



ORANGE
CITY COUNCIL

Fit for Future Improvement Action Plan



June 2015

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Executive summary

The purpose of this document is to provide details of the improvement initiatives Orange City Council has identified to illustrate how we are “fit for the future.”

Council used the recommendations of the Independent Local Government Review Panel as its starting point. Ultimately the support of merger partners was not provided which gave rise to the submission of a standalone position from Orange City Council.

The Improvement Plan (Plan) includes an overview of the activities Council has incorporated into the Long Term Financial Plan (LTFP) that shows that the Council is fit for future in terms of scale and capacity and how this position will be maintained and in some areas improved.

The Plan also provides commentary on the assessment of the ratios being used to assess the sustainability of the Council.

Council has been approached by a neighbouring council identifying an interest in boundary changes and Council is also aware that residents of an adjoining council area have submitted a proposal to the Minister to join Orange. The Council resolved to engage with the NSW Government in order that consideration of boundary adjustments be added to the reform agenda.

In considering the merger option, Council identified that a significant amount of work would be required to ensure our Council is fully aware of the implications of a merger and this report highlights the areas of additional work required to adequately assess a merger and provide appropriate due diligence around a merger.

Process to date

The NSW Independent Local Government Review Panel (Panel) recommended in its report of October 2013 that Orange City Council be a “Council in Central West JO or **merge with Cabonne** and/or Blayney.”¹

Orange City Council wrote to Blayney and Cabonne councils in September 2014 seeking a meeting to discuss the proposed merger. Follow up letters were sent in February to progress the discussions.

Blayney Council advised in March 2015 that Blayney intended to stand alone.

Cabonne identified they would participate in a merger business proposal process in March 2015. Morrison Low were selected to complete the merger business case analysis after their brief was approved by the Office of Local Government as part of the NSW Government offer to jointly fund the preparation of this research. The Morrison Low report has been provided as an attachment to the submission to accompany this report.

Cabonne Council resolved on 19 May 2015 to submit a Template 2 submission in response to the Fit for Future program and not to proceed with a merger option.

¹ P115 “Revitalising Local Government, Final Report”, NSW Independent Local Government Review Panel

Orange City Council consideration of the issues arising from a merger with Cabonne and also the option to stand alone has been extensive.

The Council has received monthly briefings on the issue over the past 6 months. Council has received ten (10) reports on the reform process since November 2011. The resolutions from those considerations are provided in Appendix 1.

In addition to the work done by Morrison Low to model the impact of a merger between Orange and Cabonne, Orange City Council has undertaken its own investigation to assess the impact of the merger and its performance against the Fit for Future criteria, including:

- Council made submissions to the OLG and IPART on the methodology being used in the FFF program.
- Council's auditor reviewed the ratios methodology and Council's performance against the benchmarks.
- Council's Audit and Risk Management Committee reviewed the processes Council undertook to investigate the merger option and in particular was asked to advise on the adequacy of the risk issues assessment and treatment proposed to mitigate against the risks of a merger.
- A desktop review of the published assets management plans of Blayney and Cabonne Councils was completed.
- An assessment of the Council's own assets management system to benchmark it against industry best practice was commissioned. An invitation to participate in this process of independent review of the assets systems, methodology and data reliability was offered to Cabonne Council.

Council's investigations of a merger option highlighted the following concerns:

- A full due diligence process is needed to properly assess how a merger will impact on Orange City Council and Cabonne Council.
- A full audit of levels of service and service gaps is required. Only a preliminary investigation was undertaken in the preparation of the merger business case. It is essential to understand the cost base of both councils. It is just as important to understand what services are not being delivered, what are planned to be added and are budgeted for and which services have not been contemplated that could be perceived to be a service gap. This is required in order to manage community expectations where disparate levels of service between two councils are evident. Orange has resolved a position of not supporting cross subsidisation of residents in other areas if a merger is to occur so this element is a critical issue that requires careful investigation and management.
- It is also necessary to ensure all asset classes have been included in the assets analysis and all assets have been assessed using verifiable and replicable information in order to establish a baseline of assets information. Relying on information in Special Schedule 7 and 9 does not provide a sufficient basis for assessing the assets conditions and the liabilities to be incurred on a comparative basis.
- There is a significant difference in the maturity of assets information between the two councils and it would be necessary to invest in processes to adequately align both council's assets systems to a comparable level in terms of component based asset assessment on a

whole of life basis in order to ensure full assets information is identified and adequately assessed.

- Council has received a letter from Forbes Shire Council seeking a discussion on boundary adjustment around the Eugowra area. Council is also aware that some residents in Cabonne Council have a proposal to join Orange LGA. Council has identified the need to consider logical boundary adjustments as part of the reform process and will seek further discussion with the NSW Government on this issue should the State determine a merger is to occur.
- The two councils manage water and sewer services differently with Cabonne area being serviced in part by Central Tablelands County Council. Analysis would need to be done given little investigation of the water and sewer services has been included in the fit for future processes. Additionally, it would need to be assessed how planned changes to the county council model will impact on a merged entity.
- No analysis of the impact if Blayney has been undertaken given their decision not to participate in the merger discussions. If the NSW Government makes a final decision of a merger the due diligence process will need to be extended to cover all merger partners.

Orange City Council – Assessment of Scale and Capacity

Evidence of how Orange City Council meets the criteria identified by the Panel regarding strategic capacity² is provided below. Specific initiatives to improve on the current position are provided in a later section of the Plan.

Council described its strategic capacity as follows having assessed them at current levels of service:

Criteria	How Orange City Council demonstrates this
More robust revenue base and increased discretionary spending	<ul style="list-style-type: none"> • Operating surplus (before capital) in every year of the Long Term Financial Plan (LTFP) • Completion of assets management systems project and integration with Long Term Financial Plan – high level of data integrity around assets data has been achieved providing additional opportunity for the identification of discretionary expenditure. • An example of the Council's ability to accommodate changing priorities and thus utilise discretionary spending arose in 2013/14 where the roads budget was doubled to \$8M p.a. • A review of discretionary expenditure will commence in 2015/16 with the aim of reducing costs by 0.5%. The savings will enhance the level of discretionary expenditure. • A review and extensive public consultation process around levels of service will be undertaken commencing in 2015/16 to feed into the first Community Strategic Plan after the 2016 election of a new council. This process will further enhance Council's level of discretionary expenditure • Demonstrated ability to add new/emergent projects to operating programs (e.g. Operation Jarek recommendations implemented, Promoting Better Practice recommendations (4 of 31 remaining to be completed – all commenced), attainment of compliance with best practice water and sewer programs) • In 2013/14 the Council commenced the financial management processes required to return all funds to operating surplus. This has been achieved in the Long Term financial Plan adopted by Council on 12 May 2015 for the decade commencing 2015/16. • Strategic planning as a backbone for long term financial planning – for example: <ul style="list-style-type: none"> ○ 2015 – Developer Contributions Plan review (underway) ○ 2015 – Airport Business Plan (underway) ○ 2015 – Open Space plan (under way) ○ 2015 – Lucknow village master plan (on exhibition) ○ 2014 – Jobs creation strategy – 10 year plan to support jobs creation ○ 2012 – Tourism Strategy (fully incorporated into the Delivery/Operational Plan from 2013/14 onwards) ○ 2012 – Water and Sewer Strategic Business plans ○ 2014 – Cook Park management plan ○ 2014 – Moulder Park management plan ○ 2014 – Shiralee (South Orange) masterplan – 1,600 lot residential subdivision ○ 2011 – Economic Development Strategy (fully incorporated into

² Ibid, Box 8, p32

Delivery/Operational Plan from 2013/14 onwards)

- 2011 – Revised Local Environmental Plan

- Existing internal business improvement program – ongoing – achievements to date include:
 - Delivery of the Promoting Better Practice initiatives – 31 tasks identified with only 4 to be completed - all 4 have future due dates for completion.
 - Review of the Assets Management System and creation of an Assets Improvement Program after assessment against the National Asset Management and Financial Planning Framework (NAMAF)
 - Telecommunications – new phone system with significant ongoing savings designed, tendered and currently being implemented.
 - Names and Addresses register – commenced whole of council review to establish one resource for all communications
 - Review of records management processes to improve efficiencies
 - Procurement system – complete review all policies and processes, achievement of all Operation Jarek recommendations, Online procurement system implemented
 - Delegations – whole of council review, review all relevant legislation and assignment of delegations, online tool implemented
 - Recruitment – complete process review and implementation of online tool
 - Industrial relations – negotiation of 17 enterprise/council agreements to one award based system
 - Performance Appraisals – complete process review and implementation of online tool

Scope to undertake new functions and major projects

Major projects completed/commenced in recent years show Council's flexibility to add significant projects to existing operational activities – major projects include :

- \$47M pipeline to Macquarie River - \$20M Federal funding, \$18.2M NSW Government funding, Balance council
- \$19M airport upgrade - \$4.9M Federal, \$1.5M NSW Government and \$2M private funding, balance council
- Further airport expansion project – business park offering road, rail and air transport access, gas access, water access, adequate large area industrial development lot potential
- \$17M Suma Park Dam upgrade
- \$7M Anzac Park Community Facility – new sports facility to create the largest PCYC at the time (2009) – Federal funding \$1.63M
- 1,600 lot Shiralee subdivision master planning in south Orange – integrated strategic planning in land use, infrastructure as well as financial planning.
- \$8M Regional Museum – building on a successful regional capacity building museums program coordinated by Orange

Council has a long history of success in competitive funding processes. In addition to those listed above, grant funding has been successfully attracted for many other projects including:

