Review of criteria for fit for the future

Local Government — Final Report
September 2014
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1 Executive Summary

The Premier requested the Independent Pricing and Regulatory Tribunal (IPART), under Section 9 of the Independent Pricing and Regulatory Tribunal Act 1992 (IPART Act), to review the assessment criteria for ‘fit for the future’ councils.

In 2013, the Independent Local Government Review Panel (Review Panel) made a number of recommendations to reform the local government system in NSW. The Review Panel found that there are an unsustainably high number of councils in NSW and that many are financially unsustainable.¹

The NSW Government has decided to reform local government by creating councils that are strategic and ‘fit for the future’.

Under the proposed reforms councils are to submit a ‘fit for the future’ proposal by 30 June 2015 to the Office of Local Government (OLG), for assessment by an expert panel. The expert panel would assess the proposals against sufficiently flexible assessment criteria consistent with the definition of a strategic, ‘fit for the future’ council.

OLG developed draft criteria and provided them to us on 22 August 2014. We were asked to assess the criteria and report to the Minister for Local Government and the Premier by Wednesday 3 September 2014.

This report presents our assessment of the criteria.

1.1 What have we been asked to do?

The NSW Government has asked us to review the criteria that OLG has developed. The Terms of Reference for the review are presented in Appendix A.

In conducting this review, we are to:

- review the ‘fit for the future’ criteria and assess whether the criteria will contribute to meeting the NSW Government’s stated objectives of local government reform

Executive Summary

- identify the likely outcomes of each of the criterion
- recommend amendments to the criteria to better meet the NSW Government’s stated objectives of local government reform.

OLG provided us with the Government’s objective of local government reform and draft criteria (see Appendix B). The objective of local government reform is to:

Create strategic and Fit for the Future councils – Councils that are financially sustainable; efficient; with the capacity to effectively manage infrastructure and deliver services; the scale, resources and ‘strategic capacity’ to govern effectively and partner with the State; and has the capacity to reduce red tape and bureaucracy for business and of a scale and structure that is broadly in line with the Panel’s recommendations.2

The four draft criteria are:
- Financial sustainability.
- Effective infrastructure and service management.
- Efficiency.
- Scale and capacity.

The proposed reforms, including reducing the number of local governments, are aimed at building a stronger, more effective and financially sustainable local government sector. Once achieved, the Review Panel expects local government in NSW will be able to meet the needs of the local community and will have greater capacity to govern effectively and partner with government and business.

1.2 What have we found?

In our view, scale and capacity is a threshold issue. OLG’s proposed Scale and Capacity criterion is based on the Review Panel’s framework for restructuring the local government sector. OLG has not further developed this criterion. We support the Review Panel’s framework for mergers, rural councils and the formation of regional organisations. We agree that, over time, the resulting larger, stronger councils will be able to better and more efficiently deliver services to their ratepayers.

Therefore, we recommend that councils should consider whether they have enough scale and strategic capacity before considering whether they meet the other 3 criteria namely, are financially sustainable, have effective infrastructure and service management and are efficient. We discuss this issue further in section 3.2.

Practically, we recommend that the criteria be assessed as follows:

2 See Appendix B.
Councils which are expected to change structures should provide their plan for change by June 2015. These councils would not have to show how they will meet the other criteria until after they have merged.

Councils for which the Review Panel recommended no change (ie, they are not expected to merge or form a Joint Organisation) should provide their plan to show how they will meet the other criteria by June 2015.

In relation to the remaining criteria:

For OLG’s proposed Financial Sustainability and Effective Infrastructure and Service Management measures we are generally satisfied that they will contribute to meeting the Government’s objective of reform. However, we have proposed a number of amendments to the benchmarks and have proposed an additional measure for Effective Infrastructure and Service Delivery – the Debt Service Ratio.

Efficiency is a measure of the ability of an organisation to effectively use its inputs to produce outputs. In the strict sense, measuring efficiency requires data on the number and price of inputs and outputs. For a service industry such as local government, it is difficult to measure the price of outputs as many are not traded. The measures typically used, including the one proposed by OLG, are measures of cost effectiveness not efficiency.

We note that the four criteria reflect what the Review Panel considered to be the essential elements of an effective system of local government. We consider that if councils meet these four criteria they would be able to govern effectively, and have the capacity to both partner with the State and reduce red tape and bureaucracy for business.

Table 1.1 summarises our assessment of the four criteria that OLG has developed. Our detailed assessment is provided in chapter 4 of this report.
## Table 1.1  Summary of IPART’s assessment of the criteria

<table>
<thead>
<tr>
<th>OLG Criteria and measures</th>
<th>OLG Benchmark</th>
<th>IPART Recommendation</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scale and strategic capacity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Has a scale and capacity consistent with the recommendations of the Independent Panel.</td>
<td>Endorse criteria</td>
<td>Note that councils should be assessed on this criterion before being assessed on the other criteria.</td>
</tr>
<tr>
<td><strong>Financial Sustainability</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating performance ratio</td>
<td>An operating surplus or better (in each year).</td>
<td>A target range of between an operating deficit of 3% and an operating surplus of 10% of operating revenues, averaged over 3 years.</td>
<td>We suggest the benchmark be revised to provide a level of flexibility for small deficits with an upper cap for operating surpluses and a reasonable period for accomplishment.</td>
</tr>
<tr>
<td>Own-source operating revenue ratio</td>
<td>Greater than 60% of operating revenue averaged over a 3 year period.</td>
<td>Refer to this measure as the ‘Own-source Revenue ratio’. The definition of the Own Source Revenue should be rates and annual charges plus user fees and charges divided by total operating revenue, including capital grants and contributions and include user fees and charges. It should exclude councils’ water and sewerage functions.</td>
<td>This ratio should be renamed to reflect that own-source revenue is compared to both capital and operating revenue, and not solely the latter. This measure is highly sensitive to trends in capital grants and contributions.</td>
</tr>
<tr>
<td>Building and Infrastructure Asset Renewal ratio</td>
<td>A renewal ratio benchmark of greater than 100% (in each year) is proposed.</td>
<td>A renewal ratio benchmark of greater than 100%, averaged over 3 years.</td>
<td>We suggest the benchmark be revised to allow councils a reasonable period to meet the criteria and to be responsiveness to emerging expenditure trends.</td>
</tr>
</tbody>
</table>
### Executive Summary

<table>
<thead>
<tr>
<th>OLG Criteria and measures</th>
<th>OLG Benchmark</th>
<th>IPART Recommendation</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Effective Infrastructure and service management</strong></td>
<td></td>
<td></td>
<td>Lack of audited data for this measure means this measure is not robust unless accompanied by consistent reporting requirements for all councils.</td>
</tr>
<tr>
<td>Infrastructure Backlog ratio</td>
<td>Less than 2% over 3 years.</td>
<td>The Infrastructure backlog ratio should be adopted only if it is audited. Otherwise it should be replaced with Asset Renewals ratio. Less than 2% over 3 years; otherwise councils must show they are moving towards a ratio of less than 2%.</td>
<td></td>
</tr>
<tr>
<td>Asset maintenance ratio</td>
<td>Greater than 1.</td>
<td>Endorse the measure Asset maintenance ratio. Greater than 1 (ie, council funds all maintenance requirements).</td>
<td></td>
</tr>
<tr>
<td>Debt service ratio</td>
<td>Introduce a new measure - Debt service ratio of greater than 0% and less than or equal to 20%.</td>
<td>Adding this measure ensures that councils use a combination of council resources and borrowings to fund infrastructure.</td>
<td></td>
</tr>
<tr>
<td><strong>Efficiency</strong></td>
<td></td>
<td></td>
<td>It is very difficult to measure efficiency in local government. We endorse opex per head as a measure, even though it is a measure of cost-effectiveness.</td>
</tr>
<tr>
<td>Real Opex per head</td>
<td>Trends in real operational expenditure per head.</td>
<td>Adopt OLG measure, be explicit that the deflator is the LGCI.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>It is not practical to compare across councils on the measure because they may offer different services eg. child care, water and sewerage.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Service levels should reflect community priorities and be defined in councils’ IP&amp;R documentation such as the Community Strategic Plan, Delivery Program and Asset Management Plan.</td>
</tr>
</tbody>
</table>

**Source:** IPART analysis.
1.3 Recommendations

Our recommendations are listed below in the order in which they are discussed in this report.

Recommendations

1. That the Government refer the assessment of councils’ against the fit for the future criteria to an independent body.  
2. That councils be assessed as being fit for the future if they meet the majority of the benchmarks for the measures in each of the four criteria.  
3. IPART recommends that the criterion Scale and Capacity be a threshold criterion that should be assessed before the other criteria.  
4. IPART recommends:
   - That councils for which the Review Panel recommended neither merging nor forming a rural council should submit their plan addressing the other criteria by 30 June 2015.  
   - That councils for which the Review Panel recommended either merging or forming a rural council should provide their plan for change by 30 June 2015. The newly formed organisation would then submit their plan addressing the other criteria.  
5. IPART recommends that the Government conduct state-wide community satisfaction surveys annually as an additional measure of effectiveness of service delivery. The results be published and available for each council in NSW.  
6. IPART recommends that the NSW Government adopt the benchmark for the Scale and Capacity criterion that councils have the scale and capacity consistent with the recommendations of the Review Panel.  
7. IPART recommends adoption of the measure Operating Performance Ratio with the benchmark being amended to a range between an operating deficit of 3% and an operating surplus of 10% of operating revenues. This measure should be averaged over 3 years.  
8. IPART recommends that the definition of the Own Source Revenue Ratio be amended to rates and annual charges plus user fees and charges divided by total operating revenue, including capital grants and contributions.  
9. IPART recommends that the benchmark for the Assets Renewal Ratio be revised to a renewal ratio of greater than 100%, averaged over three years.
Executive Summary

IPART recommends that:

10. The Infrastructure Backlog Ratio should be subject to adoption of a clear reporting standard for Special Schedule 7 is established and that this data is audited as part of councils’ accounts.

11. Councils should demonstrate an Infrastructure Backlog Ratio of less than 2% averaged over three years or improving trends for this ratio.

12. IPART recommends that the Government adopts the proposed measure of Asset Maintenance Ratio.

13. IPART recommends that the Debt Service Ratio:
   - Be included for the criterion Effective Infrastructure and Service Management.
   - Have a benchmark of greater than 0% and equal or less than 20% of operating revenue excluding capital grants and contributions, but the decision for a council to take on debt would depend on the council’s individual circumstances.

14. That the benchmark for the criterion Efficiency be a downward trend in ‘real operational expenditure per capita’, based on a decrease in the rolling average over the last three years, unless:
   - The council can demonstrate the impact on operational expenses resulting from a need for an increase in service levels in line with community priorities through the Integrated Reporting and Planning process.

What does the rest of this report cover?

The rest of this report sets out our analysis of the criteria and the implementation of the framework:

- Section 2 discusses the Government’s stated objectives of local government reform and the context within which we have made our assessment
- Section 3 discusses implementation arrangements
- Section 4 assesses each of the criteria, identifies likely outcomes and recommends amendments to the criteria.
2 Policy objective of local government reform

In response to the Review Panel’s recommendations, the NSW Government undertakes a significant local government reform agenda. OLG advised us that the Government’s objective for reform is to:

Create strategic and Fit for the Future councils – Councils that are financially sustainable; efficient; with the capacity to effectively manage infrastructure and deliver services; the scale, resources and ‘strategic capacity’ to govern effectively and partner with the State; and has the capacity to reduce red tape and bureaucracy for business and of a scale and structure that is broadly in line with the Panel’s recommendations.

The Government has requested that IPART undertake a review of the ‘fit for the future’ criteria developed by OLG. As stated above, our terms of reference require us to assess whether each criterion will contribute to meeting the Government’s stated objectives of local government reform, identify the likely outcomes of each criterion and recommend amendments to better meet the stated objectives.

The Government’s approach to local government reform is based on the findings and recommendations of the Review Panel. We have therefore developed the context of our assessment from the Panel’s final report. We have drawn the meaning of key terms and the discussion of ‘fit for the future’ from the Review Panel findings, but also relied on our own experience with, and current role in regulating, local government.

The Review Panel noted that its recommendations were based on 12 key themes related to local government. Box 2.1 lists those themes or objectives we consider most relevant to our review. In assessing the ‘fit for the future’ criteria we considered how well the criteria meet these objectives.

