MorrisonLow

CABONNE COUNCIL

ORANGE CITY COUNCIL

Cabonne and Orange Councils

Fit for the Future - Shared Modelling

May 2015

TABLE OF CONTENTS

TABLES

FIGURES

Morrison Low Consultant Pty Ltd
PO Box K451
Haymarket
Sydney 1240
Tel: 02 9211 2991
Fax: 02 9212 0782
www.morrisonlow.com

Document Status

Approving Director:	**S Bunting**	**Date:**	**May 2015**

1. INTRODUCTION

1.1 Fit for the Future

Three years ago, local councils from throughout NSW gathered for a summit, Destination 2036, to plan how local government could meet the challenges of the future. As a result, councils agreed that change was needed and that they wanted to be strong and sustainable and to make a positive difference in their respective communities. However there were various views as to how this could be achieved, and in April 2012 the State Government appointed an independent expert panel to carry out a review of the sector. That Independent Local Government Review Panel consulted widely in developing its final recommendations which were presented to the government in late 2013.

The panel concluded that for councils to become strong and sustainable, both the NSW Government and the local government sector would have to play a part. The State indicated its preparedness to change the way it works with councils and to support them through meaningful reform. Local councils must also be prepared to consider new ways of working and new structural arrangements. The Fit for the Future (FFTF) program brings these changes together to lay the foundations for a stronger system of local government and stronger local communities.

The Fit for the Future program requires councils to actively assess their scale and capacity in achieving long term sustainability, and for councils to submit proposals to the government indicating how they will achieve these objectives.

Cabonne Council and Orange Council have commissioned Morrison Low through the Office of Local Government Merger Business Case Panel to undertake a merger business case using a broad range of factors (financial, social, environmental) in order for each Council to understand the implications of the merger of the two Councils proposed by the Independent Local Government Review Panel.

Blayney Council was recommended by the ILGRP as a potential merger partner for Orange. 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. No research has been undertaken to consider the effect of a three council merger of Blayney, Cabonne and Orange so while a three council merger may produce greater benefit this must be considered alongside the performance of the three councils against the Fit for the Future benchmarks.

1.2 Shared modelling

The modelling is prepared on the basis of information publicly available and augmented by the Councils' data. The modelling is provided identically to both Councils in the project.

The data provided within the model is drawn from a variety of sources (including the Councils directly) however it is acknowledged that the timeframe limits our capacity to refine both the available data and the model itself to a fine level of detail. For consistency across the Councils, publicly available information has formed the basis of the analysis. This has been refined and modified through discussions and workshops with the Councils.

The asset data for this report has been sourced from Council's Special Schedule 7 report as part of the annual financial statements. It is acknowledged that each Council utilises a different methodology to calculate the Cost to Satisfactory and the required maintenance expenditure. As such it is not possible to have a direct comparison between the Councils. Ideally we would normalise these numbers, utilising a consistent approach across the Councils to allow a like for like comparison. In this instance we are unable to compile asset data in a similar format to facilitate this approach. It is acknowledged that whilst both Councils have adopted a different approach to Special Schedule 7 the numbers represent each Council's best estimate of the cost to satisfactory and the required maintenance expenditure. We would recommend that a more detailed analysis or due diligence of the asset information be undertaken to validate or test the Councils' published information.

Where the data is inconsistent or unclear it has not been included and will be recorded as either 'no data' or 'no result'.

1.2.1 Providing information to enable councils to individually make their decisions

The modelling is intended to allow the Councils to individually and collectively understand what the benefits and dis-benefits of the merger of the Councils. It has involved analysing historic, current and forecast performance as well as drawing in information from other jurisdictions in which we have been involved in local government reform (for example, transitional costs).

The project is not intended to advise each Council of the best option for them (although it may naturally fall out of the modelling). The project simply provides the information that will enable each Council to determine its individual course of action, undertake informed consultation with its community, and ultimately form the basis of the Council's submission.

1.3 Constraints

The timeframes for this project have been challenging and we appreciate that the work is required to allow plenty of time for each Council to work through issues with the community or potential merger partners and prepare submissions for 30 June 2015.

Notwithstanding that we fully understand the need for those tight timeframes, that understanding is tempered with a recognition that the data available for modelling has some limitations as a result and we have not be able to standardise the data across the two Councils, given the timing constraints.

Notwithstanding these constraints, we have had great support from the staff of each Council, providing quick responses to our requests for information and active and knowledgeable participation in the workshops. We thank the Executives and staff of the Councils for their input and cooperation.