- CCTV \$150,000 - Federal
- Cancer Care West \$1.3 million - Federal

	<ul style="list-style-type: none"> • North Orange Bypass \$10 million - Federal • Stormwater Harvesting Projects \$4.45 million - NSW • Bathurst Orange Dubbo Alliance \$50,000 and \$2 million - NSW • Ngumbadal Bridge \$250,000 - NSW • Indoor Pool \$3.6 million - Federal • Sir Jack Brabham Park upgrade \$100,000 – NSW • Evocities \$1.7 million - Federal - \$250,000 NSW – with 6 other regional cities • Macquarie River to Orange Pipeline Project \$20 million Federal - \$18.2 million NSW • BMX track \$25,000 - NSW
Ability to employ a wider range of skilled staff	<ul style="list-style-type: none"> • Shared internal auditor position with Bathurst and Dubbo councils offers a unique staffing solution • Shared environmental project position implemented \$2M program between Orange, Bathurst and Dubbo councils (project now concluded) • Joint initiative with NSW Health for employment under the Aboriginal Environmental Health Officer Training program - employing 3 staff • Stable workforce exists • Breadth of staff and skills exists • Recent recruitment responses very good (140 applicants for a customer service job, 30 for a manager position) • An emergent leadership and manager skills development program has been implemented • The annual training plan is extracted from the online performance management system and feeds in to budget planning processes • A succession planning framework has been designed and implemented. • Council's consultative committee is active and engaged. • A review of contract labour and casual hire has been completed with the conversion of a number of positions into permanent jobs.
Knowledge, creativity and innovation	<ul style="list-style-type: none"> • Council is the only local government entity in Australia to be certified by the Australian Government Building and Construction OHS Accreditation Scheme. • Council's Enterprise Risk Management system is a key innovation and is being used as a benchmarking tool by other councils. • Implementation of online performance management, recruitment and procurement processes over the past 2 years have radically changed how council does these tasks. • An innovative approach to stormwater harvesting has won multiple awards and added to the security of the City's water supply • A volunteer and a contractor induction program have been implemented . • Council has written and implemented an Information Technology Strategy which illustrates skills in knowledge, creativity and innovation. Achievements have included: <ul style="list-style-type: none"> ○ A cross departmental steering committee considers all new systems proposals to determine whole of council opportunities to utilise new systems. This has also provided the means to ensure systems are not duplicated and has enhanced the integration of corporate systems.

- New art gallery collections management systems
- Upgrade point of sale systems for theatre and aquatic centre
- Implemented processes to capture assets data remotely to update assets management systems
- Capital improvement have included fibre upgrades to the connectivity between Council locations
- Completed an enhancement to the redundancy of corporate systems via a server virtualisation project
- Completed health checks of its assets, records, finance and geographic information systems
- Commenced a review of the names and addresses register – aim to centralise all contact to customers from one data source
- An independent assessment of the security of Council's networks has been undertaken

Other innovation areas are demonstrated in recent awards across a wide range of areas – they include:

- LGProfessionals - Dick Dahill Memorial Award - the achievements and potential of an upcoming local government finance professional for individual staff member – 2015
- Institute of Public Works Engineering Australasia - Winner Sustainable Solutions in Public Works 2014 – Water Supply Strategy for Orange
- Water Industry Operators Association of Australia and IXOM - Finalist 2015 IXOM NSW Water Taste Test
- Aora - Winner Outstanding local government initiative - Organics Collection/processing and/or marketing - 2014
- Water Industry Operators Association of Australia and Orica Chemicals Australia - Finalist 2014 Orica NSW Water Taste Test
- Australian Library and Information Association - Fellowship for individual staff member– 2014
- NSW Public Libraries Association - Life Membership for individual staff member –2012
- Interdisciplinary Arts and Culture: Arts and Health Initiatives Local Government Arts and Culture Awards - Orange Regional Gallery at Orange Health Service Winner 2012
- NSW Public Libraries, Marketing Awards for Public Libraries – Words from the Dust, (2011), 24 Hour Read (2012), Manildra Memories (2012), One Farm Day (2013), Centenary of World War I in Orange (2014)
- Summer Reading Club 2014/15 Display- Summer reading Club – 2015
- Australian Institute of Architects – NSW Charter – Planning Excellence - Shiralee Master planning (Oculus) - 2014
- National Trust Heritage Awards – Wentworth Mine – Highly commended - 2014
- Local Government National Awards - Orange Blayney and Cabonne Sustainable Collections Project – Commended - 2012
- Museums and Galleries National Award - Orange Blayney and Cabonne Sustainable Collections Project – Winner -2011

- National Trust Heritage Awards – Survey of Significant Landscape Features – Highly commended –2007
- Central West Catchment Management Authority - Champions of the Catchment – 2009
- Local Government Community Partnerships - Runner Up Champions of the Catchment – 2007
- State Cover - Excellence awards for WHSMS system – Commendation 2011
- WorkCover NSW - Safe work awards for the WHSMS system- Commendation - 2011
- State-wide - Risk excellence awards for the WHSMS system - commendation -2012
- Skin Patrol NSW – Sun Safe initiatives – Commendation for OCC approach to wellness programs for staff –2013
- WorkCover - WHS Alliance program with WorkCover NSW - initiative for WHS from the corporate level – 2013-2015
- Australian pilot of the Books on Prescription Scheme in partnership with the University of Newcastle, funded by Library Council of NSW – 2015
- Institute of Municipal Engineering – Finalist – engineering excellence Awards – Finalist, Orange Aerodrome Reconstruction (2006), Winner Innovation award - Lucknow- Spring Hill Wastewater Plant and Effluent Disposal (1991)
- Local Government Engineers Association of NSW - Engineering Excellence Award for Best Management Initiative - Orange/Mt Hagen Project – 1990
- Institute of Public Works Engineering Australian (NSW Division) – Highly commended – Environmental Award – Gosling Creek - 2006
- Engineers Australia Sydney - Engineering for Regional Communities Engineering Excellence – Orange Aerodrome Reconstruction Finalist - Engineering Excellence Award -2006
- NSW Department of Energy Utilities and Sustainability - Sewerage Excellence, Demonstrating excellence in sewerage performance – Energy and Water Green Globe Awards – 2006
- Institute of Engineers Australia - Environmental Engineering Excellence Award – Winner - Blackmans Swamp Creek Stormwater Harvesting Scheme - 2009
- Stormwater Industry Association - National Excellence Awards - Blackmans Swamp Creek Stormwater Harvesting Scheme - Winner 2009 Stormwater Harvesting and Reuse
- Department of Environment and Climate Change NSW - Outstanding environmental achievements in the development and delivery of water saving initiatives in NSW - Blackmans Swamp Creek Stormwater Harvesting Project - Winner 2009 public Sector Water Awards
- IPWEA – Engineering excellence New and or improved technology – winner – Blackmans Swamp Creek Stormwater Harvesting Scheme – 2009
- Australian Water Association - Highly Commended Infrastructure Project Innovation Award - Blackmans Swamp Creek Stormwater

	<p>Harvesting Scheme - 2010</p> <ul style="list-style-type: none"> • Tidy Town Sustainable Communities Awards – Water Conservation Award – Winner – Watertight Project - 2010 • Australian Water Association – Merit Award – Water Environment – 2009 • IPWEA - Design and/or Construction of a Local Government Public Works Project – Highly commended- Sir Neville Howse Stadium Anzac Park Sports Facility - 2010 • Local Government and Shires Association NSW - Water Loss Management Program - Joint Winner – Division C Water Conservation Award - Excellence in the Environment Awards 2010/2011 • Stormwater Industry Association of NSW - Award for Excellence in Infrastructure - Ploughmans Creek Stormwater Harvesting Scheme - 2011 • WorkCover NSW - Best Workplace health and safety management system – Highly commended - 2011 • Tidy Town Sustainable Communities Awards - Winner Water Conservation Award - Blackmans Swamp Creek Stormwater Harvesting – 2011 • Local Government NSW - Excellence in the Environment - Winner 2013/2014 Organics Recovery Award - The Orange Waste Project
Advanced skills in strategic planning and policy development	<ul style="list-style-type: none"> • Integration of assets management systems and financial systems • Advanced internal business improvement processes (now into the third year of the program) have delivered strategic planning in information technology, tourism planning, economic development, land use planning (including a master planning exercise to create a 1,600 lot new suburb) • An annual schedule of policy review is in place to ensure currency with legislative updates. • Grants management procedures – commenced monitoring of grants processes to ensure acquittal processes and payment regimes are flagged and finance staff are aware of all grants income and its allocation. Investigation of automating the recording of grants key data (acquittal dates, payment dates, project milestones etc.) to be considered. • Council has commenced a whole of council process to prepare a strategic planning framework of all initiatives, strategies and plans. The initial tool in place in this process is the Project Management Framework which provides a means to assess the risk, links to assets management planning processes, financial impacts, operational issues and identify funding sources for projects. It also identifies how a project will deliver the objectives in the Community Strategic Plan (CSP). • Council has implemented over the past two years a significant improvement in the linkages between the assets management system and the long term financial plan. This was an improvement objective identified in both the TCorp report Council received in May 2013 and the Promoting Better Practice assessment of November 2013. • Council has taken an active role in the preparation of the Regional growth Plan for the Central West and Orana region with NSW Planning and Environment