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3 In April 2012, the Independent Local Government Review Panel was appointed by the NSW Government to formulate options for a stronger and more effective system of local government. The Review Panel’s recommendations are contained in its report: Revitalising Local Government, Final Report, October 2013.
4 See Appendix B.
5 See Appendix A for the full Terms of Reference.
Box 2.1 Selected key themes from the Review Panel Report

- The overarching imperative to ensure the long-term sustainability and effectiveness of NSW local government.
- The policy focus on strengthening ‘strategic capacity’- ensuring the right structures, governance models, skills and resources to discharge its responsibilities and realise its potential.
- Tackling the underlying problems of financial weakness and infrastructure backlogs.
- Measures to promote greater ‘fiscal responsibility’ and make associated improvements to local government’s efficiency, accountability and political governance.
- Stronger regional organisations are vital to ensure increased resource sharing and joint planning, and to support vulnerable rural-remote councils.
- Structural reform – including council amalgamations – is another component of reform, notably in metropolitan Sydney.


2.1 Strategic capacity

The Review Panel observed that building a sustainable system of local government requires ‘strategic capacity’- both within individual councils and collectively.

It noted that the concept of strategic capacity highlighted:

...the need for councils to shift their focus towards a more strategic view of their operations; to have the ability to respond to the diverse and changing needs of different communities; and to take on new functions or deliver improved services in order to meet those needs. This implies a move to larger, more robust organisations that can generate increased resources through economies of scale and scope, and then ‘plough back’ efficiency gains into infrastructure, services and other benefits for their communities.

The key elements of strategic capacity, as identified by the Review Panel, are outlined in Box 2.2.

OLG expects that sustained improvement against each of its proposed criteria, discussed in Chapter 3, will underpin the strategic capacity of councils over the long term. This capacity, along with a willingness and commitment to collaborate with government, communities and industry stakeholders, will create ‘fit for the future’ councils.

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7 Ibid, p 32.
8 Office of Local Government, Draft Criteria. See Appendix B.
Box 2.2  Key Elements of Strategic Capacity

- More robust revenue base.
- 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.


2.2 Structural reform of local government

The Review Panel considered the research undertaken by the Australian Centre of Excellence for Local Government and observed that strategic capacity can be increased by creating larger units of local government and through regional collaboration and resource sharing. Any move to larger organisations implies structural change. The Review Panel considered two central issues related to structural reform in local government:

- The need for increased scale and capacity to enable councils to remain sustainable, provide adequate services, and be valued partners in the system of government.
- ‘Keeping the local’ in local government so that community identity and local democracy are maintained.

The Review Panel recommended additional options for local government structures to accommodate the different needs of communities and regions. It concluded that amalgamations and boundary changes would be an essential element of structural reform, but did not advocate a ‘one-size-fits-all’ policy. The expanded set of local government structures are shown in Box 2.3.

The Review Panel has indicated that the recommended changes will lead to a reduction in the number of local government areas. It observed that the number of councils in NSW has halved during the past century and expects this trend will continue. It notes:

10 Ibid, p 71
NSW simply cannot sustain 152 councils; many are highly dependent on grant support; fiscal imperatives demand efficiencies in government across the board; and there are shortages of highly-skilled personnel. The shortage of engineers, for example, is a significant factor limiting the capacity of councils to deal with infrastructure backlogs.

Taxpayers should not be expected to increase grant funding indefinitely to support councils that are unnecessarily small, lack capacity and build excessive costs into the system. Mergers should be pursued where they can make a substantial contribution to addressing financial problems, reducing fragmentation of resources and duplication of effort, and building strategic capacity for the long term. Capacity should be further enhanced through regional collaboration via the new Joint Organisations.\(^{11}\)

Under the Government’s proposed reforms councils will be required to submit a proposal to demonstrate how they will meet the ‘fit for the future’ criteria by June 2015.

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**Box 2.3 Expanded set of local government structures**

- Regional ‘Joint Organisations’ – statutory groupings of local councils established under the LGA that undertake a range of ‘high-level’ functions on behalf of their members (the mix of functions can vary from region to region)

- Local councils operating along very similar lines to the current provision of the Act, except for the referral of some regional functions to the new Joint Organisations

- ‘Rural Councils’ – a somewhat different type of local council, working as part of a Joint Organisation, and with reduced legislative and compliance responsibilities and a lower cost base more appropriate to rural-remote areas with small populations

- ‘Community Boards’ – elected or appointed sub-council organisations that can carry out a range of representational, planning and service delivery functions delegated by the council.


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\(^{11}\) Ibid, pp 7 and 72.
Implementing the framework

The proposed reforms, including reducing the number of local governments, are aimed at building a stronger, more effective and financially sustainable local government sector. Once achieved, the Review Panel expects local government in NSW will be able to meet the needs of the local community and will have greater capacity to govern effectively and partner with government and business.

Having determined the need for, and nature of the reform, the government needs to put in place a framework that will provide incentives for councils to comply. Although not part of our terms of reference, IPART has considered how this could be achieved.

This section discusses the framework for reform: including how councils will meet the criteria; establishing incentives to reform; and the timeframe for reform.

3.1 Framework for reform

The Government’s framework for strategic reform aims to ensure that all councils are ‘fit for the future’. This framework, once implemented, is likely to result in fewer, but larger, metropolitan councils and new structures (eg, more formal regional organisations) in regional areas.

We suggest that progress towards the new framework should be undertaken in two stages.

Firstly, councils need to determine whether they are of a scale sufficient to enable them to meet the needs of the local community and have the strategic capacity to partner with the State to deliver strategic priorities. In determining this, councils should have regard to the Review Panel’s guidance on which councils within the metropolitan area should merge\(^\text{12}\) and other structural recommendations for councils across the state\(^{13}\).

\(^{12}\) NSW Independent Local Government Review Panel, *Revitalising Local Government*, Final Report, October 2013, Table 8 Merger and boundary change options for Sydney metropolitan councils, pp 104-107 (Reproduced at Appendix C) and Table 6 Options for amalgamating around regional centres, pp 91-92. (Reproduced at Appendix D)

\(^{13}\) Ibid, Table 11 Options for non-metropolitan councils, pp 114-116. (Reproduced at Appendix D)
IPART recommends that councils make this assessment before considering the other criteria. This will allow councils to develop their plans for becoming ‘fit for the future’ under their new organisational arrangements, rather than developing financial plans and delivery programs that are superseded by organisational change.

Secondly, they would need to assess whether the council, or merged councils, could satisfy the remaining criteria, either independently or as part of a merged or joint organisation. That is, they would need to demonstrate that the council could be financially sustainable, manage infrastructure and services effectively and be efficient in accordance with the criteria discussed in Section 4 of this report.

The assessment of council (or joint organisation) proposals should be undertaken by an independent body and should allow for discretion around whether the proposal meets the criteria as discussed in the next section. IPART considers that it is well placed to assess each council’s proposals against the criteria.

Recommendation
1 That the Government refer the assessment of councils’ against the fit for the future criteria to an independent body.

3.2 Meeting the criteria

OLG defines a ‘fit for the future’ council as one that meets all of the criteria benchmarks. This implies that if a council fails on any individual benchmark it would fail the entire test.

IPART considers that the assessment of whether councils are ‘fit for the future’ should not be so rigid that failing one of many benchmarks would mean an automatic fail of the whole test. This is because a council may meet the objectives of the Government to be strategic and ‘fit for the future’ even though it does not meet all of the benchmarks.

IPART suggests an approach whereby a council can demonstrate that it is ‘fit for the future’ if it is able to show that it meets the majority of the benchmarks in all of the criteria. This would be a simple analysis of each criterion and if the council achieves the benchmark on the majority of the measures, they pass that criterion. We recognise that the criteria are mandatory.

Recommendation
2 That councils be assessed as being fit for the future if they meet the majority of the benchmarks for the measures in each of the four criteria.
3.3 Establishing incentives for reform

Amalgamating two or more local councils is a difficult undertaking which takes time. From an operational perspective, the key to successful local government reform will be to develop and apply a robust, simple and effective framework that encourages councils to embrace the reform.

However, many councils may resist the need for reform. It should be made clear to councils that change is necessary and that ‘no change’ is not an option. Therefore, the government may wish to contemplate incentives for councils to reform and sanctions in the event councils choose to take no action.

As well, throughout the process, councils need strong guidance and support to meet the challenges of reform.

3.4 Timeframe for reform

The terms of reference state that councils will be required to submit a ‘fit for the future’ proposal to OLG by 30 June 2015. This implies that the Government expects councils to be able to demonstrate that they will be ‘fit for the future’ by then.

We consider that being of the right scale and having strategic capacity are threshold issues for councils to be ‘fit for the future’. Councils should establish their new organisational structures before addressing the other criteria of being financially sustainable, having effective infrastructure and service management and being efficient. Therefore, what a council has to provide by 30 June 2015 should depend on whether or not they are expected to change its organisational structure:

- Councils, for which the Review Panel recommended that they change structures (ie merge or form a rural council), should provide their plan for change by that date. These councils would not have to show how they will address the other criteria until after they have formed the new organisation.

- Councils, for which the Review Panel recommended no change (ie, they are not expected to merge or form a rural council), should provide their plan to show how they will address the other criteria by that date.

IPART considers that this process should not be rushed. IPART is mindful that councils should have sufficient time to develop their plans and to be in a position to become ‘fit for the future’.

We note that councils, whether they are to merge or not, will not be able to achieve the benchmarks for each criteria immediately. To account for this, the criteria need to allow some flexibility and a transition period. This enables, merging councils to consolidate their infrastructure and agree on a future path for reducing infrastructure backlogs consistent with the objectives of the new
expanded council. The combined resources of the larger area support the ability of the council to raise a larger amount of council funds and larger amount of debt in order to fulfil these objectives. The ‘fit for the future’ framework should be consistent with allowing councils to increase capacity whilst at the same time moving towards these benchmarks.

Recommendation

3 IPART recommends that the criterion Scale and Capacity be a threshold criterion that should be assessed before the other criteria.

4 IPART recommends:

– That councils for which the Review Panel recommended neither merging nor forming a rural council should submit their plan addressing the other criteria by 30 June 2015.

– That councils for which the Review Panel recommended either merging or forming a rural council should provide their plan for change by 30 June 2015. The newly formed organisation would then submit their plan addressing the other criteria.

3.5 Assessing effective service delivery

The current list of measures does not assess effective service delivery. Given the role of councils in providing agreed levels of services to their community, a regular community satisfaction survey concerning infrastructure and service delivery would provide an ongoing measure of the council’s success in terms of the Government’s stated objectives.

Surveys which cover the qualitative assessment of councils’ infrastructure and service delivery to their communities are important for measuring councils’ track record in meeting the agreed levels of service identified through their IP&R process. Without such a measure, the criteria lack a consistent measure with which to gauge the effectiveness of service delivery. Community satisfaction surveys have been utilised amongst several NSW councils as well as across Victorian local government. We propose that a similar model could be implemented in NSW.
A community satisfaction survey would be able to measure the following elements of the criteria which are not addressed by the proposed measures, ie whether:

- service delivery unit costs represent value for money to the community
- infrastructure and service delivery meet the needs of communities as identified in the Integrated Planning & Reporting process
- the council has a successful track record in prioritizing resources, delivering infrastructure and operational programs and projects on time and to budget.

As is currently the case in Victoria, the survey should be administered by the State Government to ensure consistency across the State.

Community feedback is difficult to quantify, however the model used by the Victorian Department of Infrastructure and Services applies satisfaction ratings to each segment of local government services and generates an overall index for each council and council area.

Through this process, councils are able to assess their strengths and weaknesses in relation to their service delivery for their community. This ensures councils are able to work towards improving and maintaining their strength in key areas, based on the community response. This ensures a more robust democratic process and an important level of transparency in community consultation.

This implies that a ‘fit for the future’ council is one which is actively engaged in measuring its service effectiveness for its community. The public reporting process of results for councils across the State may act as a strong incentive for councils to continue improving their satisfaction ratings.

Recommendation

5 IPART recommends that the Government conduct state-wide community satisfaction surveys annually as an additional measure of effectiveness of service delivery. The results be published and available for each council in NSW.
4 Assessment of criteria

OLG provided us with four draft criteria to review:

- scale and capacity
- financial sustainability
- effective infrastructure and service management
- efficiency.

We have assessed these criteria and the measures for assessing them against the stated objective of reform discussed in the previous section.

We have identified the likely outcomes of each criterion and, where appropriate, recommended amendments to the criteria.

4.1 IPART approach

As noted in Section 1.2, in our view, Scale and Capacity is a threshold issue and therefore the first criterion that council proposals should address. We have recommended a 2-stage approach to the ‘fit for the future’ agenda.

The Review Panel has explicitly recommended a number of mergers and better collaboration amongst rural councils, through the establishment of Joint Organisations, to address the issues of scale and strategic capacity.\(^{14}\)

Councils should identify as a first step, how they can implement the changes consistent with the Review Panel’s recommended mergers and restructures, where applicable. Following this, councils should assess if they are ‘fit for the future’ against the other criteria.