1.4 Assessment of business case

IPART recently announced draft assessment criteria for the standalone, merger and rural council improvement plans and business cases. Councils are expected to consider the ILGRP options proposed for each council. The ILGRP proposed a merger of Blayney, Orange and Cabonne. Blayney are not party to this merger business case.

We note that for a merger to proceed all participant councils are required to formally resolve to proceed with the merger and complete a merger template. If one council chooses not to participate in a merger, all councils must complete an improvement plan template.

2. SCOPE

2.1 Multiple scenarios

The shared modelling project was undertaken on the basis of evaluating the following options.

1. **Status Quo**

   The baseline is measured against what each Council has reported their current and future financial position to be. The analysis is based on the published Financial Statements and Long Term Financial Plans of the Councils.

2. **Meeting the Benchmarks**

   This scenario answers the question as to what each Council would need to do to meet the Fit for the Future benchmarks. It does not address the question of scale and capacity, and concentrates on the seven government benchmarks.

   The scenario is built up by separately considering the operating result, asset renewal, asset maintenance and the infrastructure backlog. It identifies what, if any, funding gap exists but it does not identify how the gap is to be resolved, as that is a question for each individual Council. In some cases this has required a standardised approach to be used to provide comparability.

   We acknowledge the work each Council has done to understand its assets and community priorities, and our analysis and assessment should be understood as applying to the context.

3. **Merged Council**

   This scenario models a merger of the two Councils and assesses the advantages and disadvantages of this against a series of criteria. The agreed criteria include financial and non-financial indicators and go beyond the government's Fit for the Future benchmarks to incorporate communities of interest and the alignment between the council organisations.

The scenarios assess the advantages and disadvantages of this approach, including the financial costs and benefits. Water and sewer activities are specifically excluded from this analysis and modelling is based on both Councils General Funds.

2.2 Reporting

This report is intended to provide a collective body of information that each Council will then use to determine what is in the best interests of the Council and community. As such, it does not seek to recommend any one option over another for a particular Council.

The report compares options and highlights advantages and disadvantages. The relative weighting that each Council then applies will be a matter for each individual Council.

3. EXECUTIVE SUMMARY

This executive summary provides the key outcomes from our analysis. However the full report needs to be read to provide the context to the analysis and assumptions that underpin the modelling.

3.1 Scale and capacity

The government has made it clear that the starting point for every council is scale and capacity.

In the case of Cabonne Council and Orange Council, and based on the Independent Panel position, it appears that their view was that scale and capacity for each of the two Councils arises through a merger with each other.

While either Council could make an argument that they can meet the scale and capacity tests, councils need to do so recognising the stated government position which runs contrary to that.

In the case of Cabonne it may be more challenging, given the size of the Council and the population it serves, to meet the government's test around scale and capacity on its own but that is something for the Council to assess. As a guide, the ILGRP report has identified councils of the same size as Cabonne that can remain standalone with in Joint Organisation. Orange can arguably make a stronger case as the merger (which meets scale and capacity) creates less of an impact for Orange than for Cabonne when considered against the key aspects of scale and capacity.

Whether a merged council of Cabonne and Orange provides for greater scale and capacity than Orange on its own is unlikely.

3.2 Fit for the Future benchmarks comparison

The government has established a set of Fit for the Future benchmarks which all councils are being assessed against. We have undertaken a detailed analysis of the financials and asset management approaches on the following basis:

- Cabonne Council: A base case
- Orange Council: A base case
- A Merged Council: Analysed on the base case basis

The following table summarises the results of that analysis.

Table 1 Overall comparison of options against Fit for the Future benchmarks

Council	Cabonne Council	Orange Council	Merged Council	
			Day one	Modelling period
Operating Performance	Yes	Yes (except 2016)	No	Yes (except 2016-18)
Own Source Revenue	Yes	Yes	Yes	Yes
Debt Service Cover	Yes	Yes	Yes	Yes
Asset Maintenance	Yes	Yes	Yes	Yes
Asset Renewal	Yes	Yes until 2021	Yes	Yes until 2022
Infrastructure Backlog	Yes from 2020	Yes	Yes	Yes
Real Operating Expenditure	Yes	Yes	Yes	Yes

3.3 What is required to meet the benchmarks

Both Councils can meet the Fit for the Future benchmarks throughout the period from now until 2023, as there is no asset funding gap. In addition, each Council is showing an operating performance funding surplus for the modelling period, providing increased discretionary funding if required.