Effective regional collaboration	<ul style="list-style-type: none"> • Member of Central West Libraries – also administer the program • Active member of Central NSW Region of Councils (Centroc) • Membership of Inland Forum – 7 regional cities - Mayors and General Managers- lobby group • Membership Evocities – 7 regional cities – marketing initiative to drive relocation • Councillor membership of multiple state and federal based entities • Membership of Mining Related Councils • Membership of Netwaste – 27 councils across NSW participate in this initiative • Membership of LGNSW • Staff membership of unions and LGProfessionals. • Council has 30 committees of which 25 have community representation. Additionally Council has established cluster advisory panels from the key sectors of the local economy to assist in identifying local issues, • Council has regular engagement with the State and Federal members.
Credibility for more effective advocacy	<ul style="list-style-type: none"> • Mayor is a past chair of the NSW Central Region of Councils (Centroc) • Centroc is one of the pilot ROCs in the Joint Organisation program and Council has formally resolved to support this project • Council is an active participant in the Centroc Water Utilities Alliance program which offers significant advocacy opportunities • Councillor/ staff representation on a raft of boards and committees including but not limited to entities that manage tourism, land use planning, regional development, health, education, business chambers, business enterprise centre and service clubs.
Capable partner for State and Federal agencies	<ul style="list-style-type: none"> • Many examples of successfully run projects co-funded with other tiers of government on major infrastructure projects (recent examples include completed projects such as the \$47M pipeline funded by 3 tiers of government and \$19M airport upgrade jointly funded by 3 tiers of government) • Partnering with NSW Trade and Investment on a jobs generation project to address the structural change arising from the loss of one major employer in 2016 (500 full time positions will be lost). • Partnership with NSW Government on the \$17M improvements to Suma Park Dam. In this project Council has worked collaboratively with WorkCover to promote WHS awareness and compliance with local businesses/contractors (WorkCover Alliance).
Resources to cope with complex and unexpected change	<ul style="list-style-type: none"> • In October 2014 Council commenced a 10 year Jobs Creation Strategy with the allocation of \$100K p.a. to address structural change in the local economy arising from the closure of a major employer in 2016. • Enterprise Risk Management system implemented across the whole of Council offers the means to understand and plan for emergent issues • Project management framework in place offering the means to assess the alignment of projects with the CSP objectives and evaluate the operational and financial implications (including ongoing)
High quality political and managerial leadership	<ul style="list-style-type: none"> • Stable council with many returning for multiple terms • Over 100 years councillor experience across all councillors • One councillor is an ex state member for the area • Two councillors have been elected in more than one LGA in their careers • Current General Manager has held the position in two Councils

- Two Directors have been General Manager in two other Councils
- All Directors have held senior executive roles within and outside local government

Ratios³

Council's analysis shows we meet the benchmarks for the ratios in all but one category when the rolling 3 year averages are applied. A discussion on the Building and Infrastructure Assets Renewal Ratio is included below. The merger business case prepared by Morrison Low identified a similar result (albeit suggesting a failure to meet the Operating Performance ratio in 2016/17). Their methodology involved a "normalising" of data across Cabonne and Orange's information sets to enable comparison and the modelling of a merged entity.

Appendix 2 shows the results from the self assessment tool OLG provided.

Appendix 3 shows the ratios over a longer period and creates the six years of 3 year rolling averages required for the template 2 submission.

A summary of the Council's position regarding the ratios is as follows:

Operating Performance Ratio

After analysing the 3 year rolling averages of this ratio, Council achieves the benchmark from 2016/17 onwards for the period assessed (to 2019/20)

The budget figures in Council's 2015/16 – 2018/19 [Delivery/Operational Plan](#) presents General Fund operating expenditure of \$63.3M in 2015/16.

General Fund Building and Infrastructure assets were shown in the 2013/14 financial accounts at a fair value of \$594M (written down value of \$442M). Over the 4 years, the General Fund delivers operating surpluses every year.

Council provides both water and sewer services to the community. The Delivery/Operation Plan shows the Water and Sewer operations deliver operating surpluses for the 4 years. Water and Sewer Building and Infrastructure assets were shown in the 2013/14 financial accounts at a fair value of \$501M (written down value of \$208M).

From a consolidated position (General Fund, Water and Sewer fund combined) operating surpluses are maintained for the entirety of the Long Term Financial Plan. From a consolidated position, the Building and Infrastructure assets have a combined fair value of \$1.095bn (written down value of \$750M).

Council's assessment shows attainment of the benchmark in the 3 year rolling targets from 2016/17 onwards. The Morrison Low report identified Council does not meet the benchmark in 2016 as an isolated year rather than considering the target of the 3 year rolling average.

³ Calculations are provided in appendix 2 and 3

Council supports the analysis of multiple years in this ratio as a significant change in operating expenditure with the commissioning of new services will influence the result. For example, when the Council commissioned a new waste facility in Mid 2013 saw an immediate operational increase of \$3.3M plus road construction costs (the road is in another LGA and hence could not be capitalised) of \$1.5M. Such large increases arising from improved levels of service can impact on this ratio.

Own Source Revenue Ratio

Council's assessment shows attainment of the benchmark giving Council the flexibility to react to shocks and challenges. With a ratio in excess of 65% over each of the six 3 year rolling averages Council shows how it has the capacity to meet planned expenditure requirements whilst remaining flexible enough to respond to unexpected events. The ratio improves between 2014/15 and 2019/20 strengthening Council's position of long term sustainability.

Council has in place forward planning processes that estimate the impact of additional projects which may be added to the program of works where funding sources are secured in its Project Management Framework. Council is therefore building capacity for forward planning with an ability to accommodate potential projects or address emergent issues. The quarterly reviews against the Delivery/Operational Plan that are reported to Council outline the achievements, and assess the impact of budget variation will be used to monitor achievements against the Improvement Plan.

Funding sources are considered in each amendment to ensure Council is monitoring the own source revenue ratio in an ongoing manner.

Council has flagged in its future planning consideration of changes to the funding offers from State and Federal government as much as these are known. For example, impacts of the freezing of the Federal Assistance Grants indexing and potential cuts to community services funding from October 2015 have been factored into the LTFP.

Building and Infrastructure Asset Renewal Ratio

Council fails to meet this ratio. However, the extensive work undertaken to develop the assets management systems and then the integration of the assets information with the long term financial planning processes is the basis for Council's determination that it is managing the renewals process more than adequately. Council's asset management assessment processes countenance intervention levels and residual asset values. Assessments consider component based condition rating and take a life cycle view of assets planning.

Within the 10 years of the current LTFP Council will achieve a zero backlog via the injection of \$4.7M p.a. on average for assets renewals from the 2015/16 year onwards. This is around \$2M p.a on average above what had been previously budgeted. The initiative to achieve a zero backlog position is a direct result of the very high level of assets information built up over 2 years obtained by upgrading the assets information systems and then integrating that information into the scenarios that underpin the creation of the LTFP.

This use of assets related information to judge a councils asset management performance that have less reliability than can be demonstrated in high level systems such as Orange has implemented is problematic. Without industry standards for assets management systems, condition rating and useful life of assets, any council to council comparative assessment is extremely difficult.

Council sought advice from its auditor, Intentus, on the vexing issue of useful and reliable assets data.

The resultant report from Intentus was attached to the submission on the IPART methodology for assessing the Fit for Future submissions. In this report Intentus makes the following observation:

“The infrastructure asset ratios are based upon the (unaudited) data in Special Schedule 7 that is generally accepted as being highly subjective and subject to significant fluctuation. And the depreciation expense reported from Note 9 which is based on financial reporting requirements that are inconsistent with the realities of asset management.

Primarily the requirement for Note 9 that infrastructure is required to be valued on depreciated replacement cost i.e. as if the asset had to be built from nothing. The depreciation charge is then based upon that valuation. This is inconsistent with the asset management information which takes the realistic premise, “we have the existing asset in its current condition, what do we need to spend in order to keep it in that condition (or better) into the future?” The answers to the two questions are very different numbers.”

Council received a summary report on 19 May 2015 (Appendix 5) on the processes undertaken to date regarding the merger business case and in particular the normalising” of data that was required in the creation of the merger business case. In the report the General Manager noted:

Equally, the model and indicators used are at a high level, based on assumptions, and general indicators which ignore full data, calibrated and detailed asset management systems. This approach is to allow comparison between all Councils, including those which do not have full asset systems. In this regard some of the indicators ignore Orange City Council’s detailed asset system and contemporary industry asset management techniques, particularly around intervention levels and residual asset values where Council estimates efficiencies of the order of up to 25%-30% compared to less detailed assessments. This has been acknowledged by the consultant in their findings. Council’s independent auditor, Intentus, has provided feedback on this element of the Fit for the Future assessment, supporting Council’s concerns.

Assets Maintenance Ratio

Council achieves the benchmark in this ratio by a large margin.

The extensive work on assets planning underpins how Council is managing the allocation of funds for all assets related expenditure.

Council has identified as part of its ongoing development of the assets management system to commence a review of the categorisation of expenditure between renewals and maintenance in assets spending over the next 12 months as another task in the ongoing refinement of the assets management processes.

Debt Service Ratio

Council achieves this benchmark with the debt service ratio ranging between 5.1% and 6.37% across the six 3 year rolling averages shown in Appendix 3. Council has in place the mechanism to utilise internal loan facilities where approved and appropriate.

The Fit for Future reform process has highlighted reconsideration of the use of borrowings by councils. It is clear that there is a consideration that zero debt level is not necessarily a good thing and that borrowing to fund infrastructure provides intergenerational equity. Not taking advantage of opportunities to replace assets utilising borrowings that are at a manageable level can be detrimental to the long term financial position of a council if assets are not appropriately scheduled for replacement.

Orange has a manageable debt level as evidenced in the DSR levels. The borrowing decisions are made after consideration of capacity to pay for the impacts of borrowing, including the impact on the operating position arising from interest repayment.

Real Operating expenditure per capita

Council achieves this benchmark from 2016/17 in the 3 year rolling averages assessed.

Improvement activities

The following improvement activities are shown as illustrations of how Council is planning to continually improve and remain fit for the future.

Most are already underway or are planned to commence in the next 4 years and are included in the LTFP and Delivery/Operational Plan 2015/16 – 2018/19.

The following tasks are a small subset of a raft of processes that are detailed in the Delivery/Operational Plan. They have been selected as they illustrate clear linkages to the objectives of the 4 improvement areas of the fit for future initiative – financial sustainability, effectiveness, efficiency and scale and capacity.

The financial sustainability, efficiency and effectiveness criteria have been individually assessed and tasks listed against each one in the tables that follow.

The tasks impact upon scale and capacity is also shown in relevant table (commencing p24) below.