In the following sections we provide further detail on our assessment of each criterion, its definition, measures and benchmarks and our suggested 2-stage implementation approach to the ‘fit for the future’ reform agenda.

4.2 Criterion - Scale and Capacity

Ensuring that councils have the right scale, resources and strategic capacity will enable them to govern effectively and partner with the State to provide better services and reduce red tape and bureaucracy for business.

4.2.1 OLG criteria

OLG has proposed that the criterion Scale and Capacity should be measured by councils having the scale and capacity broadly in line with the recommendations of the Review Panel. This means that councils would need to adopt the recommendations of the Review Panel to merge or enter into other arrangements with surrounding councils.

4.2.2 IPART comments on the criterion

We agree with this approach. We note that the Review Panel concluded that “creating a sustainable system that can cope with the challenges of a changing world must involve some reduction in the number of local government areas.” The Review Panel concluded that 34 councils in Greater Sydney (including Gosford/Wyong), Newcastle and Illawarra did not have sufficient scale. Further, the Review Panel concluded that 50 rural and regional councils did not have sufficient scale.

We recognise that the success of the approach depends on the extent to which councils voluntarily merge or enter into arrangements with their neighbours.

The Review Panel’s approach recognises that one size does not fit all situations. Therefore, the Review Panel developed the following hierarchy:

- Sydney Metro councils – merge or stand alone. The Review Panel recommended council mergers to create 18 councils in metropolitan Sydney and the merger of Gosford and Wyong Councils, and of Newcastle and Lake Macquarie Councils.

- Regional centres – establish larger regional centres beyond Greater Sydney by merging some councils that are around a regional centre. This would establish a network of regional centres with the scale and capacity to drive growth in regional NSW, facilitate the exchange of information and strengthen liaison with key State and Federal agencies.

- Rural councils – retain local councils. Councils would refer select regional functions to Joint Organisations. The core functions of Joint Organisations are listed in Box 4.1.

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15 Ibid, p 72.
Box 4.1  Proposed core functions of joint organisations

- Strategic regional and sub-regional planning.
- Inter-government relations and regional advocacy.
- Information and technical exchanges between member councils.
- Activities of existing County Councils.
- Regional alliances of local government water utilities.
- Road network planning and major projects (through Regional Roads Groups).
- Collaboration with State and federal agencies in infrastructure and service provision.
- Strategic procurement (which can also include accessing state-wide contracts and arrangements).
- Other joint activities specified in the proclamation, such as major infrastructure projects, regional waste and environmental management (including weeds and floodplain management), regional economic development, regional library services and ‘high level’ corporate services or ‘back office’ functions.


IPART notes that the Review Panel did extensive research into the approach for establishing the councils with the right scale and strategic capacity before preparing its final report. Using a number of criteria (see Box 4.2) the Review Panel proposed strategies for each council to ensure that it is able to have the correct scale and strategic capacity.

The Review Panel emphasised that focusing on scale would ensure:

- Greater capacity to leverage operational and administrative efficiencies, thereby improving service delivery and the potential to sustainably fund infrastructure renewal.
- Improved execution of projects and initiatives that span across councils.
- Greater capacity to mobilise resources to engage with stakeholders, including communities, across councils, across government and with industry.

However, merging a number of financially unsustainable councils will do little more than produce a larger financially unsustainable council. This new larger council will need to take additional action to become financially sustainable. IPART acknowledges that this will take time.
Box 4.2 Criteria for determining future local government boundaries

- **Sustainability and Strategic Capacity**
  
  Councils need a strong base to ensure their long-term sustainability; to achieve economies of scale and scope; to deliver quality services; to provide a pool of talented councillor candidates; to attract skilled staff; and to develop strategic capacity in governance, advocacy, planning, and management.

- **Efficiency and Effectiveness**
  
  Councils should be able to operate efficiently and effectively within the limits imposed by their location, geography and the characteristics of the communities they serve. They should be able to provide ‘value for money’ to their ratepayers and external funding agencies.

- **Integrated Planning**
  
  Local government area (LGA) boundaries should not unnecessarily divide areas with strong economic and social inter-relationships; they should facilitate integrated planning, coordinated service delivery, and regional development.

- **Local Identity and Sense of Place**
  
  Consistent with the need for integrated planning, boundaries should reflect a sense of identity and place, including important historical and traditional values. (However, other mechanisms available to maintain local identity should be taken into account.)

- **Population Growth**
  
  The boundaries of a LGA should be able to accommodate projected population growth generated by the LGA over at least the next 25 years.

- **Accessibility**
  
  As a general rule, it should be possible to drive to the boundaries of a LGA from a main administration centre within 60-90 minutes in country areas, and within 30 to 45 minutes in metropolitan areas.

- **Strong Centre**
  
  Each LGA should have a substantial population centre that can provide higher order commercial, administrative, education, health and other services.

- **Key Infrastructure**
  
  As far as possible, key transport infrastructure such as airports and ports, and those nearby urban and regional centres that are principal destination points, should be within the same LGA.

- **Combining Existing Municipalities**
  
  Wherever practicable, amalgamations should combine the whole of two or more existing LGAs without the additional cost and disruption of associated boundary adjustments.

4.2.3 IPART Recommendations

IPART considers that being of the right scale and having strategic capacity are threshold issues for councils to be ‘fit for the future’. Being of the right scale is a key component to having strategic capacity as it will enable councils to benefit from economies of scale and scope and be better able to provide infrastructure and services to their communities.

Therefore, councils need to address the scale criterion before considering how to address the other criteria:

- Councils which are expected to merge should provide their plan for merging. These councils would not have to show how they will meet the other criteria until after they have merged.

- Council for which the Review Panel recommended no change (ie, they are not expected to merge or form a Joint Organisation) should provide their plan to show how they will meet the other criteria.

Appendices C and D reproduce the Review Panel’s recommendations for addressing scale for the NSW councils.

Recommendation

6 IPART recommends that the NSW Government adopt the benchmark for the Scale and Capacity criterion that councils have the scale and capacity consistent with the recommendations of the Review Panel.

4.3 Criterion - Financial sustainability

OLG has proposed measures for local government financial sustainability based on a definition developed by TCorp. This assesses councils to be financially sustainable when they can generate sufficient funds over the long term to provide the planned level and scope of services and infrastructure for communities as identified through the Integrated Planning and Reporting process.

To demonstrate financial sustainability, OLG considers that councils should provide evidence that:

- resources are prioritised and allocated based on an understanding of strategic requirements and community needs through the Integrated Planning and Reporting process

- high priority operating and capital expenditure programs are managed and delivered with stability and predictability in the overall revenue burden

- resource allocation for service and infrastructure investment is based on an equitable distribution of the revenue burden (rates, user fees, charges and other income) for current and future generations (of ratepayers)
they can achieve an operating surplus.

### 4.3.1 Measurement of financial sustainability

OLG identified three measures to ensure that the criteria were relevant, robust and applicable to local government.

- Operating Performance ratio
- Own-source ‘Operating’ Revenue ratio
- Building and Infrastructure Asset Renewal ratio.

Importantly, two key considerations were adopted in this process.

Firstly, OLG sought to develop a simple set of measures that are defendable and provide insights into councils’ performance. Secondly, the benchmarks and comparisons were required to be fair and a reasonable basis to underpin assessments of councils’ performance for the ‘fit for the future’ framework.

This report reviews the three measures of financial sustainability referred to above.

In assessing OLG’s proposed measures to assess councils’ financial sustainability we have assumed:

- The benchmarks are intended to measure performance on a common basis across all councils and all classifications of councils. This implies assessing and monitoring the performance of councils’ General Fund and not their Consolidated Fund which, for some councils, includes other activities such as water and sewerage.

- Alternatively, if councils’ water and sewerage activities are to be included within the ‘fit for the future’ framework, it is assumed that the measures will be applied separately to councils’ Water and Sewerage Fund and to the General Fund, respectively. These measures and benchmarks are not to be applied to councils’ Consolidated Fund (combined General, Water and Sewerage Funds), as this performance would not be assessed on a consistent basis across councils.

### 4.3.2 The Operating Performance Ratio

The operating performance ratio is sometimes referred to as the operating balance ratio.

The operating performance ratio is calculated by dividing operating revenue, excluding capital grants and contributions less operating expenses, by operating revenue, excluding capital grants and contributions. The result is usually expressed as a percentage.
The benchmark proposed by OLG for the operating performance ratio is that “councils should have an operating surplus or better, to maintain financial sustainability”.16

We consider that operating performance ratio is a key measure of financial sustainability and is fundamental for councils to be ‘fit for the future’. This is because the operating performance ratio:

- Broadly supports the Government’s objective that financially sustainable councils are generally able to generate sufficient funds to meet expenditure requirements for the delivery of services and infrastructure.

- Provides a clear focus on councils’ capacity to meet on-going expenditures through operating (non-capital) revenues.

- Is an important measure of operating cost recovery. It reflects the extent to which the costs of current works and services are being funded by current ratepayers.

**IPART Comment on OLG’s measure**

An operating deficit may be appropriate in the short-term but not in the longer term. Sustained operating deficits indicate that a council may be funding some of its current operations through capital grants and contributions and/or additional debt, possibly at the expense of future generations of ratepayers.

A break-even operating performance ratio indicates that a council can fund asset maintenance and renewals required by the consumption of assets ie, as measured by depreciation. This enables capital grants and contributions to remain available to fund infrastructure renewals and/or asset upgrades as these are required. However, a surplus operating result would be required to reduce infrastructure backlogs.

A council with a positive operating balance ie, operating surplus, will be able to fund required maintenance as well as depreciation (renewal) expenses. Capital revenues (ie, capital grants and contributions) will be able to be retained to fund capex. This would include funding for asset renewals to reduce infrastructure backlogs or upgrade or purchase new assets, as required.

We note that this measure is highly sensitive to how councils estimate depreciation expenses as this is often a high proportion of total expenses. Assumptions that underpin estimates of depreciation may vary significantly over time and across similar councils. Depreciation is an accounting estimate of the consumption of the asset during its useful life. However, it does not always accurately reflect the actual degradation pattern of the asset and therefore can be inaccurate.

16 OLG, p 13.
We also note that changes in performance assessed through this measure are likely to be affected by the following factors:

- Expansion in a council’s role, either by its own policy choices democratically determined or by devolution from another level of government.
- Increases in significant costs (for example, construction) that are non-controllable by a council. In some cases, special or unique cost pressures are faced by councils located in relatively remote areas.
- Changes in the community’s demographic profile, such as an ageing population, which may induce significant increases in council expenditures in terms of services and/or staffing.
- The relative socio-economic disadvantage of the LGA. Often these councils experience a combination of a greater reliance by communities upon council (and other government) services and low average household incomes. The former may impact significantly upon the level of a council’s expenditures while the latter will often flow through to a higher proportion of outstanding rates. This reduces the recovery of rates revenues. Combined, these factors contribute to higher operating deficits.
- Unforeseeable events, such as natural disasters. Depending upon their frequency and severity, these events may seriously impact upon a council’s financial performance over several years.

Likely outcomes of this measure for OLG’s stated objectives

Data provided by OLG on the sector’s current performance indicates that over the 2010-13 period:

- NSW councils averaged a negative operating performance ratio ie, operating deficits of approximately 6% of operating revenue
- metropolitan councils averaged deficits of about 2.5% of operating revenues
- regional and rural councils averaged operating deficits of approximately 7% and 7.5%, respectively.

We note that:

- neither metropolitan, regional nor rural councils have achieved the desired operating surplus benchmark for this measure
- the reported performance varies quite markedly between metropolitan and regional/rural councils
- metropolitan councils’ operating deficits are typically small and operating surpluses are likely to be relatively commonplace.
Other observations and recommendations

The current benchmark (‘an operating surplus or better’) does not provide flexibility for small deficits (within 3% of operating revenues), or a break-even operating result. Further, the benchmark requires councils’ operating revenues to exceed operating expenses in every year.

In contrast, TCorp’s approach provided the flexibility for councils to achieve the benchmark over the short term ie, 3 years. This is more achievable in practice. It would also demonstrate whether a council has the capacity to absorb most financial shocks.17

We consider that operating surpluses, as with operating deficits, need to be kept within a target range ie, an upper limit not exceeding 10% of operating revenues. This approach is similar to that used in some other states and avoids rates being increased above that absolutely necessary to maintain financial health.18 Very high operating surpluses accompanied by high and growing cash balances may indicate the capacity for a council to reduce revenues from current ratepayers.

