.
			• Assumed reduction of property assets of 5%
			• Staff costs are assumed to increase by 2% from year 4 onwards following earlier natural attrition period. ML believes that longer run there will be an increase in service levels following the merger based on evidence considered by the ILGRP.

Morrison Low (Inner West Councils) Options: Ashfield + Burwood + Canada Bay + Leichhardt + Marrickville + Strathfield	• Discount rate 7% (Nominal) • 9 year cash flows from 2015 to 2023 advised to be in nominal terms	• Costs associated with the merger options that were quantified include the cost of a transition body, ICT costs, rebranding and remuneration harmonisation. The costs for the transition body were estimated based on the experience of Auckland and proposed reorganization in Wellington. • The costs for ICT were based on analysis undertaken by Deloitte for Wellington.	• Some savings related to governance costs due to fewer number of Mayors and councilors. 14 Councillors and a Mayor are assumed. Governance savings commence in 2016. • Assumed FTE reduction in: • Executive management of positions across Tiers 1 through 4 levels. Assumes reduction to one General Manager and from 17 directors to 5 in the short term. Also assumes a 15% reduction across

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Source Document & Merger Options	Valuation assumptions	Key merger assumptions	
		Merger costs	Merger cost savings
		Estimated cost is $55m - $80m, of which $10m - $20m is in the transition period and $45m - $60m is incurred post Day 1. • The estimated cost for branding ($2m) is "based on other amalgamation experience." • The estimate for redundancy costs for senior management during the transition period was based on assumed redundancy in Tier 1 and Tier 2 positions with the cost calculated using information from the Council's annual reports. Redundancy costs modelled on 38 weeks for Tier 1 and 2 management and 26 weeks for other personnel. • The remuneration harmonisation costs are estimated by comparing the average employee costs for similar councils to that of the combined councils as well as between the six councils. • Bulk of transition costs assumed to take place within the first 3 years of the merger.	the existing Tier 3 and Tier 4 managerial positions over the medium term • Corporate support personnel of around 35% informed by the Auckland experience • number of staff in works units of 20%, based on ML experience • Assumed rationalisation of plant and fleet of around 20%, based on ML experience • Further savings in staff costs based on a natural attrition policy • Materials and contracts savings are estimated at 3% in the short term rising to 5% in the medium and longer term. This estimate is based on ML experience and analysis. • Assumed reduction of property assets of 5% • Move to outsourced waste collection contract will generate cost savings in the short term, with further cost savings expected from moving to a single contract over the longer term. • Staff costs are assumed to increase by 2% from year 4 onwards following earlier natural attrition period. ML believes that longer run there will be an increase in service levels following the merger based on evidence considered by the ILGRP.
Morrison Low Options: Willoughby + North Sydney Willoughby + Lane Cove + North Sydney Hunters Hill + Lane Cove + North Sydney + Mosman + Willoughby + Ryde (part)	• Discount rate 7% (Nominal) • Base year 2014, as advised by ML • 8 year cash flows starting from 2016 advised to be in nominal terms	• Costs associated with the merger options that were quantified include the cost of a transition body, ICT costs, rebranding and remuneration harmonisation. The costs for the transition body ($11m) were estimated based on the experience of Auckland and proposed reorganization in Wellington. Additional costs ($2m) over and above these costs were allowed to address the splitting of Ryde council. • The costs for ICT were based on analysis undertaken by Deloitte for Wellington which suggests costs in the range of $55m - $80m, of which $10m - $20m is in the transition period and $45m - $60m is incurred post Day 1. Estimate for this merger is approx. $75m due to splitting of Ryde. • The estimated cost for branding ($2m) is "based on other amalgamation experience."	• Some savings related to governance costs due to fewer Mayors and councilors. 14 Councillors and a Mayor are assumed. Governance savings commence in 2016. • Assumed FTE reduction in: • Executive management of positions across Tiers 1 through 4 levels. Assumes reduction to one General Manager and from 17 directors to 5 in the short term. Also assumes at least a 30% reduction across the existing Tier 3 and Tier 4 managerial positions over the medium term. • Corporate support personnel of around 35% informed by the Auckland experience. • Number of staff in works units of 20%, based on ML experience • Assumed rationalisation of plant and fleet of around 20%, based on ML experience • Further savings in staff costs based on a natural