Financial Sustainability

Items in orange have commenced with tasks in brackets indicating progress. Items already specified in the current Long Term Financial Plan (LTFP) are indicated. Other items will be added to the LTFP in subsequent year updates.

Objective	Strategies	Outcome	Included in LTFP	Timeline (end date)	Operating Performance Ratio improvement	Own Source Revenue Ratio improvement	Building and Infrastructure Renewal Ratio improvement
1. Communication with community to establish threshold levels of service and affordability. Project will establish the basis of costs and levels of service for future modelling.	<p>a) Level of service assessment and full cost and benefits estimated, benchmarking unit costs and a fees and charges review process</p> <p>b) Community expectations for levels of service determined and their enhanced understanding of costs (overview of project completed, online consultation tool implemented, comparison Assets Management Plans and CSP levels of service commenced)</p> <p>c) Investigation of major areas of expenditure to determine saving opportunities (e.g. Insurance portfolio review commissioned, procurement mapping project exercise commenced - management of priority contracts, low \$ level procurement processes, improved practices, assets rationalisation project has commenced with a review of property holdings)</p> <p>d) Investigation of services provided under funding arrangements to determine financial sustainability and social impact. Key analysis area will be in community services due to changing funding possibilities.</p> <p>e) Review how funding is applied – operational vs capital – to ensure blend/allocation is right</p> <p>f) Developer contributions plan update</p> <p>g) New revenue streams and partners in service provision investigated including need for future special rate variation</p> <p>h) Integration of all findings into budget processes</p> <p>i) Communications plan to advise community of outcomes</p>	Understanding of cost base and links to expectations of levels of service from community enhanced.	✓	June 2017	<p>✓</p> <p>Aim to achieve 0.5% reduction in cost base</p> <p>Insurance review savings from over insurance, competitive premiums, obsolete policies.</p> <p>Procurement mapping exercise suggested savings of 5-8% on procurement costs.</p>	✓	✓

Objective	Strategies	Outcome	Included in LTFP	Timeline (end date)	Operating Performance Ratio improvement	Own Source Revenue Ratio improvement	Building and Infrastructure Renewal Ratio improvement
2. Forward planning all expenditure additions after financial analysis impacts and assets implications	a. Add life cycle cost assessment to project management framework (Tool being updated with life cycle components) b. Project Management Framework online tool developed c. Linkages between project management framework and assets planning enhanced	Cost controls and management of discretionary expenditure changes	✓	July 2018	✓	✓	✓
3. Strategic planning – whole of council process to establish future levels of service and service planning across all functional areas over the long term	a. Identifying and prioritising/modelling of individual strategic initiatives (plans, strategies, community land plans of management etc.) so elements of plans are brought into one assessment process b. Priority matrix of Council approved projects aligned to CSP, developer contributions plan and reflected in LTFP	Know forward financial and assets management implications		July 2019	✓	✓	✓
4. Land use master planning	a. Village master plans (Lucknow plan on exhibition, Spring Hill commenced) b. Airport business park planning (planning concept submitted to DoPI, strategic land use studies being scoped) c. Entry to town planning	Improved land use management	✓	July 2019			✓
5. Merger assessment and full due diligence process	a. Undertake all tasks in Merger Risk Plan (Plan written and considered by Audit and Risk Management Committee and Council) b. Complete best practice audit all merger partners to rate assets systems, processes and data integrity c. Complete analysis of possible boundary adjustment requests from neighbouring council areas	Proper due diligence assessment of merger impacts		July 2017	✓	✓	✓

Effectiveness – Infrastructure and Service Management

Items in orange have commenced with tasks in brackets indicating progress.

Items already specified in the current Long Term Financial Plan (LTFP) indicated. Other items will be added to the LTFP in subsequent year updates.

Objective	Strategies	Outcome	Included in LTFP	Timeline (end date)	Infrastructure Ratio improvement	Assets Maintenance Ratio improvement	Debt Service Ratio improvement
1. External review of assets management systems and data to benchmark against (best practice)	a. External review that tests Council's assets management plans and strategies against industry best practice (offer to Cabonne to participate in review made, brief developed, consultant appointed) b. Update the Assets Management Strategy c. Improve systems to achieve/approach best practice using NAMAF processes	Further enhancements to the assets management system	✓	July 2017	✓	✓	
2. Debt financing review	a. Assess policy position to maintain DSR under 10% b. Continue to investigate internal loan options (already using internal loan facility, all have approval) d. Review opportunity from NSW Government borrowing facility if established	Flexibility in financing	✓	July 2016			✓
3. Continue to refine and align water and sewer management modelling required from NSW Office of Water (NOW) with LTFP and Delivery/Operational Plan (as per NSW Office of Local Government Integrated Planning and Reporting Framework)	a. Bring modelling inhouse and build internal staff capacity (training conducted, models migrated to internal systems, review NOW preferred system vs Council's system) b. Complete process to align the water and sewer models with LTFP (alignment partially complete for 2015/16 LTFP) c. Investigate integration of drainage as part of water and sewer strategic planning for fully integrated water system planning outcome.	One model to service all requirements	✓	June 2020	✓	✓	

Objective	Strategies	Outcome	Included in LTFP	Timeline (end date)	Infrastructure Ratio improvement	Assets Maintenance Ratio improvement	Debt Service Ratio improvement
4. Revised Water and Sewer Strategic Business plan	a. Review existing plans and update	Ongoing improvement of water and sewer infrastructure service planning	✓	June 2017	✓	✓	
5. Mid-term review of Council's integrated Water Cycle Management Strategy	a. Review existing plan and update	Ongoing improvement of water and sewer infrastructure service planning	✓	June 2017	✓	✓	
6. Continue to work with partner councils as part of the Centroc Water Utilities Alliance to implement effective water security plans	a. Attendance at Alliance meetings	Ongoing skills sharing across the regional and regional approach to assets planning, particularly relating to WHS management practices.	✓	ongoing	✓	✓	
7. Deliver the Orange to Central Tablelands pipeline project	a. Design pipeline infrastructure and prepare project implementation plans b. Tenders conducted and contractors appointed c. Milestone reporting undertaken	Regional water assets planning improvement through collaboration with Cabonne Council and NSW Government.	✓	June 2018	✓	✓	
8. Review and update the Council's Drought Management Plans	a. Review existing plan and update	Regional water assets planning improvement	✓	June 2018	✓	✓	
9. Update Assets Management Plans to inform LTFP	a. All Plans updated by October annually (Assets system improvement plan prepared) b. Plans considered in budget cycle assessment to prepare draft LTFP by December	Ongoing alignment of levels of service and community need	✓	Annually	✓	✓	✓

Efficiency

Items in orange have commenced with tasks in brackets indicating progress.

Items already specified in the current Long Term Financial Plan (LTFP) indicated. Other items will be added to the LTFP in subsequent year updates.

Objective	Strategies	Outcome	Included in LTFP	Timeline (end date)	Real Operating Expenditure
1. Enterprise risk Management system review	a. Independent assessment to determine position against best practice (scoping of review commenced) b. Estimate impact of system and costs/benefits	Best practice system	✓	June 2016	
2. Continued business improvement opportunities arising from shared internal auditor initiative with Bathurst and Dubbo Councils continued	a. Shared experiences identify projects for investigation (Internal Auditor annual task to identify opportunities in place, several opportunities currently being investigated)	Process improvements	✓	Annually	✓
3. Continuation of internal process improvements	a. Dashboard reporting of management accounting information (scoping of requirement commenced based on FFF ratios/TCorp ratios) b. Full system integration (Records, assets and financial systems health checks undertaken, systems security testing completed, online tools in procurement, recruitment, risk management, performance management and assets management completed, system review and upgrade GIS completed)	Process improvements	✓	June 2019	✓

Scale and Capacity

The Improvement Plan items listed above have been assessed and categorised as follows to illustrate where they will impact upon the criteria for scale and capacity.

The Panel's scale and capacity criteria⁴ are:

1. More robust revenue base and increased discretionary spending
2. Scope to undertake new functions and major projects
3. Ability to employ wider range of skilled staff
4. Knowledge, creativity and innovation
5. Advanced skills in strategic planning and policy development
6. Effective regional collaboration
7. Credibility for more effective advocacy
8. Capable partner for State and Federal agencies
9. High quality political and managerial leadership

⁴ Ibid, Box 8, p32

Objective	Area	Scale and Capacity criteria								
		Robust revenue base and increased discretionary spend	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	High quality political and managerial leadership
Communication with community to establish threshold levels of service and affordability. Project will establish the basis of costs and levels of service for future modelling	Financial Sustainability	✓	✓	✓	✓	✓		✓	✓	✓
Strategic planning – whole of council process to establish future levels of service and service planning across all functional areas	Financial Sustainability	✓	✓		✓	✓				
Land use master planning	Financial Sustainability				✓	✓	✓		✓	
Merger assessment and full due diligence process	Financial Sustainability	✓	✓		✓	✓	✓	✓	✓	✓
External review of assets management systems and data to benchmark against best practice	Effectiveness	✓	✓		✓	✓			✓	
Debt financing review	Effectiveness	✓	✓						✓	
Continue to refine and align water and sewer management modelling required for Office of Water with LTFP and Delivery/ Operational Plan	Effectiveness	✓	✓		✓	✓		✓	✓	

Objective	Area	Scale and Capacity criteria								
		Robust revenue base and increased discretionary spend	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	High quality political and managerial leadership
Revised Water and Sewer Strategic Business plan	Effectiveness		✓		✓	✓		✓	✓	
Mid-term review of Council’s integrated Water Cycle Management Strategy	Effectiveness		✓		✓	✓		✓	✓	
Continue to work with partner councils as part of the Centroc Water Utilities Alliance to implement effective water security plans	Effectiveness				✓	✓	✓	✓	✓	✓
Deliver the Orange to Central Tablelands pipeline project	Effectiveness		✓	✓	✓	✓	✓	✓	✓	✓
Review and update the Council’s Drought Management Plans	Effectiveness				✓	✓		✓	✓	
Update Assets Management Plans to inform LTFP	Effectiveness	✓	✓	✓	✓	✓		✓	✓	✓
Enterprise risk Management system review	Efficiency	✓	✓		✓					
Continued business improvement opportunities arising from shared internal auditor initiative with Bathurst and Dubbo Councils	Efficiency			✓	✓		✓			
Continuation of internal process improvements	Efficiency	✓	✓		✓	✓		✓	✓	✓

Consultation processes

The following summarises the range of internal and external consultation processes and outcomes.