Recommendation

7 IPART recommends adoption of the measure Operating Performance Ratio with the benchmark being amended to a range between an operating deficit of 3% and an operating surplus of 10% of operating revenues. This measure should be averaged over 3 years.

4.3.3 The Own-Source Operating Revenue Ratio

OLG proposes own-source revenue ratio be calculated as “rates, utilities and charges divided by operating revenue, including capital grants and contributions.

The proposed measure is similar to the often used ‘rates coverage ratio’.

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17 NSW Treasury Corporation (TCorp) – Financial Sustainability of the NSW Local Government Sector, Appendix 1, Ratings and Definitions, April 2013. TCorp found that a council could be accorded a ‘strong’ financial sustainability rating where “It generally has a record of operating surpluses and may occasionally report minor operating deficits...(and)...is able to address its operating deficits.....and any adverse changes in its business with minor revenue and/or expense adjustments.”

18 The South Australian Local Government Association considers that should a council wish to target a very large operating surplus it needs to be equally clear about, and articulate, its reasons for doing so. This course of action would mean that the council is setting rates and/or other fees and charges at levels well in excess of recorded costs and this has negative implications for its community in terms of intergenerational equity. There may nevertheless be compelling reasons for such a strategy. For example the council may have run significant operating deficits in the past and have impending major asset replacement needs in excess of a prudent borrowing level. The Council may wish to build up financial assets or reduce existing liabilities to help it, in the future, fund this impending need. Refer to Targets for Local Government Financial Indicators, Local Government Association, South Australia, March 2007, p 3.
We consider that the own-source revenue ratio measures the degree of reliance that a council has on external funding sources such as grants and (developer) contributions. Councils’ financial flexibility for funding services and capital works rises as their reliance upon external funding sources is reduced.

OLG has adopted a benchmark for own-source revenue to be greater than 60% of operating revenue averaged over a three-year period.

**IPART Comment on OLG’s measure**

This benchmark is similar to that developed by TCorp. However, TCorp also considers many rural councils are unlikely to achieve the same level of own source revenue as an urban council due to their limited rate base. Further, urban councils should have a much higher own source revenue ratio as these councils not only have access to a larger rate base, but also (have greater) ability to raise income from other services such as car parking.\(^\text{19}\)

The measure reflects fiscal flexibility and robustness as it measures the percentage of ordinary income that is directly controlled by the council.

We consider that own-source revenues, including user fees and charges:

- Provide a council with the financial stability to adjust its operating and capital spending (and not just the former), to meet planned expenditure requirements and respond to unexpected events.

- Are associated with strong financial sustainability in cases where rates revenues are equivalent to 50% or more of total revenue (ie, equivalent to own-source revenues of about 65%). Low and/or falling financial sustainability is often associated with councils with an own-source revenue ratio of less than 33% of total revenue.\(^\text{20}\)

- Have historically been more reliable and less volatile than revenue from other sources such as government grants and contributions from developers.

**Likely outcomes of this measure for OLG’s stated objectives**

Data provided on the sector’s current performance indicates that over 2010-13:

- NSW councils averaged an own-source revenue ratio of just under 60% ie, marginally below the benchmark

- metropolitan councils averaged own-source revenue of about 70% of revenues ie, well above the benchmark of 60%

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\(^{19}\) NSW Treasury Corporation (TCorp) – *Financial Sustainability of the NSW Local Government Sector*, April 2013, p 22. On this basis, metropolitan councils should have own-source revenue in excess of 80% of operating revenues although, for simplicity, a uniform benchmark of 60% is used (across all councils).

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- regional councils averaged own-source revenue of more than 60%
- rural councils averaged own-source revenue of about 50%.

Based on data provided by OLG we note that rural councils, as a group, have not achieved the benchmark for the own-source revenue ratio. However, metropolitan and regional councils have generally met the benchmark for this measure.

Other observations and recommendations

While a high own-source revenue ratio of more than 60% may be desirable in terms of financial flexibility, it is uncertain if it is generally necessary to achieve financial sustainability. This will also depend upon the level and reliability of other revenue sources, eg, operating grants, as well as expenditure levels over time.

We note that the results of using this measure, as proposed by TCorp, are highly sensitive to trends in councils’ capital grants and contributions. These are notoriously lumpy and variable over time. This is likely to mean that the results produced by this measure will not entirely be consistent across councils and across time.

We also recommend that this measure be referred to as the ‘Own-source Revenue ratio (and not own-source ‘operating’ revenue). This would provide a clearer statement that the own-source revenue ratio is intended to embrace financial flexibility with regards to capital expenses as well as operating expenses, and not solely the latter. This is also why the calculation method includes capital grants and contributions in the denominator.

Also, some additional clarity needs to be provided to support the use of the term ‘utilities’ within the proposed calculation method. We assume that this excludes water and sewerage revenues, as discussed above within section 4.3.1.

Finally, it is not clear whether the calculation method for this measure includes user fees and charges. User fees and charges eg, parking fees, conceptually form part of own-source revenues. Exclusion of these fees and charges would have the effect of not recognising a significant contributor to the existing financial flexibility of councils and councils’ decision making autonomy.

Recommendation

8 IPART recommends that the definition of the Own Source Revenue Ratio be amended to rates and annual charges plus user fees and charges divided by total operating revenue, including capital grants and contributions.
4.3.4 The Building and Infrastructure Asset Renewal Ratio

OLG proposes that the building and infrastructure asset renewal ratio be calculated by dividing a council’s renewals expenditure on building and infrastructure assets by depreciation expenses.\(^\text{21}\)

The depreciation expense is generally seen as a measure of asset deterioration or consumption.

A renewal ratio benchmark of greater than 100% is proposed by the OLG. A ratio of 100% indicates that expenditure on asset renewals matches the cost of asset deterioration for the year. A ratio of below 100% indicates an increasing infrastructure backlog as existing assets are deteriorating faster than they are being renewed. A renewals ratio above 100% indicates a diminishing backlog.

We consider the renewal ratio:

\(\downarrow\) represents the replacement or refurbishment of existing assets to an equivalent capacity or performance, as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance\(^\text{22}\)

\(\downarrow\) measures the rate of capital renewal against the rate of asset consumption or deterioration ie, as measured by depreciation expense

\(\downarrow\) is a consistent measure that can be applied across councils of different size and location

\(\downarrow\) is a well-established measure of performance within the sector and is already reported within council’s published financial statements.

\(^{21}\) Renewal or extension of the economic (or operating) life of infrastructure assets (such as a local road network with an operating life of 50 years), includes in some cases expenditure of a relatively short term in nature (for example, road re-sealing treatments every 7 to 12 years). At other times, refurbishment of the asset may involve longer term expenditure (such as road reconstruction every 20 to 25 years). Overall, a council’s renewals expenditure program will include a mix of short and long term expenditures.

\(^{22}\) The renewals ratio measures the extent to which councils renewal spending refreshes an existing asset’s economic life to what it was originally. The renewal of assets does not include the refurbishment of existing assets where this enhances the capacity or quality of performance of those assets above their ‘as new’ levels. Nor does it include the acquisition of new assets where these deliver an enhanced level of service.
Likely outcomes of this measure for OLG’s stated objectives

Data provided on the sector’s current performance indicates that over 2010-13:
- NSW councils averaged an renewals ratio of approximately 70% ie, well below the benchmark of 100%
- metropolitan councils also averaged an renewals ratio of about 70%
- regional councils averaged an renewals ratio of just less than 70%
- rural councils averaged an renewals ratio of just over 70%.

Other observations and recommendations

We note that the use of the renewals ratio is reliant upon accurate cost estimates and management of renewals capital expenditure, ie highly developed asset management planning systems. These plans need to define the service levels provided by each asset and be supported by update budgeted schedules of asset maintenance, renewal and replacement.

The results of using this measure are highly sensitive to how councils estimate depreciation expenses. Assumptions that underpin estimates of depreciation may vary significantly over time and across similar councils. Depreciation is an accounting estimate of the consumption of the asset during its useful life. However, it does not always accurately reflect the actual degradation pattern of the asset and therefore can be inaccurate.

OLG proposes that councils’ renewals expenditure exceed depreciation expenses in every year. We propose that the benchmark for this measure be amended so that assessment is based on performance of the renewals ratio averaged over three years. As capital expenditures are bulky and often lagged, a three-year period for the asset renewals ratio is more practically feasible. It also contributes to performance assessment being less reactive and volatile than would be the case with a benchmark that is limited to snapshots of single year performance.

Performance averaged over three years is more responsive in reflecting emerging renewals expenditure trends than performance averaged over a longer period, say five years.

Recommendation

9 IPART recommends that the benchmark for the Assets Renewal Ratio be revised to a renewal ratio of greater than 100%, averaged over three years.
4.4 Criterion - Effective infrastructure and service provision

OLG proposes that an effective council plans, designs, manages and delivers infrastructure and services in ways that optimize use of financial, human and natural resources to meet current and future needs. OLG also proposes that council decisions regarding current and planned infrastructure and services should be undertaken in a transparent fashion.

We consider that to demonstrate effective infrastructure and service management, councils should provide evidence that:

- a strategy is in place that identifies infrastructure requirements based on analysis of existing provision and future need
- development, maintenance and renewal of infrastructure assets appropriately leverages operation and capital resources, funded by a combination of council finances and borrowing to reduce any backlog
- it has a track record of success in working strategically with partners to deliver cost effective services that leverage opportunities of scale and scope
- service delivery unit costs represent value for money to the community
- infrastructure and service delivery meets the needs of communities as identified in the Integrated Planning & Reporting process
- it has a successful track record in prioritizing resources, delivering infrastructure and operational programs and projects on time and to budget.

4.4.1 Measurement of effective infrastructure and service management

OLG has suggested two measures to assess this criterion:

- Infrastructure backlog ratio.
- Asset maintenance ratio.

We have made the following observations regarding this criterion:

- it is essential that councils prepare Asset Management Plans and Delivery Programs to ensure good infrastructure management
- a measure is required that will combine the use of council finances and borrowings to reduce backlogs
- the criterion refers to service management but the selected measures do not assess service management.
This report reviews the two suggested ratios for effective infrastructure and service management. These both measure infrastructure delivery. Effective service delivery would also be supported by use of a community survey along the lines of that discussed in section 3.5.

IPART proposes adding a new measure for infrastructure financing, ie, the debt service ratio. This would ensure that councils consider whether they leverage their finances with borrowings to reduce infrastructure backlogs.

4.4.2 Infrastructure Backlog Ratio

The infrastructure backlog ratio measures the estimated cost to bring assets to a satisfactory condition divided by total infrastructure, building, other structure and depreciable land improvement assets.

The draft benchmark for the infrastructure backlog ratio is less than 2% on average over three years.

We consider this measure:

- identifies whether councils are able to reduce their infrastructure backlogs and maintain them within acceptable levels
- can be applied across councils of different size and location.

IPART comments on this measure

OLG considers that the infrastructure backlog ratio is a consistent measure that can be applied across councils of different sizes and locations. However, the data source for this measure is Special Schedule 7 in council’s accounts, which is not an audited item and is therefore not consistent across councils. This is because there is a significant degree of variability between councils regarding how items in Special Schedule 7 are measured. However, it remains the best available source of data for this measure to ensure coverage of all councils.

As Special Schedule 7 is current unaudited, we propose that this measure should only be included if accompanied by a mandate for councils to audit this data. This ensures consistency across councils.

The TCorp benchmark of less than 2% is an ambitious target for councils, which may be difficult for many councils to meet over the long term without significant revisions to their asset base or revenue. We propose that this measure is assessed in a discretionary manner, which allows councils that do not meet the benchmark, to demonstrate they are moving towards it.

The reliability of data for this measure varies significantly between councils. As a result, use of this measure should be accompanied by guidance for councils on how to estimate infrastructure backlogs and link these through its IP&R process.
Likely outcomes of this measure for OLG’s stated objectives

OLG data for the period 2010-2013 indicates that:

- 6% of councils meet or exceed the benchmark of 2%
- 94% of councils do not meet the benchmark.

This indicates a significant increase in capacity is needed for councils to reduce backlogs to less than 2%.

Future amalgamations of councils may in fact deteriorate council measures of backlogs in the short term, whilst also increasing capacity to undertake capital works using debt. For example, a council with relatively small backlogs merging with a council which has a large backlog, may create a new council with a large backlog.

To account for this, the criteria need to allow some flexibility and a transition period. This enables merging councils to consolidate their infrastructure and agree on a future path for reducing infrastructure backlogs consistent with the objectives of the new council area. The combined resources of the larger area support the ability of the council to raise a larger amount of council funds and larger amount of debt in order to fulfil these objectives. The ‘fit for the future’ framework should be consistent with allowing councils to increase capacity whilst at the same time moving towards these benchmarks.