Cabonne shows a declining Infrastructure Backlog Ratio for the period modelled which is met from 2020. However, as it spends more on maintenance and renewals than required, it has the capacity to address this backlog earlier. Orange meets all asset benchmarks until 2021 when the renewal ratio fails to meet the benchmark however, like Cabonne, Orange has no overall asset gap and therefore has the flexibility within its asset spend to meet the benchmark. The merged council fails to meet the Operating Performance Ratio for a three year period from 2016, largely due to the cost of the merger. The table below identifies the extent of that funding gap for each Council to address the infrastructure benchmarks and Asset Maintenance Ratio and bringing the infrastructure backlog[1] to the benchmark of 2% within five years.

Table 2 Summary of infrastructure funding gap

Council[2]	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Cabonne Council	1,860	2,267
Orange Council	3,950	2,227

The following table identifies the average annual gap or surplus between operating revenue and operating expenditure (as per the Operating Performance Ratio guidelines) over the time period within each Council's LTFP, with both Council's showing an operating surplus for each Council over the period modelled.

1 Based on condition 3 being satisfactory and as calculated using the Morrison Low methodology
2 Infrastructure funding gap does not take into account any potential SRV applications

Table 3 Operating performance funding gap

Council	Average gap ($000)
Cabonne Council	3,194
Orange Council	546

3.4 Merged council

3.4.1 Scale and capacity

On the basis that the independent panel recommendation proposed that the two Councils merge, it can be assumed that a merged council would achieve the scale and capacity requirements as intended by the ILGRP.

In the case of Cabonne it may be more challenging, given the size of the Council and the population it serves, to meet the government's test around scale and capacity on its own, but that is something for the Council to assess. The ILGRP report has identified councils of the size of Cabonne that can remain standalone with in Joint Organisation. Orange can arguably make a stronger case as the merger (which meets scale and capacity) creates less of an impact for Orange than for Cabonne, when considered against the key aspects of scale and capacity. Whether a merged council of Cabonne and Orange provides for better scale and capacity than Orange on its own is unlikely.

The table below shows a comparison between the two Councils, the merged council and Tamworth Regional Council as a comparator council that has a population similar to that which the merged council would service.

	Cabonne	Orange	Merged	Tamworth Regional Council
Full time equivalent staff	170	366	536	520
Geographic area	6024 km^2	284 km^2	6308 km^2	9,893 km^2
Population (ERP 2012)	13, 481	40, 108	53, 589	60, 495
Annual expenditure	$32.2M	$81.55M	$113.8M	$119.6 million

3.4.2 Funding shortfall

The merged council is the sum of its parts. This means that the asset and financial position of each Council directly contributes to the overall asset and financial position of the merged council. As with the individual councils, the merged council generally meets all of the asset related benchmarks. There is no funding gap in order to address the Asset Renewal and Infrastructure Backlog Ratios exists which is set out in the following table.

Table 4 Merged council asset funding gap

Council	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Merged Council	7,355	4,613

3.4.3 Fit for the Future benchmarks

A merged council would meet six of the measures from day one and all seven measures for most of the modelling period.

Of the measures not achieved for the entire period modelled for the merged council:

- the Operating Performance Ratio starts out just under the break-even position for the first three years largely due to the costs from the merger
- the Asset Renewal declines steadily from a peak of 181% in 2016 until it dips below the required ratio of 100% averaged over three years, in 2022.

3.4.4 Debt

Both Councils carry low levels of debt, with Cabonne having almost no debt at all, which would be taken over by a merged council; both Councils meet the Fit for the Future benchmarks Debt Servicing Ratios, as does the merged council. It is recognised that debt is an issue of general concern to communities, and the Cabonne community may have a view about an increase in debt on a per capita basis with a merger, although this is may be offset by the greater capacity to meet the debt servicing requirements. Overall, debt levels are still very modest.

Table 5 Comparison of debt[3]

Council	Debt ($000)	Debt Service Ratio	Debt per Capita ($)
Cabonne Council	$8	0.8%	$0.57
Orange Council	$16,786	7.6%	$405.95
Combined	$16,794	5.3%	$303.69

3.4.5 Rates

Modelling the changes in rates in a merger is very difficult to do with any degree of accuracy as there are a number of significant differences in the rating systems of the two Councils which impact on the rates charged to an individual property. Assuming a single rating system would be put in place across the two Councils, modelling of the impact on rates was carried out. Changes to the average business, residential and farmland rates have been modelled using an entirely ad valorem and then a base rate scenario to represent a range of potential impacts that could be expected, with the results showing the percentage movement for each category are likely to be unsatisfactory to the communities and result in a requirement for new rating model to more equitably distribute the rating apportionment.