- Your Say Orange website, on-line forum, survey, library, Q and A and a feedback portal available for a formal 28 day exhibition period
- Social media engagement
- Public meeting
- The matter of local government reform was also the subject of ten separate reports to Council that were considered at open meetings of Council between November 2011 and June 2015 (see appendix 1 for resolutions).

The above engagement opportunities were promoted in a number of ways including print and radio advertising, news items in local media, postings on social media and via the Council website.

Results

There were 277 visits to the Your Say Orange Fit for the Future online consultation.

There are three levels of measuring engagement with the resources of the site.

- 218 **Aware** visitors (People who visited at least one page)
- 128 **Informed** visitors (People who have clicked on some links to read documents, read news items, read FAQs, looked at photos)
- 23 **engaged** visitors (These people have gone the next step to complete a survey, add a comment to an online forum or guest book. Before they can do this they have to register. This step will be an obstacle for some.)

Where people have engaged:

- 21 people have completed a survey
- Among the **news items** the most popular item is a piece on how people can have their say (45) followed by 'Mergers: It's not the first time' (14) and 'Council believes it can stand alone' (11)
- 30 visits to **FAQs** about mergers

Of the people who completed the survey:

- 68% live in Orange while 27% live in Cabonne
- 63% believed Orange should merge with Cabonne/Blayney or Cabonne while 36% believed Orange should stand alone future
- 54% thought the incentive package offered by the NSW government was not enough to justify a merger

Of the longer viewpoints expressed in a 'Forum' section, concerns included:

- 'A merger should not be pursued due to the difference in urban /rural areas'
- 'Orange would be forced to subsidise areas which are not as well managed'
- 'There should be further measures to protect existing staff of councils following a merger'
- 'The asset base of neighbouring areas should be as closely assessed as the assets of Orange before a merger'

The above mentioned public meeting, while advertised in a number of mediums, was only attended by 13 community members. There may be a number of factors for this turnout. While Orange residents are quick to voice their concerns on any number of issues, local government reform has never been a hot button issue for Orange. Perhaps more significantly well ahead of Orange City Council's determination to seek feedback on a merger or standalone option, Blayney Shire Council in March 2015 had resolved to standalone. In May 2015, post the release of the Morrison Low report, but prior to Council's public meeting, Cabonne Council also resolved to lodge a standalone submission. What this meant is that while Orange City Council had resolved to exhibit both the business merger case and the standalone option, in the absence of merger consideration by either Cabonne or Blayney a standalone submission was the only option left to Orange as the NSW Government had directed that the merger case is *"designed for councils that intend to undertake a voluntary merger."*

The internal consultation with Council staff included:

- Written updates to staff from the General Manager
- Staff Q and A sessions presented by the General Manager
- Information on the intranet
- Discussions at the Staff Consultative Committee
- Links to online discussion forums provided to staff

It is also noted that Orange City Council Mayor and General Manager and other staff held multiple discussions with both Cabonne and Blayney councils on the reform agenda.

Cabonne and Blayney councils have also undertaken consultation on this matter. The following is taken from the Cabonne Council website:

"The Council today (Tuesday 26 May 2015) resolved to submit a Council Improvement proposal with the NSW Government as part of the Government's Fit for the Future reforms.

In doing so, Cabonne rejected its other option of submitting a proposal to merge with Orange City Council, as recommended by the Independent Local Government Review Panel. Cabonne's decision follows the results of a business case study of a possible Cabonne-Orange merger and feedback from several public meetings to discuss the Fit for the Future package.

Almost 340 people strongly backed the stand-alone proposal at information sessions at Molong and Canowindra while about 400 packed a community-organised anti-amalgamation meeting a week later to show their support for the council."

The following is taken from the Blayney Shire Council website:

"A Blayney Shire 'Have your Say' about the options for Blayney Shire was distributed online, at community meetings and promoted in various media channels, closed on Friday 12 June 2015.

There were 193 surveys collected from both online or delivered into the office.

The Stand Alone preferred option accounted for 166 (86%) of respondents. A merger with Orange and/or Cabonne accounted for 18 (9%) of respondents. Council will be utilising this feedback in the submission to be lodged by 30 June to the Independent Pricing and Regulatory Tribunal (IPART)."

At the June meeting held this week, Council resolved to endorse the Improvement Proposal (Existing Structure)."

The NSW Legislative Assembly has also announced an inquiry into Fit for the Future. This inquiry is seeking submissions prior to 5 July 2015. It is Council's intention to make a submission to this inquiry.

Orange City Council Audit and Risk Management Committee assessment of due diligence

Council commissioned the Audit and Risk Management Committee to undertake an assessment of the risk issues associated with the Fit for Future process. Their key findings are provided as follows:

1. *Risks that are not within the control of OCC and would be largely reduced with further investigative assessment of the merits and impact a merger would have on the merger partners.*
2. *The Committee supports Council comments as set out in their letter to the Office of Local Government dated 21 May 2015.*
3. *The Merger Risk Assessment Report assesses the inherent risks as severe and further identifies mitigation strategies. However, all risk treatment strategies have medium term completion dates up to 2017 which is outside the timeline for the determination of the FTFF as set out by the Office of Local Government.*
4. *The Committee believes Council staff have fulfilled their fiduciary obligations*
5. *Similarly, Councillors too have fulfilled their obligation.*
6. *OCC appears to have provided Councillors with a comprehensive commentary of the FTFF process and the concerns and shortcomings of that process.*
7. *Council has ensured any decision will be based on sound information and an understanding of the shortcomings of the FTFF methodology.*
8. *Councillors in making an informed decision will need to comply with the Act by having regard to the long term effects of that decision and demonstrate how their decisions are in the best interests of residents and rate payers as well as demonstrating prudent management of Council's (residents and rate payers) assets. Any perceived shortcomings in the FTFF methodology should not compromise the Councillors' obligations.*
9. *The Committee agrees with the high level risks consequent to any merger decision identified in the Morrison Low report.*
10. *The inability of the FTFF Program evaluation to assess the benefits of detailed asset systems could expose OCC to unquantified financial commitments.*
11. *Whilst a stand-alone option is manageable under the current FTFF evaluation process, further regionalisation of inter-government relations could threaten Council's long term capacity to stand-alone.*
12. *The Committee considers that Council has sufficient information upon which to support a stand-alone option.*
13. *The Committee considers that Council does not have sufficient information to support a merger option without further due diligence of the merger partners.*
14. *The FTFF process places Councillors in a conflicting situation of complying with the directions of the Minister for Local Government and the OLG, and meeting its obligations to the OCC stakeholders as defined in the Local Government Act 1993.*
15. *Council should consider the impact of any current long term contracts and its ability to cancel or amend, such as the water supply arrangements between the merger partners and Central Tablelands Water.*
16. *Council should consider the operational and financial risks of any commercial ventures managed by the merger partners, such as the quarry operated by Cabonne Council.*
17. *Council should determine the impact of the withdrawal of government financial assistance on the current modelling of the proposed merger.*

A number of the recommendations would be added to the Merger risk plan if the merger proceeded.

Council provides a comment on point 3. The Merger Enterprise Risk Report (attached) summarises tasks that the Council has identified to be completed should the NSW Government determine that Council is to merge with Cabonne and/or Blayney. The Panel identified a possible merger date of

2017. Hence, the activities, should a merger be required, would be delivered during the transition period.

This document would provide a useful starting point for the Transition processes so the dates are appropriate given Council's submission is not to merge and this option would only be considered if the NSW Government were to determine it be necessary as a result of its consideration of the Fit for Future submissions.

The Council's final position on the assessment of a merger is that significantly greater due diligence investigation is required in order for Council to satisfy itself that a merger is justified and acceptable to the Orange community. The recommendations from the Audit and Risk management Committee and the items in the Merger risk plan all need to be considered along with assets assessment of a comprehensive nature to give Council a reasonable level of understanding of the likely impact of a merger.

Should the NSW Government determine the need for a merger, Council's resolved position is to assist in achieving this aim, but that it follow the completion of the assessment of all impacts in a more diligent manner.

Appendix 1: Resolutions of Orange City Council regarding Fit for Future initiatives

Council resolved the following resolutions since initially considering reform related matters in November 2011.

Council meeting 23 June 2015:

2.1 FIT FOR FUTURE SUBMISSION

TRIM REFERENCE: 2015/1552

RESOLVED - 15/001 Cr S Munro/Cr K Duffy

That Council endorse the Fit for Future submission outlining:

- 1 A standalone proposal showing that Council satisfies the criteria noting that both Blayney and Cabonne declined to proceed with a merger option as recommended by the Independent Local Government Review Panel; and that should a merger not occur, Council identify to the NSW Government a desire to see full consideration of appropriate boundary changes.
- 2 That should the NSW Government determine a merger is required for Orange City Council, the Council is willing to work with all parties to complete a thorough due diligence assessment which fully assesses levels of service, risks, costs and long term financial sustainability issues, and that Council suggest to the NSW Government that the due diligence be established as a next step in any merger process along with provision of appropriate funding.
- 3 That Council request of the NSW Government that in the event the NSW Government determines that a merger proceed that incentive funding remain on offer given Orange City Council's willingness to consider a merger.
- 4 That should a merger be determined by the NSW Government, and pending appropriate due diligence assessment, that Council would seek consideration of logical boundary adjustments in consultation with neighbours.