However, without a consistent measure of backlogs, the level of the proposed benchmark is not a robust figure. The significant reliability issues with data on backlogs may provide councils with an incentive to revise or reduce infrastructure standards to meet the benchmark. Without clear guidance, some councils may also misclassify capital works as operational costs.

To avoid these issues, there needs to be a corresponding shift towards consistent measurement across councils, which includes introducing auditing standards for Special Schedule 7. The criteria should also include measures of both operational and capital sustainability which should be considered along with infrastructure backlog, to determine whether councils meet an overall assessment, as opposed to focusing on specific measures.

Other observations and recommendations

We propose the benchmark should only be adopted if a clear reporting standard for Special Schedule 7 is adopted and that this data is audited as part of council’s accounts.

We also propose this benchmark should be applied in a discretionary manner, which allows councils to demonstrate they are moving towards the benchmark.
This allows time for councils to adjust to the new measures and deal with the increased costs of reform in the short term.

Recommendation

10 IPART recommends that:

- The Infrastructure Backlog Ratio should be subject to adoption of a clear reporting standard for Special Schedule 7 is established and that this data is audited as part of councils’ accounts.
- Councils should demonstrate an Infrastructure Backlog Ratio of less than 2% averaged over three years or improving trends for this ratio.

4.4.3 Asset Maintenance Ratio

The Asset Maintenance ratio reflects the actual asset maintenance expenditure relative to the required asset maintenance. The ratio provides a measure of the rate of asset degradation (or renewal) as it shows whether a council is fulfilling all maintenance requirements, or allowing some assets to degrade. This measure was also used by TCorp in its analysis.

TCorp adopted a benchmark of greater than 1, which implies that asset maintenance expenditure meets or exceeds the requirements (and therefore the council is maintaining or reducing its infrastructure backlog).

IPART Comment on OLG’s measure

We agree with the benchmark. The benchmark of greater than 1 is a good indication of whether a council is maintaining or reducing its infrastructure backlogs. A ratio below 1 indicates a potentially increasing infrastructure backlog.

Likely outcomes of this measure for OLG’s stated objectives

According to OLG data for the period 2010-2013, only 19% of councils meet or exceed the benchmark. These are mostly metropolitan councils, which suggests that there is little need for change amongst this group of councils.

Regional and rural councils generally do not meet this benchmark. This suggests that these councils require significant sector-wide reform or planning in order to meet maintenance commitments.

Recommendation

11 IPART recommends that the Government adopts the proposed measure of Asset Maintenance Ratio.
4.4.4 Debt service ratio

We propose the inclusion of an additional measure which assesses the appropriate and affordable level of debt servicing by councils.

The current list of measures for this criterion does not include a measure aimed at addressing whether councils use a combination of council finances and borrowings to reduce any backlog.

Appropriately used, debt enables the benefits and costs of long-life assets to be shared equitably between current and future generations of ratepayers. In contrast, continuation of low debt levels within the sector will likely mean that councils will need to increase the revenue (ie, rates and user charges) burden on current ratepayers, if they are to partner the State Government in infrastructure investments. As these investments will also benefit future ratepayers, the cost of these projects should be shared across the generations.

We consider the take up of loan borrowings will be integral to ‘fit for the future’ councils possessing sufficient strategic capacity to partner the State Government. Therefore, a measure to guide sustainable debt servicing should be included.

**IPART’s proposed measure**

The debt service ratio equals:

\[
\frac{\text{debt service expense}}{\text{operating revenue}}
\]

(excluding capital grants and contributions)

Debt service expenses include interest expenses and principal repayments.

We prefer the debt service ratio to the interest cover and debt to equity ratios. These ratios are not widely used within the sector and are more familiar to market sector organisations, including state owned corporations. It is also difficult to establish an appropriate benchmark for the debt to equity ratio within general government entities, such as councils.

**IPART’s Proposed Benchmark**

The benchmark for this measure is greater than zero and less than 20% of operating revenue, averaged over a three-year period.

Assessment of this ratio would depend upon, firstly, whether a council has a capital investment program. Small or irregular capital expenditures or those for relatively short lived assets (less than 10 years), are not likely to provide significant benefits to future generations of ratepayers to justify additional borrowings.
Secondly, assessment of the debt service ratio needs to occur within the context of other elements of a council’s financial performance, such as its operating balance. Councils with sustained large operating deficits (say, greater than 5% of operating revenues), are not likely to be in the situation to finance significant additional loan borrowings. Similarly, for a well resourced council, a debt service ratio above 20% does not necessarily mean it is over committing its operating revenue to loan repayments.

**IPART Comment on this measure**

Achieving capital sustainability in an inter-generationally equitable manner generally involves the use of some debt. A very low or zero debt service ratio is generally not appropriate for a council undertaking new capital expenditure for long life infrastructure assets. This is because the funding burden for long life assets is placed on current ratepayers and not shared with future ratepayers who will also benefit from these assets. Current and future generations of ratepayers should equitably share in both the costs and benefits of such long-life infrastructure. This is achieved by the use of debt.

If a council is using debt to partly fund new, renewed or upgraded long life infrastructure assets, this is likely to be prudent, sustainable and contribute significantly to its strategic capacity to fund major investment projects, provided the council has the financial capacity to service the debt i.e. has an operating performance ratio within the benchmark range.

Councils that do not have the capacity to make such borrowings are usually unlikely to be financially sustainable. For example, a council with a very small rates base and large operating deficits will not have the capacity to undertake debt. Under the ‘fit for the future’ framework, we anticipate that financially unsustainable councils will be encouraged to merge or reform to achieve strategic capacity.

**Likely outcomes of this measure for OLG’s stated objectives**

Many NSW councils, including metropolitan councils, do not currently meet the benchmark and have zero debt. Generally, many councils in both urban and regional NSW have avoided debt to minimise interest expenses in the short term. In doing so, ratepayers have often incurred higher rates than necessary to fund long-life capital investment and/or councils have delayed required asset renewals. This has contributed to increasing infrastructure backlogs. The councils that have made balanced use of debt are often urban-fringe councils with rapidly growing communities that have made necessary major investments in new and upgraded infrastructure.

Based on our research to date, the outcome of applying this measure and benchmark would show most NSW councils do not use appropriate levels of debt to fund long lived infrastructure. This is due to a combination of some
councils being financially unsustainable (and therefore lacking the capacity to take on debt) and a general avoidance of debt as described above. This supports the view that reform of NSW councils is required in order to guide councils towards responsible funding of long lived assets. Using the debt service ratio benchmark in assessing whether councils are ‘fit for the future’ will ensure that councils that are planning to merge or reform are encouraged to employ best practice when forming plans to reduce infrastructure backlogs and achieve strategic capacity.

Other observations and recommendations

We recommend the debt service ratio measure and benchmark be included within the ‘fit for the future’ framework as an additional measure of effectiveness of infrastructure management.

We note that some councils ie, those with sustained large operating deficits (say, greater than 5% of operating revenues), or with a very small rates base are not in likely to be in the situation where they can afford significant loan borrowings.

However, we consider that reasonable levels of debt will be an important contributor to the strategic capacity of councils and will be fundamentally necessary if councils are to partner the State and industry in providing major investments in infrastructure. Debt financing is important to enable infrastructure investment to be delivered in a way that equitably distributes the costs and benefits between current and future ratepayers.

Recommendation

12 IPART recommends that the Debt Service Ratio:
- Be included for the criterion Effective Infrastructure and Service Management.
- Have a benchmark of greater than 0% and equal or less than 20% of operating revenue excluding capital grants and contributions, but the decision for a council to take on debt would depend on the council’s individual circumstances.

4.5 Criterion - Efficiency

OLG considers that improvements in efficiency will be fundamental to ‘fit for the future’ councils and will contribute to:

- minimising unnecessary burden on business and the community that may arise through service delivery pathways, and
- maximising the focus on the customer, thereby improving front-line presence and contributing to more effective service delivery over time.
OLG also acknowledges that many factors affect efficiency and that it is difficult to measure. However, it proposes that councils have the capacity to achieve economies of scale and scope within their operations so that they can achieve operational efficiency without compromising the level of service provision they provide.

OLG uses a single measure for the efficiency criterion i.e., trends in a council’s ‘real operational expenditure per capita’. Although not explicit, the benchmark appears to be a downward trend in a council’s real operational expenditure per capita (real opex per capita) over a particular period of time.

OLG noted that operational expenditure could be measured against a range of factors such as population, assets or financial turnover. It determined that, in the context of improving service delivery and customer focus within Local Government, measuring efficiency relative to population is suitable and an acceptable approach for local government reform.

**IPART Comment on OLG’s measure**

We support a criterion for efficiency as part of the ‘Fit for the Future’ criteria to ensure that councils seek cost savings which can be invested into infrastructure and ultimately, passed on to ratepayers and other community users of council services.

We acknowledge the difficulties attached to finding a suitable measure of efficiency. Efficiency requires measures of output relative to inputs. For a service industry such as local government, it is difficult to measure the price of many outputs as many are not traded. Those typically used, including the one proposed by OLG, are measures of cost effectiveness not efficiency.

However, a target of efficiency in a more general sense can still be used to drive efficiencies in the local government sector. The efficiency dividend mechanism is commonly applied by Commonwealth, state and territory governments to provide for an annual reduction in funding for the overall running costs of an agency. Although it is considered a blunt instrument, it has proven to be a simple and predictable way to create an incentive for budget constraint in the public sector.

OLG’s proposed benchmark for cost efficiency targets a downward trend in ‘real opex per capita’ over time, which is similar to an efficiency dividend. However, it provides for additional flexibility because:

- the ‘trend’ targets can be set over time (rather than requiring reduced total expenditure every year), and

- it is a function of the number of residents, which allows some growth in expenditure in line with an increasing population and the growing service needs within the community.
It also compares a council’s performance to itself over time rather than to a set target of opex growth or other councils’ performance. Therefore, it is not affected by differences across councils in scale, service focus or cost composition.

The measure ‘trends in real opex per capita’ reflects how the value of inflation-adjusted inputs per person has grown over time. While this measure directly adjusts for changes in population, in order to measure cost efficiency in the strictest sense, a council’s service levels must also remain constant.

However, in practice, a council’s service levels are likely to change for a variety of reasons. If a council seeks to provide a new service without reducing any other service levels, opex would increase, all else being equal. Conversely, a reduction in service levels would suggest reduced opex and an apparent increase in efficiency under this criterion.

This underlines the importance of this measure of efficiency being interpreted in the context of the council’s performance against other criteria (including effective infrastructure and service management). It also suggests that councils would benefit from some flexibility in the downward trend target to allow some time to restructure or refocus their service priorities when operating expenditure has increased.

It further highlights how councils must prioritise their services, in consultation with their communities under the Integrated Reporting and Planning Framework, to mitigate increased expenditure not linked to community growth.

There will also be circumstances where councils will need to increase their operational expenditure to meet community demands for increased service levels. Accordingly, we suggest that there should be some flexibility in the ‘fit for the future’ framework to allow such increases.

We considered whether there were any suitable alternative measures of efficiency in local government. Based on available data, we could not find any measure of the ratio of outputs to inputs which more accurately reflects efficiency or productivity across a council’s operations.

Specific measures focused on particular services such as library or planning/development services could be derived to measure efficiency in these areas only. However, there would need to be multiple measures to sufficiently gauge efficiency across various council operations. At this stage of the reform agenda, this could be too complex and place an additional burden of reporting requirements on councils.

We also considered other options which link operating expenditure or average costs to labour variables. Overall, while we consider that these measures can also contribute to an assessment of the efficiency of a council’s operations, employment expenses, on average, account for around 40% of opex in the local
government sector. Therefore, there is limited value in including an additional labour-focused measure under this criterion.

**Likely outcomes of this measure for OLG’s stated objectives**

OLG data showed that over the period 2004/05 to 2012/13, just 9% of metropolitan councils, 2% of rural councils and no regional council achieved a downward trend in its operational expenditure per capita.

This suggests that most councils would unable to meet a benchmark based on a downward trend over a three-year period. Councils may also be able to explain why ‘real opex per person’ is rising irrespective of efficiency performance eg, IPART may have approved a special variation for the council to increase its general income above the rate peg to increase service levels in line with community priorities.

However, in general, the measure will ensure that councils more consistently focus on how they may reduce their expenditure by achieving efficiencies in their operations.

Over time, we expect there to be considerable improvement in the performance of councils against this criterion, especially with the planned increases in scale and capacity of councils.