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Source Document & Merger Options	Valuation assumptions	Key merger assumptions	
		Merger costs	Merger cost savings
		• The estimate for redundancy costs during the transition period was based on assumed redundancy in Tier 1 and Tier 2 positions with the cost calculated using information from the Council's annual reports. Redundancy costs modelled on 38 weeks for Tier 1 and 2 management and 26 weeks for other personnel. • The remuneration harmonisation costs ($4m) are estimated by comparing the average employee costs for similar councils to that of the combined councils as well as between the six councils. • Bulk of transition costs assumed to take place within the first 3 years of the merger.	attrition policy • Materials and contracts savings are estimated at 1% rising to 2% in the short term, then to rising to 3% in the medium and longer term. This estimate is based on ML experience and analysis. • Savings from ICT benefits due to reduced IT costs and costs of staff required to support it will arise in the long term. • Assumed reduction of property assets of 5% (for Northern Sydney option) • Move to outsourced waste collection contract will generate cost savings in the short term, with further cost savings expected from moving to a single contract over the longer term. • Staff costs are assumed to increase by 2% from year 4 onwards following earlier natural attrition period. ML believes that longer run there will be an increase in service levels following the merger based on evidence considered by the ILGRP. • Data shown is for the 'efficiencies realised' scenario.
Randwick Council Options: Randwick + Waverley Randwick + Waverley + Woollahra + Botany Bay Randwick + Waverley + Woollahra + Botany Bay + Sydney	• Discount rate of 4.5 % (10 Years) • 10 year nominal cash flows • Base year 2017 • All income projections based on current LTFPs. • Note that original merger business case was undertaken by SGS in 2013 and has been updated by Randwick Council	• Amalgamation is assumed to take 3 years, with 2015-16 being the transition year and the first two years of the new merged entity being 2016-17 and 2017-18. • Amalgamation costs are assumed to relate to ICT costs, recruitment of senior staff, redundancy costs, staff training, transition committee and general reform costs, community and staff consultation, new buildings / renovations, legal and audit services during transition, statutory planning integration, branding / visual identity. Of these it is assumed that the costs incurred during transition would relate to ICT, recruitment, senior staff redundancy, community and staff consultation, legal and audit fees and branding. • It is assumed that there will be relocation costs under all options due to having to accommodate additional staff. Some of loss of rental income would be incurred as staff will be required to move into council owned properties that are currently leased out to tenants. The	• No change in the service costs for the first year • In the second year 50% of service costs are based on existing pre-merger cost structures and the remaining 50% based on the new service cost model • Modelling of cost profile of the merged council is based on Randwick' s current per dwelling service costs for governance, administration, public order and safety, community services and education, housing and community amenities, mining, manufacturing and construction, transport and communication. Each council's current per dwelling service costs were used for expenditure on health, environment, street cleaning, solid waste management, recreation and culture, parking and economic affairs. • Governance costs assumed to change 18 months after amalgamation at Randwick's per dwelling rates. Parking and economic affairs expenditure inflated by the LGCI as these costs do not grow with number of dwellings • The City of Sydney's operating costs are as per the LTFP. • Some cost savings expected to accrue from sale of

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Source Document & Merger Options	Valuation assumptions	Key merger assumptions	
		Merger costs	Merger cost savings
		forgone rental is largest in the option involving a merger with the City of Sydney as it is assumed that staff would relocate to Town Hall House.	excess depot sites.
Fairfield Council Options: Fairfield + Liverpool	• No discount rate applied – only total amounts included and not based on NPV • 9 year cash flows provided to 2025 • Cash flows assumed to be stated in real terms	• Relies on experience with amalgamations in Queensland, in particular, Toowoomba, to estimate amalgamation costs. Broadly estimated by applying a ratio of 86.9% to the $19m of amalgamation costs over 4 years which was incurred by Toowoomba. It is noted that this amounts to $16.5m for systems, processes and redundancies. • Costs related to systems integration estimated at $7.2m in total, based on 43.8% of $16.5m. Initial costs of $1m incurred in 2018/19 followed by a 3 year implementation period. • Redundancy costs estimated at $4.6m incurred in 2019/20 due to award guarantee of no redundancies in the first 3 years of amalgamation. Estimated based on 28% of $16.5m. • Branding costs of $0.5m p.a. from 2015-16 to 2024-25 (period of long term financial plan) • Salary equalization costs assumed to amount to $15.8m (i.e. $3.96m p.a. over four years to 2019/20). Based on experience in Toowoomba where salaries increased by 6.65% due to salary equalization. Estimate for Fairfield/Liverpool merger based on half of this. • Relocation costs assumed based on lease costs of $1.75m p.a. from 2016/17 to 2022/23. It is assumed that it will be necessary to temporarily lease a building whilst a permanent new building is constructed.	• It is assumed that cost savings will only commence seven years from the base year identified, that is, in the 2022/23 year. This is the period of time it will take for council cost structures to gradually move to merged structures where economies of scale will apply. • To estimate future cost savings, it is assumed that the post-merger operating services per capita will be at the average of the pre-merger operating services per capital for the individual councils. This is then applied to the combined population estimate for the merged council to estimate the post-merger annual operating costs. The difference between the post-merger operating cost estimate and the sum of the operating costs of the individual councils based on the relevant year of the LTFP is the cost savings. Using this methodology, there are effectively no cost savings which arise as of 2022/23. However, costs will rise instead.
Third Horizon Options: Gosford + Wyong	• [Confidential]	• [Confidential]	• [Confidential]
Bankstown Council	• No discount rate applied – only total amounts included	• No information provided on merger costs.	• Savings in governance and administration estimated by aligning the ratio of Governance and Administration expense to operating expense of Canterbury Council

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Source Document & Merger Options	Valuation assumptions	Key merger assumptions	
		Merger costs	Merger cost savings
Options: Bankstown + Canterbury	and not based on NPV		with that of Bankstown Council. • Assumed savings in workers compensation insurance from moving to self-insurance. • Savings in senior staff remuneration based on removing duplication. • Assumed savings in systems from reducing duplication of systems and contracts.

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