Council meeting 19 May 2015:

5.9 FIT FOR THE FUTURE

TRIM REFERENCE: 2015/1251

RESOLVED - 15/002 Cr R Gander/Cr J Whitton

- 1 That Council exhibit for 28 days the stand alone case as detailed in the Fit for the Future self-assessment tool.
- 2 That Council exhibit for 28 days a summary of the merger business case assessment as attached to this report.
- 3 That Orange City Council offer to Cabonne Council the necessary information regarding a merger to complete the Office of Local Government merger template and seek the necessary reciprocal information from Cabonne so that the completed merger template information is available to both Councils to consider prior to the deadline for the Fit for the Future submissions.
- 4 That Council approach the NSW Government, advising of the need for more detailed analysis and plans to undertake the more thorough assessment and requesting that the State Government preserve a proportionate share of Fit for the Future incentive funding while further analysis takes place.
- 5 That Council seek the support of Cabonne Council in approaching the NSW Government as per recommendation 4 above and also in undertaking the outlined further analysis.

Council resolved on 3 February 2015:

5.2 FIT FOR FUTURE - SUBMISSION OPTIONS

TRIM REFERENCE: 2015/180

RESOLVED - 15/003 Cr K Duffy/Cr J Davis

- 1 That Council resolves to lodge a merger business case with Cabonne Council and Blayney Shire Council subject to:
 - a. Confirmation of the resolved position of Cabonne Council and Blayney Shire Council to specifically agree to lodge a merger proposal to the NSW Government in June 2015; and
 - b. Confirmation of the resolved position of Cabonne Council and Blayney Shire Council specifically agreeing to sharing of costs to prepare a proposal to merge that has 50% of costs paid by Orange City Council, and remaining costs paid in equal share by Cabonne Council and Blayney Shire Council.
 - c. If Cabonne Council and Blayney Shire Council agree to the cost distribution, prepare a request to the NSW Government for funding for the use of a panel member from the appointed list established by the NSW Government, to prepare a merger business case.
- 2 If only one of either Cabonne Council or Blayney Shire Council provides their resolutions to submit a merger proposal to the NSW Government along with agreed contribution level, that Council resolves to submit the merger proposal with that Council with a funding split of 60% paid by Orange City Council and 40% by the partnering Council, and seek the available funding from the NSW Government to prepare the business case.
- 3 If neither Cabonne Council nor Blayney provides a resolution to agree to a merger proposal, that Orange City Council prepares a submission using the template for standing alone and consider as a further option selective boundary adjustments.
- 4 That Council not support any shared services or similar model.

Council resolved on 7 October 2014:

5.2 JOINT ORGANISATION OF COUNCILS PILOT PROGRAM

TRIM REFERENCE: 2014/1706

RESOLVED - 14/004 Cr J Hamling/Cr S Munro

That Council:

- 1 Advise both Centroc and the Office of Local Government of its concurrence to be part of a pilot Joint Organisation of Councils as detailed in the "Fit for the Future Joint Organisations a Roadmap for Intergovernmental Collaboration in NSW" using the existing resources of Centroc and seeking State funding as offered.
- 2 Identifies it continues to oppose the expansion of a County Council model within Joint Organisation of Councils.

Council resolved on 16 September 2014:

5.10 FIT FOR THE FUTURE BLUEPRINT

TRIM REFERENCE: 2014/1639

RESOLVED - 14/005 Cr K Duffy/Cr C Gryllis

- 1 That the report by the Manager Corporate and Community Relations on Fit for the Future Blueprint be acknowledged.
- 2 That the matter be the subject of a briefing session.
- 3 That Council meet with Cabonne Council and Blayney Council to discuss merger opportunities.

Council resolved on 18 February 2014:

3.H INDEPENDENT PANEL REVIEW OF LOCAL GOVERNMENT F824

RESOLVED – 14/60 Cr Whitton/Cr Gryllis

- 1 That Council makes a submission on the Independent Panel review of Local Government and review of the Local Government Act based on the contents of the report by the Director Corporate and Commercial Services dated 6 February 2014.
- 2 That Council identify it doesn't support County Councils being included in the suggested Joint Organisations and propose that in the event of dissolution of County Councils that they be merged with appropriate general purpose Councils.

Council resolved on 25 June 2013:

3.A INDEPENDENT LOCAL GOVERNMENT REVIEW PANEL 112/212/66/3/1

RESOLVED – 13/290 Cr Turner/Cr Munro

That Council:

- 1 Acknowledge the information in the report provided by the Manager of Corporate and Community Relations dated 7 June 2013.
- 2 Make a submission to the Local Government Independent Review Panel detailing Council's position on the matter and its willingness to continue to engage on the matter.
- 3 Includes in the submission Council's opposition to the county council concept proposed by the Local Government Independent Review Panel

Council resolved on 18 June 2013:

2.1 LOCAL GOVERNMENT ACT TASKFORCE 1212/212/66/3/1

RESOLVED – 13/283/1	Cr Kidd/Cr Gryllis
That Council make a submission to the Local Government Acts Taskforce based on the content of the report from the Director Corporate and Commercial Services dated 10 June 2013.	

Council resolved on 19 March 2013:

2.N INDEPENDENT LOCAL GOVERNMENT REVIEW PANEL 112/212/66/3/1

RESOLVED – 13/113	Cr Gryllis/Cr Duffy
That Council:	
1 Acknowledge the information in the report provided by the Manager of Corporate and Community Relations dated 13 March 2013.	
2 Make a submission to the Local Government Independent Review Panel detailing the findings of this report and the options identified and responding to further information as it released.	
3 Identifies in the submission the interest from Orange City Council to be an active participant in the review process.	

Council resolved on 17 November 2011:

8.C DESTINATION 2036 112/202/66/11/3

RESOLVED – 11/515	Cr Rossiter/Cr Kidd
That the report and attached Circular 11-28 Destination 2036, from the Chief Executive Local Government, a Division of the Department of Premier and Cabinet, be acknowledged.	

Appendix 2: Self-Assessment Tool – results 2011/12 – 2013/14

BENCHMARK

	RESULT	MEETS FFTF BENCHMARK
<i>Operating Performance Ratio (greater or equal to break-even average over 3 years)</i>	0.065	YES
<i>Own Source Revenue Ratio (greater than 60% average over 3 years)</i>	65.85%	YES
<i>Building and Infrastructure Asset Renewal Ratio (greater than 100% average over 3 years)</i>	18.83%	NO
<i>Infrastructure Backlog Ratio (less than 2%)</i>	1.07%	YES
<i>Asset Maintenance Ratio (greater than 100% average over 3 years)</i>	130.21%	YES
<i>Debt Service Ratio (greater than 0 and less than or equal to 20% average over 3 years)</i>	5.34%	YES
<i>A decrease in Real Operating Expenditure per capita over time</i>	Increasing	NO

OVERALL RESULT

The Council does not meet all seven of the Fit for the Future Criteria

Appendix 3 : Self-Assessment modelling for years 2014/15 – 2019/20

Fit for the Future Assessment (@
2016/17)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		3-Year Avg 2014/15	3-Year Avg 2015/16	3-Year Avg 2016/17	3-Year Avg 2017/18	3-Year Avg 2018/19	3-Year Avg 2019/20
Operating Performance Ratio	10.29%	-5.47%	-0.11%	0.08%	1.03%	1.06%	1.14%	1.15%		1.57%	-1.83%	0.33%	0.72%	1.08%	1.12%
Income from Continuing Operations	69,378	72,114	77,828	81,628	78,393	71,905	87,023	79,485							
Grants and Contributions for Capital Purposes	7,347	11,804	16,003	18,298	13,853	5,935	19,641	10,698							
Gain from Disposal of Assets	760	979	0	0	0	0	0	0							
Net Share if Interests in JV (Inc)	0	7	0	0	0	0	0	0							
Fair Value Adjustments	1,096	648	0	0	0	0	0	0							
Expenses from Continuing Operations	53,996	61,885	61,891	63,281	63,878	65,268	66,611	67,998							
Loss from Disposal of Assets	0	0	0	0	0	0	0	0							
Net Share if Interests in JV (Exp)	12	0	0	0	0	0	0	0							
Own Source Revenue	67.70%	66.64%	64.89%	64.12%	68.27%	76.16%	64.38%	72.12%		66.41%	65.22%	65.76%	69.52%	69.61%	70.89%
Grants and Contributions for Operating Purposes	13,203	10,618	11,323	10,992	11,019	11,208	11,353	11,462							

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		3-Year Avg 2014/15	3-Year Avg 2015/16	3-Year Avg 2016/17	3-Year Avg 2017/18	3-Year Avg 2018/19	3-Year Avg 2019/20
<u>Building and Infrastructure Renewal</u>	14.07%	6.97%	69.24%	85.15%	78.78%	55.63%	56.22%	69.06%		30.09%	53.78%	77.72%	73.19%	63.54%	60.31%

Building and Infrastructure Renewals	612	517	5,775	7,459	7,108	5,210	5,425	6,865
Depreciation	4,350	7,420	8,341	8,760	9,023	9,365	9,649	9,940

<u>Infrastructure Backlog Ratio</u>	1.08%	1.07%	0.25%	0.26%	0.23%	0.71%	0.48%	0.45%		0.25%	0.26%	0.23%	0.71%	0.48%	0.45%
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<u>Asset Maintenance Ratio</u>	201.66%	137.38%	176.98%	154.70%	153.34%	153.05%	152.75%	152.46%		172.01%	156.35%	161.67%	153.70%	153.05%	152.76%
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Actual Asset Maintenance	6,062	4,171	5,373	4,814	4,891	5,004	5,119	5,237
Required Asset Maintenance	3,006	3,036	3,036	3,112	3,190	3,269	3,351	3,435