**Other observations and recommendations**

Economies of scale and scope refer to the reductions in average costs that may be associated with higher output of a many-product organisation, including a local council. To measure the size of any economies of scale or scope, higher outputs must result in lower average costs. Figure 4.1 suggests that around 30% of the variation in opex per head amongst the councils of Greater Sydney is inversely associated with their population and that opex per head is lower the larger the population of the LGA.
We endorse the recommendation for the efficiency criterion measure proposed by OLG with some refinement to specify that it is a downward trend that is targeted, and the time period over which this trend should be measured.

We recommend that councils should demonstrate a downward trend in average ‘real opex per capita,’ based on a three-year rolling average.

To allow for circumstances where councils need to increase their operational expenditure to meet increasing service levels by the community, we consider that councils should be given the opportunity to make a case to be exempt from the benchmark when required.

We also agree that councils should deflate their operational expenses in order to determine the real average annual change in ‘opex per capita’.

Councils’ costs that are paid for from their general funds will rise, on average, by the Local Government Cost Index (LGCI) published by IPART each year. Therefore, any measure of ‘opex per capita’ should be deflated by the LGCI to derive the ‘real’ rate of growth in ‘opex per capita’.

Councils which also provide water and sewer services will experience cost growth more in line with changes in utility prices rather than the LGCI, which represents the change in a weighted basket of council costs. However, for
consistency, we recommend that the deflator should be the same for all councils’ operations.

Recommendations

13 That the benchmark for the criterion Efficiency be a downward trend in ‘real operational expenditure per capita’, based on a decrease in the rolling average over the last three years, unless:

- The council can demonstrate the impact on operational expenses resulting from a need for an increase in service levels in line with community priorities through the Integrated Reporting and Planning process.

14 That to calculate ‘real operational expenditure per capita’, operational expenditure be deflated by the Local Government Cost Index.
Appendices
A Terms of Reference

Dr Peter J Boxall AO
Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q299
QVB POST OFFICE NSW 1230

13 AUG 2014

Dear Dr Boxall

I write to request IPART undertake a review of the assessment criteria for ‘fit for the future’ councils in accordance with the attached Terms of Reference.

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

Yours sincerely,

MIKE BAIRD MP
Premier
Draft Terms of Reference for a review by Independent Pricing and Regulatory Tribunal on Local Government Benchmarking in NSW

I, Mike Baird, 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 (IPART) conduct an investigation in accordance with these ‘terms of reference’.

Task

In undertaking this investigation IPART is to review the ‘fit for the future’ criteria to be developed by the Office of Local Government.

Procedure

The Office of Local Government will issue IPART with a draft document outlining the ‘fit for the future’ criteria. IPART will:

1. Review the ‘fit for the future’ criteria and assess whether the criteria will contribute to meeting the NSW Government’s stated objectives of local government reform

2. Prepare a report for the NSW Government that:
   a) identifies the likely outcomes of each of the criterion
   b) recommends amendments to the criteria to better meet the NSW Government’s stated objectives of local government reform

3. Provides the report, to the Minister for Local Government and the Premier, by Wednesday 3 September 2014. To enable this, the Office of Local Government will provide IPART with draft criteria by Tuesday 19 August 2014, and work with IPART in developing the draft criteria.

Background

The Independent Local Government Review Panel (Panel) made a number of recommendations regarding general reform of the local government system in NSW. The Panel found that there are too many councils and many are financially unsustainable.

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’ through incentives to voluntarily create bigger, stronger councils, particularly in Greater Sydney, and new regional structures outside of Sydney.

Councillors will be called upon to submit a ‘fit for the future’ proposal by 30 June 2015 to the Office of Local Government, for assessment by an expert panel.

The NSW Government has agreed to the Minister for Local Government, developing sufficiently flexible assessment criteria consistent with the definition of a strategic, ‘fit for the future’ council. A council that is strategic and ‘fit for the future’ is defined as being financially sustainable; efficient; with the capacity to effectively manage infrastructure and
deliver services; the scale, resources and ‘strategic capacity’ to govern effectively and partner with the State; and has the capacity to reduce red tape and bureaucracy for business. It was agreed that IPART would review this criteria.

The Hon Mike Baird MP
Premier
Draft Criteria
Policy objective

Create strategic and Fit for the Future councils – Councils that are financially sustainable; efficient; with the capacity to effectively manage infrastructure and deliver services; the scale, resources and ‘strategic capacity’ to govern effectively and partner with the State; and has the capacity to reduce red tape and bureaucracy for business and of a scale and structure that is broadly in line with the Panel’s recommendations.

Source: Office of the Local Government
### Fit for the Future definition, criteria, measures and benchmarks

**Definition:**
Generate sufficient funds over the long term to provide the agreed level and scope of services and infrastructure for communities as identified through the Integrated Planning & Reporting process.

**Criteria/Benchmarks:**
- Operating Performance Ratio (operating surplus or better)
- Own Source Operating Revenue Ratio (>60%)
- Building and Infrastructure Asset Renewal Ratio (>1)
- Infrastructure Backlog Ratio (<2)
- Asset Maintenance Ratio (>1)
- Trends in real operational expenditure per capita (consistent performance improvement)
- Has the scale and capacity consistent with the recommendations of the Independent Panel

**Maximise return on resources and minimise unnecessary burden on the community and business, while working strategically to leverage economies of scale and meet the needs of communities as identified in the Integrated Planning & Reporting process.**

**Efficient service and infrastructure delivery, achieving value for money for current and future ratepayers.**

**Demonstrate strong organisational and regional capacity to mobilise resources to engage effectively across community, industry and government.**

**Strategic capacity**
Sustained improvement against each of the criteria to underpin the strategic capacity of Councils over the long term.

This capacity, along with willingness and commitment to collaborate in good faith with government, communities and industry stakeholders will underpin fit for the future councils.
C Review Panel recommendations on council mergers for metropolitan Sydney
<table>
<thead>
<tr>
<th>Council/s</th>
<th>Options (preferred option in bold)</th>
<th>Rationale</th>
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<tbody>
<tr>
<td>Ashbury, Burwood, Canada Bay, Leichhardt, Marrickville, Strathfield</td>
<td>• Amalgamate or • Combine as strong Joint Organisation</td>
<td>* Projected 2031 population 432,400</td>
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<td></td>
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<td>* Close functional interaction and economic/social links between these councils</td>
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<td></td>
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<td>* Need for unified local government to plan and manage Parramatta Road, the impact</td>
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<td>and integration of West Connex, inner west redevelopment and proposed major centre at Burwood</td>
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<td>* 3 of these councils will have fewer than 60,000 people in 2036</td>
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<tr>
<td>Auburn, Holroyd, Parramatta, Ryde (part), The Hills (part)</td>
<td>• Amalgamate (eastern two-thirds of Ryde to be included with North Shore group) and</td>
<td>* Projected 2031 population approx. 558,500, including about one-third of Ryde and</td>
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<td></td>
<td>• Move northern boundary of Parramatta to M2 (balance of The Hills to remain an individual council) or</td>
<td>without other boundary adjustments</td>
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<td></td>
<td>• Adjust Parramatta’s boundaries to include parts of Ryde and The Hills and combine Auburn, Holroyd and Parramatta as a strong Joint Organisation</td>
<td>* Close functional interaction and economic/social links between these councils</td>
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<td></td>
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<td>* Need for stronger unified local government to develop Parramatta as second CBD</td>
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<td>* Parramatta’s northern boundary is very close to its CBD; relocation to M2 would facilitate</td>
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<td>planning and improve socio-economic mix and community linkages</td>
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<td></td>
<td></td>
<td>* Incorporation of part of Ryde would strengthen link between Parramatta and ‘Global Sydney</td>
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<td>Corridor’ and improve scope for integrated planning around Epping station</td>
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<tr>
<td>Botany Bay, Randwick, Sydney, Waverley, Woollahra</td>
<td>• Amalgamate or • Combine as strong Joint Organisation</td>
<td>* Projected 2031 population 669,400</td>
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<td></td>
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<td>* Close functional interaction and economic/social links between these councils</td>
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<td></td>
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<td>* Need for high-level strategic capacity to promote and support Sydney’s ongoing development</td>
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<td>as Australia’s premier global city</td>
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<td>* Scope to bring together Sydney’s international icons and key infrastructure under a single</td>
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<td></td>
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<td>council, and to make better use of the strong rating base of these councils</td>
</tr>
<tr>
<td>Fairfield, Liverpool</td>
<td>• Amalgamate or • Combine as strong Joint Organisation with Bankstown, Camden, Campbeltown and Wollondilly</td>
<td>* Projected 2031 population 532,900</td>
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<td></td>
<td>* Close functional interaction and economic/social links</td>
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<td></td>
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<td>* Need for a higher-capacity council to manage proposed Liverpool regional centre, which is</td>
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<td></td>
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<td>close to Fairfield boundary</td>
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<tr>
<td>Hornsby, Ku-Ring-Gai</td>
<td>• Amalgamate or • Combine as strong Joint Organisation and Boundary with Parramatta shifted to M2</td>
<td>* Projected 2031 population 348,800 (would be reduced somewhat by boundary change)</td>
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<td>* See comments above re Parramatta boundary change</td>
</tr>
<tr>
<td>Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde (part), Willoughby</td>
<td>• Amalgamate or • Combine as strong Joint Organisation</td>
<td>* Strong socio-economic and urban links</td>
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<td></td>
<td></td>
<td>* Need for integrated planning for major centres, Sydney Harbour foreshores etc</td>
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<td></td>
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<td>* 3 of these councils projected to have fewer than 50,000 people in 2031</td>
</tr>
<tr>
<td>Council/s</td>
<td>Options (preferred option in bold)</td>
<td>Rationale</td>
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<tr>
<td>Canterbury, Hurstville, Kogarah, Rockdale</td>
<td>Amalgamate or • Combine as strong Joint Organisation, also including Sutherland • Adjust Rockdale boundary at airport</td>
<td>• Projected 2031 population 491,600 • Close functional interaction and economic/social links between these councils • Need for unified local government to support community development, and plan and manage major centres, redevelopment, foreshores etc • An alternative for Canterbury could be to amalgamate with Bankstown</td>
</tr>
<tr>
<td>Manly, Pittwater, Warringah</td>
<td>Amalgamate or • Combine as strong Joint Organisation</td>
<td>• Projected 2031 population 307,400 • Close functional interaction and economic/social links between these councils which constitute an 'island' in the metro region • Need for integrated planning of centres, coast, transport etc</td>
</tr>
<tr>
<td>Bankstown</td>
<td>No change or • Combine as strong Joint Organisation with Liverpool, Fairfield, Camden, Campbelltown, Wollondilly</td>
<td>• Projected 2031 population of 222,100 on its own • The expected pattern of sub-regional boundaries effectively rules out an amalgamation of Bankstown except with Liverpool: this is considered problematic given the scale and complexity of challenges that would face the resulting entity • An alternative could be to amalgamate with Canterbury as part of the South sub-region</td>
</tr>
<tr>
<td>Blacktown</td>
<td>No change or • Combine as strong Joint Organisation with Auburn, Holroyd, Paramatta, part Ryde, The Hills, Hawkesbury, Penrith, Blue Mountains and • Possible boundary adjustments with The Hills and Hawkesbury to facilitate NW Growth Centre</td>
<td>• Projected 2031 population 459,800 on its own, with further substantial growth planned</td>
</tr>
<tr>
<td>Blue Mountains</td>
<td>No change or • Combine as strong Joint Organisation with Auburn, Holroyd, Paramatta, part Ryde, The Hills, Hawkesbury, Penrith, Blacktown</td>
<td>• Projected 2031 population 93,300 • Specialised role in managing urban areas within National Parks</td>
</tr>
<tr>
<td>Camden</td>
<td>No change or • Combine as strong Joint Organisation with Liverpool, Fairfield, Bankstown, Campbelltown, Wollondilly</td>
<td>• Projected 2031 population 149,300 on its own, with further substantial growth planned</td>
</tr>
<tr>
<td>Campbelltown</td>
<td>No change or • Combine as strong Joint Organisation with Liverpool, Fairfield, Bankstown, Camden, Wollondilly</td>
<td>• Projected 2031 population 233,800 on its own</td>
</tr>
<tr>
<td>Hawkesbury</td>
<td>No change or • Combine as strong Joint Organisation with Auburn, Holroyd, Paramatta, part Ryde, The Hills, Blacktown, Penrith, Blue Mountains and</td>
<td>• Projected 2031 population 81,500 (without boundary adjustments) • Specialised role in managing peri-urban fringe • May require further boundary adjustments depending on urban growth patterns</td>
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<tr>
<td>Council/s</td>
<td>Options (preferred option in bold)</td>
<td>Rationale</td>
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<tr>
<td>The Hills</td>
<td>• No change or&lt;br&gt;• Combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, Blacktown, Hawkesbury, Penrith, Blue Mountains and&lt;br&gt;• Boundary with Parramatta shifted to M2 and&lt;br&gt;• Possible boundary adjustments with Blacktown and Hawkesbury to facilitate NW Growth Centre and&lt;br&gt;• Possible longer term merger with Hawkesbury</td>
<td>• Projected 2031 population 275,300 (without boundary changes)&lt;br&gt;• See comments above re Parramatta boundary change and possible merger with Hawkesbury</td>
</tr>
<tr>
<td>Penrith</td>
<td>• No change or&lt;br&gt;• Combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, Blacktown, Hawkesbury, The Hills, Blue Mountains</td>
<td>• Projected 2031 population 271,300 on its own&lt;br&gt;• Focus on growth management and new regional centre</td>
</tr>
<tr>
<td>Sutherland</td>
<td>• No change or&lt;br&gt;• Combine as strong Joint Organisation with Canterbury, Rockdale, Kogarah, Hurstville</td>
<td>• Projected 2031 population 262,900 on its own</td>
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<tr>
<td>Wollondilly</td>
<td>• No change or&lt;br&gt;• Combine as strong Joint Organisation with Liverpool, Fairfield, Bankstown, Camden, Campbelltown and&lt;br&gt;• Possible longer term merger with Camden/Campbelltown/Wingecarribee</td>
<td>• Projected 2031 population 59,600 (less if boundary adjustments)&lt;br&gt;• Specialised role in managing peri-urban fringe&lt;br&gt;• May require substantial boundary adjustments with Camden, Campbelltown and Penrith depending on urban growth patterns&lt;br&gt;• Scope for closer linkages with Wingecarribee, perhaps eventual merger of ‘non-metropolitan’ areas</td>
</tr>
</tbody>
</table>
D Review Panel recommendations for regional and rural councils
Table D.1

<table>
<thead>
<tr>
<th>Centre</th>
<th>Potential Amalgamation</th>
<th>Comments</th>
</tr>
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<tbody>
<tr>
<td>Albury</td>
<td>+ Greater Hume (part or whole)</td>
<td>- Greater Hume’s long term sustainability is questionable, but it could</td>
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<td></td>
<td>Combined 2031 population 68,500</td>
<td>continue as a council for some time</td>
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<td>Boundary changes to merge the southernmost parts of Greater Hume with</td>
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<td>Albury and/or Corowa appear warranted</td>
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<td></td>
<td>+ Guyra + Uralla/Walcha</td>
<td>- Amalgamation has been proposed on several previous occasions and</td>
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<tr>
<td>Armidale-Dumaresq</td>
<td>Combined 2031 population 46,700</td>
<td>strongly resisted – but the evidence from neighbouring</td>
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<td>Tamworth is that it would bring considerable benefits</td>
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<td>- Community Boards should be established in the former shires</td>
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<td>- An alternative is to merge Guyra (5,300) with Armidale (32,100), and</td>
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<td>Uralla (7,600) with Walcha (2,600)</td>
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<tr>
<td>Bathurst</td>
<td>+ Oberon</td>
<td>- Oberon’s long term sustainability is questionable: it could continue</td>
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<td></td>
<td>Combined 2031 population 57,900</td>
<td>as a council for some years but amalgamation would provide a higher</td>
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<td></td>
<td>capacity base</td>
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<td></td>
<td></td>
<td>- A Community Board should be established in the former Shire</td>
</tr>
<tr>
<td>Deniliquin</td>
<td>+ Conargo + Murray</td>
<td>- Conargo and Murray create a ‘doughnut’ around Deniliquin</td>
</tr>
<tr>
<td></td>
<td>Combined 2031 population 18,400</td>
<td>- Conargo Shire is based in Deniliquin and its projected population of</td>
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<td>just 2,000 is considered too small to warrant a separate entity</td>
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<td>- Deniliquin is at present the largest urban centre but by 2036 Murray</td>
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<td>Shire will have a much larger population</td>
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<td>- Walburlong might also be included and would increase projected</td>
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<td>population to 71,900</td>
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<td></td>
<td>- Community Boards should be established in the former LGAs</td>
</tr>
<tr>
<td>Dubbo</td>
<td>+ Narramine + Wellington</td>
<td>- Narramine and Wellington may be sustainable into the medium-long term,</td>
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<td>Combined 2031 population 60,800</td>
<td>although Wellington has a Weak FSR</td>
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<td></td>
<td>- Community Boards should be established for Narramine and Wellington if</td>
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<tr>
<td></td>
<td></td>
<td>amalgamation occurs</td>
</tr>
<tr>
<td>Griffith</td>
<td>+ Murrumbidgee</td>
<td>- Murrumbidgee’s projected population of 1,400 is considered too small</td>
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<tr>
<td></td>
<td>Combined 2031 population 21,900</td>
<td>to warrant a separate entity, especially given its proximity to</td>
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<td>Griffith: a Community Board would be appropriate</td>
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<td></td>
<td></td>
<td>- Also adjust boundary with Carrathool to reduce ‘doughnut’ effect</td>
</tr>
<tr>
<td>Orange</td>
<td>+ Gabonne</td>
<td>- Gabonne may well be sustainable into the long term, but its recent</td>
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<td></td>
<td>Combined 2031 population 64,400</td>
<td>and projected growth is overspill from Orange</td>
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<td>- Some areas on the northern and western fringes of Gabonne are seeking</td>
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<td>to move to adjoining councils</td>
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<td>- Blayney could also be added and would increase the projected population</td>
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<td>to 73,100: it could remain sustainable as a separate council for</td>
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<td>several decades but amalgamation would provide a much higher capacity</td>
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<td></td>
<td></td>
<td>base</td>
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<td>- Community Boards should be established as required in the former LGAs</td>
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<tr>
<td>Queanbeyan</td>
<td>+ Palerang</td>
<td>- Palerang was created in 2004 and has been through a difficult</td>
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<td>Combined 2031 population 77,100</td>
<td>establishment period: its financial position remains</td>
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<td></td>
<td>questionable and projected substantial growth is essentially ACT and</td>
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<td></td>
<td>Queanbeyan overspill</td>
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<td>- There may be a case to divide Palerang amongst all its adjoining</td>
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<td>councils, but this would be very disruptive</td>
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<tr>
<td>Wagga Wagga</td>
<td>+ Lockhart</td>
<td>- A Community Board would need to be established for Lockhart if a</td>
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<tr>
<td></td>
<td>Combined 2031 population 75,900</td>
<td>merger proceeded</td>
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</table>
### Table 11: Options for Non-Metropolitan Councils

Note: FAs projected by DP&I without boundary changes or mergers. FAs defined in the NIEIR cluster-factor analysis (see references). *Grants as percentage of total revenue in 2011-12: High if >40%, Very High if >50%. @Based on availability and proximity of a suitable partner. Councils shown in italics urgently require a revised long-term asset and financial management plan plus an updated sustainability assessment (see section 15.2)

<table>
<thead>
<tr>
<th>Council</th>
<th>Popn. 2015</th>
<th>*Popn. 2033</th>
<th>Corp CSR (April 13)</th>
<th>Corp Outlook (April 13)</th>
<th>DEG Int. Audit (May 13)</th>
<th>*Grant Dependency</th>
<th>*Merger Potential Options (preferred options shown in bold where applicable)</th>
</tr>
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<tbody>
<tr>
<td>Group A: Western Region Councils (see section 16)</td>
<td></td>
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<tr>
<td>Balranald</td>
<td>3,801</td>
<td>1,700</td>
<td>Weak</td>
<td>Negative</td>
<td>Weak</td>
<td>Low</td>
<td>Very High</td>
</tr>
<tr>
<td>Bourke</td>
<td>3,085</td>
<td>2,300</td>
<td>Weak</td>
<td>Negative</td>
<td>Weak</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Brewarrina</td>
<td>1,895</td>
<td>1,700</td>
<td>Weak</td>
<td>Negative</td>
<td>Weak</td>
<td>Low</td>
<td>Very High</td>
</tr>
<tr>
<td>Broken Hill</td>
<td>19,150</td>
<td>15,100</td>
<td>Very Weak</td>
<td>Neutral</td>
<td>Weak</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Central Darling</td>
<td>2,108</td>
<td>1,800</td>
<td>Very Weak</td>
<td>Negative</td>
<td>Weak</td>
<td>Low</td>
<td>Very High</td>
</tr>
<tr>
<td>Cobram</td>
<td>4,931</td>
<td>4,800</td>
<td>Weak</td>
<td>Negative</td>
<td>Very Weak</td>
<td>Low</td>
<td>High</td>
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<tr>
<td>Walpeet</td>
<td>6,860</td>
<td>5,900</td>
<td>Moderate</td>
<td>Negative</td>
<td>Moderate</td>
<td>Low</td>
<td>Very High</td>
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<tr>
<td>Wentworth</td>
<td>6,787</td>
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<td>Negative</td>
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<td>Group B: Projected 2031 population below 4,000; High merger potential (2014 referrals to Boundaries Commission)</td>
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<tr>
<td>Bombala</td>
<td>2,458</td>
<td>2,000</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Moderate</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Boorawa</td>
<td>2,469</td>
<td>2,700</td>
<td>Moderate</td>
<td>Negative</td>
<td>Strong</td>
<td>Low</td>
<td>Very High</td>
</tr>
<tr>
<td>Conargo</td>
<td>3,585</td>
<td>1,800</td>
<td>Sound</td>
<td>Neutral</td>
<td>Strong</td>
<td>Low</td>
<td>Very High</td>
</tr>
<tr>
<td>Gundagai</td>
<td>3,753</td>
<td>3,400</td>
<td>Moderate</td>
<td>Negative</td>
<td>Distressed</td>
<td>Low</td>
<td>Very High</td>
</tr>
<tr>
<td>Harden</td>
<td>3,680</td>
<td>3,600</td>
<td>Moderate</td>
<td>Negative</td>
<td>Strong</td>
<td>Very High</td>
<td>Very High</td>
</tr>
<tr>
<td>Jerilderie</td>
<td>3,534</td>
<td>1,200</td>
<td>Moderate</td>
<td>Negative</td>
<td>Weak</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Murrumbidgee</td>
<td>2,388</td>
<td>1,700</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Not avail.</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Urana</td>
<td>1,180</td>
<td>800</td>
<td>Weak</td>
<td>Neutral</td>
<td>Very weak</td>
<td>Low</td>
<td>Very High</td>
</tr>
<tr>
<td>Walcha</td>
<td>6,220</td>
<td>2,800</td>
<td>Weak</td>
<td>Negative</td>
<td>Distressed</td>
<td>Low</td>
<td>High</td>
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<tr>
<td>Group C: Projected 2031 population below 5,000; Low or ‘Medium’ merger potential (2015-16 referrals to Boundaries Commission)</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Bogan</td>
<td>3,020</td>
<td>2,600</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Moderate</td>
<td>Low</td>
<td>Very High</td>
</tr>
<tr>
<td>Corowa</td>
<td>2,668</td>
<td>2,100</td>
<td>Weak</td>
<td>Neutral</td>
<td>Weak</td>
<td>Very High</td>
<td>Very High</td>
</tr>
<tr>
<td>Coolamon</td>
<td>4,213</td>
<td>4,200</td>
<td>Sound</td>
<td>Negative</td>
<td>Very weak</td>
<td>Very High</td>
<td>Very High</td>
</tr>
<tr>
<td>Coonamble</td>
<td>4,274</td>
<td>3,100</td>
<td>Sound</td>
<td>Negative</td>
<td>Strong</td>
<td>Low</td>
<td>Very High</td>
</tr>
<tr>
<td>Gilgandra</td>
<td>4,534</td>
<td>4,100</td>
<td>Weak</td>
<td>Neutral</td>
<td>Weak</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Hay</td>
<td>3,097</td>
<td>2,100</td>
<td>Moderate</td>
<td>Negative</td>
<td>Moderate</td>
<td>Low</td>
<td>Very High</td>
</tr>
<tr>
<td>Lockhart</td>
<td>3,082</td>
<td>2,900</td>
<td>Strong</td>
<td>Neutral</td>
<td>Moderate</td>
<td>Low</td>
<td>Very High</td>
</tr>
<tr>
<td>Tumbarumba</td>
<td>4,440</td>
<td>3,200</td>
<td>Strong</td>
<td>Negative</td>
<td>Very Strong</td>
<td>Low</td>
<td>Medium</td>
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</table>
Review Panel recommendations for regional and rural councils