<u>Debt Service Ratio</u>	5.32%	6.27%	6.65%	6.19%	5.87%	5.65%	5.54%	4.10%		6.08%	6.37%	6.24%	5.90%	5.69%	5.10%
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Borrowing Costs	998	1,113	1,158	1,037	1,034	1,061	948	841
Principal Repayments	2,205	2,566	2,955	2,880	2,756	2,669	2,784	1,977

<u>Real Operating Expenditure per Capita</u>	129.94%	147.64%	147.61%	145.83%	142.29%	140.53%	138.65%	136.84%		141.73%	147.03%	145.24%	142.89%	140.49%	138.67%
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CPI	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Population	40,515	40,869	40,880	41,250	41,610	41,970	42,330	42,690

Appendix 4: Council committees

External Organisation Appointments – Council appointed

Association of Mining Related Councils
Business Enterprise Centre
Central West Libraries
Chamber of Commerce
Bushfire Liaison Committee
Bushfire Management Committee
Orange Regional Arts Foundation
Skillset
Arts Outwest
Taste Orange

Policy Committees - Councillor only Committees

Sustainable Development Committee
Environment and Economic Development Policy Committee
Finance Policy Committee
Infrastructure Policy Committee
Services Policy Committee

Council or external entity committees – Councillor, engaged independents or representatives from other organisations

Audit and Risk Management Committee
City of Orange Traffic Committee

Community Committees – Councillors and community representatives

Environmental Sustainability Community Committee
Companion Animals Community Committee
Sister Cities Community Committee
Tidy Towns Community Committee
Economic Development Community Committee
Aerodrome Community Committee
Macquarie Pipeline Community Committee
Spring Hill Community Committee
Lucknow Community Committee
Clifton Grove Community Committee
Ageing and Access Community Committee
Cultural Heritage Community Committee
Sport and Recreation Community Committee
Community Safety and Crime Prevention Committee
Orange Showground Community Committee
Orange and Cabonne Road Safety Committee
Australia Day Community Committee
NAIDOC Week Community Committee
Bicycling Community Committee
Orange Health Liaison Committee
Orange Regional Museum Community Committee
Centenary of World War I Community Committee
Orange Planetarium Community Committee
Parks, Trees and Waterways Advisory Committee

APPENDIX 5: REPORT TO COUNCIL 19 May 2015

5.9 Fit For The Future

TRIM REFERENCE: 2015/1251

AUTHOR: Garry Styles, General Manager

EXECUTIVE SUMMARY

At the meeting on 3 February 2015 Council resolved the following:

RESOLVED - 15/029

Cr K Duffy/Cr J Davis

- 1 *That Council resolves to lodge a merger business case with Cabonne Council and Blayney Shire Council subject to:
 - a *Confirmation of the resolved position of Cabonne Council and Blayney Shire Council to specifically agree to lodge a merger proposal to the NSW Government in June 2015; and*
 - b *Confirmation of the resolved position of Cabonne Council and Blayney Shire Council specifically agreeing to sharing of costs to prepare a proposal to merge that has 50% of costs paid by Orange City Council, and remaining costs paid in equal share by Cabonne Council and Blayney Shire Council.*
 - c *If Cabonne Council and Blayney Shire Council agree to the cost distribution, prepare a request to the NSW Government for funding for the use of a panel member from the appointed list established by the NSW Government, to prepare a merger business case.**
- 2 *If only one of either Cabonne Council or Blayney Shire Council provides their resolutions to submit a merger proposal to the NSW Government along with agreed contribution level, that Council resolves to submit the merger proposal with that Council with a funding split of 60% paid by Orange City Council and 40% by the partnering Council, and seek the available funding from the NSW Government to prepare the business case.*
- 3 *If neither Cabonne Council nor Blayney provides a resolution to agree to a merger proposal, that Orange City Council prepares a submission using the template for standing alone and consider as a further option selective boundary adjustments.*
- 4 *That Council not support any shared services or similar model.*

Reference is also made to previous reports on this topic informing Council's position to this point including 17 November 2011, 19 March 2013, 25 July 2013, 18 February 2014, 16 September 2014, 3 February 2014 and 17 February 2015.

Councils have a choice of presenting to Government a Fit for the Future proposal in which they stand-alone or put forward a case for merger. The submission is due by 30 June 2015.

Orange City Council resolved to lodge a merger business case with Cabonne Council and Blayney Shire Council. If there was no agreement on this path from either of these Councils then Orange would lodge a stand-alone submission.

Cabonne Council has resolved to:

- 1 *Retain Council independence.*
- 2 *Support, as an alternative to merging with OCC and Blayney Shire, the creation of a joint service delivery entity to be jointly owned/controlled by two or more councils and which provides a range of services to those councils.*
- 3 *Identify where minor boundary adjustments could improve Council sustainability.*
- 4 *Acknowledge the outcomes of the community survey carried out in 2013.*
- 5 *Identify and place on public record the non-negotiable terms should a merger with OCC and/or Blayney Shire occur.*
- 6 *Authorise the Mayor, Deputy Mayor & General Manager to meet with OCC and other councils to discuss the Fit for the Future proposal.*
- 7 *Authorise the funding from an additional vote and undertaking of a cost benefit analysis for:*
 - a *establishment of a joint service delivery entity;*
 - b *merger with OCC and/or Blayney Shire.*
- 8 *Approach OCC and/or Blayney Shire to share the costs of a & b.*
- 9 *Authorise the funding from an additional vote for the engagement of consultants to assist with the development and implementation of a communication and engagement strategy to ensure the communities are kept informed and consulted with on any proposed changes to the future governance and operating model of Cabonne Council.*

Cabonne and Orange subsequently agreed to undertake investigations into a merger involving Cabonne, Orange and/or Blayney. The undertaking of a joint merger assessment investigation does not require the Council's to proceed to a formal submission to the State Government.

Blayney Shire Council has resolved to submit a stand-alone submission and possibly revisit a merger case outside the Fit for the Future timeframe set by the NSW Government.

According to the NSW Government "A Fit for the Future Council" is one that is:

- Sustainable
 - Efficient
 - Effectively manages infrastructure and delivers services for communities
 - Has the scale and capacity to engage effectively across community, industry and government
- Cabonne Council and Orange City Council have received funding for assistance with the consideration of a merger business case from the NSW Government, and Morrison Low was engaged to undertake this work.

A summary of the merger assessment is attached to this report. Given Cabonne's resolved position, Cabonne is yet to consider their action in response to the merger business case assessment ie whether to exhibit and/or to lodge a merger proposal with the NSW Government.

The development of the merger business case has indicated some savings and potential gains from a merger between Orange and Cabonne, however the business case does not get to a strong conclusion and is a limited assessment in the following areas:

- The model and the Fit for the Future template is a basic assessment of scale and capacity and the future landscape of local government, a key area for Orange City Council's consideration of a merger.
- The model and the Fit for the Future template assumes historical published data is correct rather than detailed integrity testing of asset data particularly, along with Long Term Financial Plans (LTFP's) and so on. **Special Schedule 7** of the annual statement is unaudited and is relied upon quite extensively in the criteria. This is a key risk in any merger and the model does not provide sufficiently diligent information.
- The Fit for the Future template is a high level general model only which does not consider detailed full data asset systems and contemporary asset management techniques built around intervention levels and residual asset values, which can build in greater accuracy, efficiencies and savings to asset management.
- It is probable that the asset management approaches of Cabonne and Orange varies considerably. Therefore the current high level model does not give a sufficiently accurate representation of future asset sustainability.
- No consideration of water and sewer functions which is a large part of the operations of some Councils and ought to be assessed.
- The timeframe available for the assessment is very tight, necessitating the high level model and template.

It is understood that Cabonne have, to an extent, similar concerns to Orange.

The councils have identified a body of work necessary to complete the analysis to fully inform a decision.

Recently the Independent Pricing and Regulatory Tribunal (IPART) was appointed to undertake the assessment of Fit for Future submissions for Councils and has published a discussion paper strongly asserting the way forward through assessments and its views on what constitutes a 'fit' Council, and, the strength with which it views the Independent Local Government Panel (ILGP) findings which suggested a merger between Cabonne, Orange and potentially Blayney within the assessment.

IPART has noted that if the Independent Local Government Review Panel (ILGRP) "recommended a council to stand-alone or undertake structural change, then the council should demonstrate that they first considered making a proposal on this basis. If the ILGRP recommended a merger as the preferred option and the council did not propose one, the council will be assessed as 'not fit', unless it presents a sound argument that demonstrates that the proposed approach is superior to the recommended merger".

IPART have released a consultation paper on "Methodology for Assessment of Council Fit for the Future proposals", with comment sought until 25 May 2015. A copy of this consultation paper is attached.

Additionally the Fit for the Future landscape is dynamic with some Council's resolving a preferred position of support for a merger and the State Government also strongly asserting its position in response to media queries. Indicative media articles are attached relevant to Fit for the Future.

Concurrent with the merger assessment, staff have been undertaking a stand-alone assessment so that consultation can occur on both a stand-alone model and a merger model, so that Council can be informed of its options when it resolves Council's Fit for the Future submission to the NSW Government in June.

In consideration of all the various matters at play in the Fit for the Future landscape, it is held that the business merger case assessment ought to be noted, particularly in regard to the savings and potential benefits identified, and the need for a more thorough analysis before Council could be properly be informed on a decision to merge or not.

It is also suggested that Council ought to exhibit both the stand-alone case and the merger case summary for consultation and for informing Council's decision in its submission to Fit for the Future.

It would also be appropriate that while Fit for the Future options are on exhibition, that Council seek the support of Cabonne Council and approach the NSW Government advising of concerns over modelling and indicators/template, the need for more thorough assessment and the Councils' intentions to promptly undertake detailed assessment modelling along with reaffirming a preparedness to diligently look at the merger and seeking to preserve a proportionate share of NSW Government Fit for the Future incentive funding while further analysis takes place.