### Group D: Potential merger partners for Groups B and C councils (2014-16 referrals to Boundaries Commission)

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</thead>
<tbody>
<tr>
<td>Berrigan</td>
<td>8,282</td>
<td>9,300</td>
<td>Strong</td>
<td>Low</td>
<td>High</td>
<td>Council in Mid-Murray JO or merge with Jerilderie</td>
</tr>
<tr>
<td>Bland</td>
<td>6,018</td>
<td>5,500</td>
<td>Weak</td>
<td>Strong</td>
<td>Very High</td>
<td>Council in Riverina JO or merge with Coolamon and/or Temora</td>
</tr>
<tr>
<td>Cooma-Monaro</td>
<td>10,086</td>
<td>10,800</td>
<td>Weak</td>
<td>Neutral</td>
<td>Weak</td>
<td>Council in South East JO or merge with Bembela and Snowy River</td>
</tr>
<tr>
<td>Corowa</td>
<td>11,302</td>
<td>13,400</td>
<td>Moderate</td>
<td>Negative</td>
<td>Distressed</td>
<td>Council in Upper Murray JO or merge with Urana</td>
</tr>
<tr>
<td>Cowra</td>
<td>12,526</td>
<td>11,700</td>
<td>Sound</td>
<td>Negative</td>
<td>Very Weak</td>
<td>Council in Central West JO or merge with Weddin</td>
</tr>
<tr>
<td>Deniliquen</td>
<td>7,317</td>
<td>5,700</td>
<td>Moderate</td>
<td>Negative</td>
<td>Weak</td>
<td>Council in Mid-Murray JO or merge with Conargo and/or Murrumbidgee</td>
</tr>
<tr>
<td>Goulburn</td>
<td>25,292</td>
<td>20,200</td>
<td>Sound</td>
<td>Negative</td>
<td>Moderate</td>
<td>Council in Murrumbidgee JO or merge with Murrumbidgee</td>
</tr>
<tr>
<td>Murray</td>
<td>7,159</td>
<td>10,900</td>
<td>Moderate</td>
<td>Negative</td>
<td>Weak</td>
<td>Council in Mid-Murray JO or merge with D’Qua/Conargo and Warkool</td>
</tr>
<tr>
<td>Snowy River</td>
<td>7,752</td>
<td>9,200</td>
<td>Moderate</td>
<td>Negative</td>
<td>Weak</td>
<td>Council in South East JO or merge with Bembela/Cooma-Monaro</td>
</tr>
<tr>
<td>Temora</td>
<td>5,928</td>
<td>5,000</td>
<td>Sound</td>
<td>Neutral</td>
<td>Strong</td>
<td>Council in Riverina JO or merge with Coolamon and/or Bland</td>
</tr>
<tr>
<td>Tumut</td>
<td>11,272</td>
<td>9,300</td>
<td>Moderate</td>
<td>Weak</td>
<td>Very weak</td>
<td>Council in Riverina JO or merge with Gundagai and Tumbarumba</td>
</tr>
<tr>
<td>Uralba</td>
<td>6,260</td>
<td>7,400</td>
<td>Weak</td>
<td>Neutral</td>
<td>Very weak</td>
<td>Council in New England JO or merge with Walcha</td>
</tr>
<tr>
<td>Wagga Wagga</td>
<td>61,509</td>
<td>73,000</td>
<td>Moderate</td>
<td>Negative</td>
<td>Moderate</td>
<td>Council in Riverina JO or merge with Lockhart</td>
</tr>
<tr>
<td>Young</td>
<td>12,514</td>
<td>13,000</td>
<td>Sound</td>
<td>Negative</td>
<td>Weak</td>
<td>Council in Tablelands JO or merge with Boorowa/Harden</td>
</tr>
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</table>

### Group E: Other potential mergers to consolidate major regional centres (2017 referrals to Boundaries Commission)

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</thead>
<tbody>
<tr>
<td>Albury</td>
<td>49,467</td>
<td>57,300</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Moderate</td>
<td>Council in Upper Murray JO or merge with Greater Hume (part or all)</td>
</tr>
<tr>
<td>Armidale</td>
<td>25,270</td>
<td>31,500</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Moderate</td>
<td>Council in New England JO or merge with Guyra</td>
</tr>
<tr>
<td>Bathurst Regional</td>
<td>39,956</td>
<td>52,500</td>
<td>Moderate</td>
<td>Negative</td>
<td>Moderate</td>
<td>Council in Central West JO or merge with Oberon</td>
</tr>
<tr>
<td>Blayney</td>
<td>7,186</td>
<td>8,700</td>
<td>Moderate</td>
<td>Negative</td>
<td>Weak</td>
<td>Council in Central West JO or merge with Orange</td>
</tr>
<tr>
<td>Cootamundra</td>
<td>13,188</td>
<td>18,600</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Weak</td>
<td>Council in Central West JO or merge with Orange</td>
</tr>
<tr>
<td>Dubbo</td>
<td>40,491</td>
<td>45,400</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Moderate</td>
<td>Council in Orana JO or merge with Wellington and/or Narromine</td>
</tr>
<tr>
<td>Greater Hume</td>
<td>10,039</td>
<td>11,200</td>
<td>Moderate</td>
<td>Negative</td>
<td>Weak</td>
<td>Council in Upper Murray JO or merge part or all with Albury</td>
</tr>
<tr>
<td>Guyra</td>
<td>4,543</td>
<td>5,000</td>
<td>Moderate</td>
<td>Negative</td>
<td>Very weak</td>
<td>Council in New England JO or merge with Armidale</td>
</tr>
<tr>
<td>Narromine</td>
<td>6,929</td>
<td>6,800</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Moderate</td>
<td>Council in Orana CC or merge with Dubbo</td>
</tr>
<tr>
<td>Orange</td>
<td>39,480</td>
<td>45,800</td>
<td>Sound</td>
<td>Negative</td>
<td>Moderate</td>
<td>Council in Central West JO or merge with Cabonne and/or Blayney</td>
</tr>
<tr>
<td>Palerang</td>
<td>14,835</td>
<td>23,300</td>
<td>Moderate</td>
<td>Negative</td>
<td>Distressed</td>
<td>Council in South East JO or merge with Queanbeyan</td>
</tr>
<tr>
<td>Queanbeyan</td>
<td>39,826</td>
<td>53,800</td>
<td>Weak</td>
<td>Neutral</td>
<td>Weak</td>
<td>Council in South East JO or merge with Palerang</td>
</tr>
<tr>
<td>Wellington</td>
<td>8,937</td>
<td>8,600</td>
<td>Weak</td>
<td>Neutral</td>
<td>Weak</td>
<td>Council in Orana JO or merge with Dubbo</td>
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### Group F: Current and/or projected 2031 population 5-10,000 (Review status by 2020)

<table>
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</thead>
<tbody>
<tr>
<td>Cootamundra</td>
<td>7,501</td>
<td>7,100</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Moderate</td>
<td>Council in Riverina JO or merge with Junee</td>
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<tr>
<td>Forbes</td>
<td>9,471</td>
<td>9,200</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Moderate</td>
<td>Council in Central West JO, merge with Weddin</td>
</tr>
<tr>
<td>Glen Innes-Seyern</td>
<td>8,965</td>
<td>8,900</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Weak</td>
<td>Council in New England JO</td>
</tr>
<tr>
<td>Gloucester</td>
<td>4,974</td>
<td>5,700</td>
<td>Very Weak</td>
<td>Neutral</td>
<td>Moderate</td>
<td>Council in Mid-North Coast JO or merge with Great Lakes and/or Greater Taree</td>
</tr>
<tr>
<td>Gwydir</td>
<td>5,074</td>
<td>5,100</td>
<td>Very Weak</td>
<td>Neutral</td>
<td>Distressed</td>
<td>Council in Namoi JO or merge with Moree Plains</td>
</tr>
<tr>
<td>Council</td>
<td>Size (2016)</td>
<td>Performance</td>
<td>Criteria</td>
<td>Fit for the Future</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-------------</td>
<td>-------------</td>
<td>----------</td>
<td>--------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junee</td>
<td>6,091</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Weak</td>
<td>Low</td>
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<tr>
<td>Kyogle</td>
<td>9,537</td>
<td>Weak</td>
<td>Negative</td>
<td>Moderate</td>
<td>High</td>
<td></td>
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<tr>
<td>Lachlan</td>
<td>6,758</td>
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<td>Negative</td>
<td>Weak</td>
<td>Low</td>
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<tr>
<td>Liverpool Plains</td>
<td>7,769</td>
<td>Weak</td>
<td>Negative</td>
<td>Moderate</td>
<td>High</td>
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<tr>
<td>Narrandera</td>
<td>5,123</td>
<td>Sound</td>
<td>Negative</td>
<td>Strong</td>
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<td>Oberon</td>
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<td>Sound</td>
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<td>Moderate</td>
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<td>Weak</td>
<td>Negative</td>
<td>Weak</td>
<td>Very High</td>
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<td>Upper Lachlan</td>
<td>7,378</td>
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<td>Warrumbungle</td>
<td>9,297</td>
<td>Weak</td>
<td>Moderate</td>
<td>Moderate</td>
<td>High</td>
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</tr>
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</table>

**Group G: Larger rural and regional councils (excluding Hunter, Central coast and Illawarra)**

<table>
<thead>
<tr>
<th>Council</th>
<th>Size (2016)</th>
<th>Performance</th>
<th>Criteria</th>
<th>Fit for the Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ballina</td>
<td>40,753</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Weak</td>
</tr>
<tr>
<td>Bega Valley</td>
<td>37,999</td>
<td>Sound</td>
<td>Neutral</td>
<td>Strong</td>
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<tr>
<td>Bellingen</td>
<td>12,886</td>
<td>Moderate</td>
<td>Negative</td>
<td>Weak</td>
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<td>Byron</td>
<td>30,825</td>
<td>Weak</td>
<td>Negative</td>
<td>Weak</td>
</tr>
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<td>Clarence Valley</td>
<td>51,252</td>
<td>Weak</td>
<td>Negative</td>
<td>Weak</td>
</tr>
<tr>
<td>Coiff Harbour</td>
<td>70,933</td>
<td>Weak</td>
<td>Negative</td>
<td>Weak</td>
</tr>
<tr>
<td>Eurobodulla</td>
<td>36,993</td>
<td>Moderate</td>
<td>Neutral</td>
<td>Weak</td>
</tr>
<tr>
<td>Goulburn-M’waree</td>
<td>28,285</td>
<td>Moderate</td>
<td>Negative</td>
<td>Very Weak</td>
</tr>
<tr>
<td>Great Lakes</td>
<td>47,505</td>
<td>Very weak</td>
<td>Negative</td>
<td>Very Weak</td>
</tr>
<tr>
<td>Greater Taree</td>
<td>12,515</td>
<td>Sound</td>
<td>Negative</td>
<td>Very Strong</td>
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<td>Inverell</td>
<td>16,614</td>
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<td>Neutral</td>
<td>Moderate</td>
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<td>Kempsey</td>
<td>29,188</td>
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<td>Negative</td>
<td>Weak</td>
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<td>Leeton</td>
<td>11,406</td>
<td>Moderate</td>
<td>Negative</td>
<td>Moderate</td>
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<td>Lismore</td>
<td>44,282</td>
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<td>Lithgow</td>
<td>22,790</td>
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<td>Moderate</td>
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<td>Mid-Western Reg</td>
<td>23,000</td>
<td>Sound</td>
<td>Negative</td>
<td>Weak</td>
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<td>Moree Plains</td>
<td>14,189</td>
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<td>Neutral</td>
<td>Moderate</td>
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<td>Namboona</td>
<td>15,286</td>
<td>Weak</td>
<td>Negative</td>
<td>Moderate</td>
</tr>
<tr>
<td>Narrabri</td>
<td>13,475</td>
<td>Moderate</td>
<td>Negative</td>
<td>Very Weak</td>
</tr>
<tr>
<td>Parkes</td>
<td>15,047</td>
<td>Moderate</td>
<td>Negative</td>
<td>Weak</td>
</tr>
<tr>
<td>Port Macq-Hastings</td>
<td>74,949</td>
<td>Weak</td>
<td>Negative</td>
<td>Moderate</td>
</tr>
<tr>
<td>Richmond Valley</td>
<td>22,697</td>
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</tr>
<tr>
<td>Shoalhaven</td>
<td>96,043</td>
<td>Sound</td>
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<td>Moderate</td>
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<tr>
<td>Tamworth Regional</td>
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<td>Neutral</td>
<td>Moderate</td>
</tr>
<tr>
<td>Tweed</td>
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<tr>
<td>Wingecaribee</td>
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<tr>
<td>Yass Valley</td>
<td>15,516</td>
<td>Moderate</td>
<td>Negative</td>
<td>Moderate</td>
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</table>

Review of criteria for fit for the future, IPART.
D  Review Panel recommendations for regional and rural councils