LINK TO DELIVERY/OPERATIONAL PLAN

The recommendation in this report relates to the Delivery/Operational Plan strategy "1.3 Our City - Ensure a robust framework that supports the community's and Council's current and evolving activities, services and functions".

FINANCIAL IMPLICATIONS

While there are significant financial considerations around the matter the exhibiting and lodging of the submission can be managed within existing budgets.

POLICY AND GOVERNANCE IMPLICATIONS

Nil

RECOMMENDATION

- 1 That Council exhibit for 28 days the stand alone case as detailed in the Fit for the Future self-assessment tool.**
- 2 That Council exhibit for 28 days a summary of the merger business case assessment as attached to this report.**
- 3 That Orange City Council offer to Cabonne Council the necessary information regarding a merger to complete the Office of Local Government merger template and seek the necessary reciprocal information from Cabonne so that the completed merger template information is available to both Councils to consider prior to the deadline for the Fit for the Future submissions.**
- 4 That Council approach the NSW Government, advising of the need for more detailed analysis and plans to undertake the more thorough assessment and requesting that the State Government preserve a proportionate share of Fit for the Future incentive funding while further analysis takes place.**
- 5 That Council seek the support of Cabonne Council in approaching the NSW Government as per recommendation 4 above and also in undertaking the outlined further analysis.**

SUPPORTING INFORMATION

Merger Case

The merger business case assessment for Orange and Cabonne has been undertaken by Morrison Low, one of the Technical Advisory Panel members appointed by the NSW Government. The merger business case under Fit for the Future is referred to as Template 1. The assessment covered scale, capacity, operating performance, own source revenue, debt service cover, asset maintenance, asset renewal, infrastructure backlog and real operating expenditure.

Under the Morrison Low assessment, of the seven benchmarks listed above, Orange City Council meets all seven as does Cabonne and the merged entity.

A summary of the merger business case is attached for exhibition.

The development of the merger business case has indicated some savings and potential gains for a merger however it is limited in its level of analysis and risk assessment.

The model relies on published data only rather than an assessment or integrity testing of asset information and systems or detailed analysis of Long Term Financial Plans. Additionally, some of the published data relied upon is unaudited coming from special Schedule 7 of the financial statements. This builds in a significant risk to any merger, and regrettably without such diligent information Council is not properly informed on the decision to merge or not.

Equally, the model and indicators used are at a high level, based on assumptions, and general indicators which ignore full data, calibrated and detailed asset management systems. This approach is to allow comparison between all Councils, including those which do not have full asset systems. In this regard some of the indicators ignore Orange City Council's detailed asset system and contemporary industry asset management techniques, particularly around intervention levels and residual asset values where Council estimates efficiencies of the order of up to 25%-30% compared to less detailed assessments. This has been acknowledged by the consultant in their findings. Council's independent auditor, Intentus, has provided feedback on this element of the Fit for the Future assessment, supporting Council's concerns.

It is intended to suggest to the NSW Government that detailed asset system information ought to be able to be considered within the template response to Fit for the Future, while the documents are on exhibition, particularly given that significant gains in asset management, efficiency and efficacy can be made through detailed systems.

The analysis/template provides little guidance on scale and capacity and the concept of "what best practice local government will look like in 25 years", one of the base tenets of the review of Local Government in NSW.

In terms of scale and capacity Morrison Low has noted that there is "no clear indication of what scale is outside Sydney where a threshold of 250,000 (by 2031) seems to exist" and capacity is "entirely subjective" and "many councils already exhibit a number of the key aspects of capacity".

While this is a difficult concept to quantify, it is one of the key reasons for Orange City Council to consider a merger. Were the future to be a greater aggregation of councils in a landscape where State and Federal Governments engage on a regional basis for both input and funding, with greater tension on available grant funding, efficiencies, outcomes and responsibilities, then the region, including Orange should it remain the same, would be operating at a significant comparative disadvantage compared to other regional centres. This element is really key for consideration of a merger and needs much more development to inform a decision.

The assessment excludes consideration of the Council's water and sewer business which for Orange City Council is a substantial business with in the order of \$0.5B of assets under management.

The assessment of a merger between the Orange City Council water and sewer business with Cabonne is a complex matter where Cabonne has some services provided through Central Tablelands Water, some town services provided by Cabonne and some villages without services. From a risk management perspective a proper review of this element is clearly needed.

The merger business case was unable to consider the inclusion of Blayney within the model given Blayney Council's resolution not to participate. The ILGRP had recommended Blayney as an option within the merger. IPART in its methodology for assessment has stated: *"Group E councils were identified as having other potential merger options to consolidate major regional centres, and for some councils, the ILGRP preferred option is a merger. Where this is not the case and the option includes to stand-alone in a JO or to merge, the merger option should be explored."*

It may well be that the inclusion of Blayney would lead to greater savings and greater scale and capacity, however this has not been analysed in the assessment although the consultant's report does provide commentary.

Morrison Low noted that: *"As a general principle our research and analysis from other multiple council mergers suggests economies of scale and benefit increase when the number of merger partners increase."*

Finally the timeframes were quite short, compounded by the timing of the decision by the councils to look at a merger case. This does not however obviate the need for Council to be properly informed. Similarly as mentioned earlier, there are concerns around some elements of the assessment which demand further work for Council to be properly informed.

The consultant has had to work within the constraints and limitations to deliver to the extent possible an assessment of a merger. The assessment summary provides a useful first step analysis, showing some savings and potential gains, however it is held that further work and analysis is required for Council to be properly informed. In this regard it is suggested that the merger business case summary be exhibited and that contact be made with the NSW Government advising of the need for further detailed analysis to properly inform a decision, given a sound due diligence approach.

Stand-Alone Case

Orange City Council has used the NSW Government's Fit for the Future stand-alone self-assessment tool to report a result on operating performance, own source revenue, debt service cover, asset maintenance, asset renewal, infrastructure backlog and real operating expenditure. The standalone case under Fit for the Future is referred to as Template 2.

This assessment found that Council is 'Fit for the Future' as a stand-alone Council. Of the seven benchmarks, as a stand-alone Council, Orange achieves six. The Asset Renewal benchmark is the only indicator not achieved, however given the comprehensive work completed by Council through its Asset Management Strategy, and detailed Asset Management Plans, it is demonstrated that the rate that Council is currently renewing its assets is sufficient to meet both the current and future needs of our community sustainably.

It is to be noted that the stand-alone assessment of the Asset Renewal benchmark, has produced a differing result to that assessed as Orange's "base case" in the merger assessment. This difference is due to level of detail that each case considered with the consultants for the merger case able to acknowledge Council's asset approach in their findings.

Concerns are similarly expressed with some of the template criteria in this model as with the above mentioned merger model in relation to asset renewal ratios which are based on a high level model which does not consider full data, calibrated and detailed asset management systems. This approach is to allow comparison between all Councils, including those which do not have full asset systems. In this regard some of the indicators ignore Orange City Council's detailed asset system and contemporary industry asset management techniques, particularly around intervention levels and residual asset values.

This approach has been canvassed with Council's independent auditor, Intentus, with the following observation:

"The infrastructure asset ratios are based upon the (unaudited) data in Special Schedule 7 that is generally accepted as being highly subjective and subject to significant fluctuation. And the depreciation expense reported from Note 9 which is based on financial reporting requirements that are inconsistent with the realities of asset management. Primarily the requirement for Note 9 is that infrastructure is required to be valued on depreciated replacement cost ie as if the asset had to be built from nothing. The depreciation charge is then based upon that valuation. This is inconsistent with the asset management information which takes the realistic premise, "we have the existing asset in its current condition, what do we need to spend in order to keep it in that condition (or better) into the future?" The answers to the two questions are very different numbers."

As with the merger case, the stand-alone case doesn't consider Council's water and sewer business which for Orange City Council is a substantial business with in the order of \$0.5B of assets under management. The consideration of water and sewer in the stand-alone assessment is less significant than in the merger case, however, given the size of the operation the water and sewer business does contribute to the 'fitness' and scale of the future operation of Council.

A copy of Template 2, Stand Alone is attached.

Exhibition and Reporting

Councils that are considering a Template 1 Merger Proposal will need to explain how they have discussed the potential benefits and costs of the proposal with their community and considered their concerns. There is a minimum 28 day public exhibition period required for merger proposals.

Councils considering a Template 2 stand-alone proposal also need to consult their community and while not requiring public exhibition it is sensible in the circumstances to exhibit both options.

Accordingly, as per the recommendation in this report Orange City Council is proposing to exhibit both the merger business case summary and the stand-alone Template 2 assessment for 28 days. The consultation will also include a community information session and an on-line forum.

Following this exhibition period a further report will come back to Council for a final resolution on the matter before the Orange City Council submission is made to the NSW Government prior to June 30.

Council's consideration of the matter further will also be contingent on how our merger proposal partner proceeds with the merger proposal. As previously mentioned Cabonne has not yet decided whether to proceed to exhibit the merger proposal or to make a submission to the NSW Government in relation to a Template 1 Merger Proposal.

In this regard at this point in time Orange City Council is unable to access Cabonne's information to complete the Merger Template for exhibition and accordingly the only useful document available to seek consultation over in relation to what a merger would look like is the summary document attached to this report.

Accordingly, as contained in the recommendation, it would be useful if both Cabonne and Orange could provide the information to complete the Office of Local Government template and merger case while the Fit for the Future options are on exhibition to help inform a decision in late June. Similarly it would be useful if both Councils could get on with the extra body of work identified to properly inform a decision.

In relation to Orange City Council's Template 2, stand-alone, Council is able to complete the template and accordingly this is attached to this report for exhibition.

ATTACHMENTS

- 1 Consultation Paper - Methodology for Assessment of Council Fit for the Future Proposals - April 2015, D15/13167
- 2 Relevant Media Articles, D15/14173
- 3 Merger Assessment Summary, D15/14282
- 4 Template 2 Stand Alone Assessment, D15/14286