3 Based on 2014 Actual

3.4.6 Environment and community aspirations

While Cabonne can be characterised as being a smaller rural shire and Orange a more urbanised area, both Councils have adopted very similar styles in expressing their respective vision and associated themes for their local areas.

Both Councils have clearly stated visions around the environment, with any differences being reflective of their urban or rural basis. Orange's vision has a greater focus on balancing growth and development with the protection and enhancement of the built and natural environment. Cabonne looks to care for and respect the environment and has a particular statement about having an 'agricultural heart'.

Orange looks to plan and grow an innovative, diverse and balanced economy while protecting the character of the City and the region. Cabonne wants to ensure that the vibrancy of the social and economic life of their villages is retained and that the communities are supportive and welcoming. They also want Cabonne residents to connect with each other and the world, build business and generate employment, to provide and develop community facilities, to grow Cabonne's culture, and community and to manage their natural resources.

Both Councils provide flexibility in their residential zones, allowing for a wide variety of uses and different dwelling types.

3.4.7 Representation

Assuming a merged council has less councillors overall, compared to the present 12 each for Cabonne and Orange Councils, the number of people represented by each councillor would increase for both areas, significantly in the case of Cabonne. The table below shows the impact if there were 12 councillors in the merged council.

Table 6 Comparison of representation

Council	Representation (population / Councillor)
Cabonne Council	1,123
Orange Council	3,342
Merged	4,466 [4]

It may be possible to put in place measures to address the loss of representation for the Cabonne Council residents through local or community boards, but at present the government has not set out in detail any proposal that the community could consider.

3.4.8 Community profile and communities of interest

Differences between Cabonne and Orange reflect the different natures of the areas, with Cabonne being a smaller rural shire, and Orange a more urbanised area.

Both areas have similar age profiles, similar household types and both areas have low multicultural diversity and a lower education profile.

[4] Based on 12 councillors

The industry profile for the region highlights the differences in the region, with Cabonne's largest industry being agriculture, and Orange's Health and Social Services.

There is a high level of interdependence between the two regions economically, particularly with regards to workforce, with the majority of residents of both regions likely to work and reside in these locations.

The region has experienced low levels of growth for the period 2001 – 2011. In the period from 2011 – 2031 however the community of Cabonne is expected to see significant growth of over 24.5%. Orange will also see significant growth, though lower than Cabonne at 17.4%.

3.4.9 Costs and savings of the merger

The costs and savings of the merger arising throughout the period have been modelled and should be considered in conjunction with the overall financial performance of the merged council when making a decision.

Transition costs in the context of the two Councils are a significant cost in the early and mid-periods of the newly merged council and arise from costs associated with creating the single entity (structure, process, policies, systems and branding), redundancy costs and the implementation of a single IT system. Longer term costs continue to rise as staff numbers increase, which is typical of merged councils and are considered to arise as a result of increased services and service levels.

Savings initially arise in the short term through the reduction in the number of senior staff and Councillors. These are minor. Natural attrition is used to reduce staff numbers in the short term with a focus on removing the duplication of roles across the two Councils and creating greater efficiency in operation, however the overall decrease in staff numbers is small. Procurement and operational expenditure savings are also expected due to the size and increased capacity of the larger council but again these are small given the increase in size is modest. In the medium and longer term savings continue to arise.

Overall, the modelling projects a net total benefit over the ten years to the two Councils arising from the merger as set out in the table below.

Table 7 Summary of total costs and savings over modelling

NPV at 4%	NPV at 7%	NPV at 10%
-$6,664,150	-$5,378,840	-$4,343,370

3.4.10 Risks arising from merger

There are a number of significant potential financial and non-financial risks arising from any merger that will need to be considered, including the following which have been outlined in this report:

- Transitional costs may be more significant than set out in the business case
- The efficiencies projected in the business case may not be delivered
- The implementation costs may be higher and the anticipated savings may not be achieved

- Decisions subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned
- The cultural integration of the two council organisations may not go well resulting in low morale, increased staff turnover rate etc, reducing business performance and prolonging the time it takes for the predicted efficiencies to be achieved
- Where two unequal sized councils merge there is a danger it may be perceived not as a merger but as a takeover, in this case by Orange, the larger, more urban-based council
- Service levels rise across the merged council, standardising on the highest level of those services that are being integrated
- Differences in rate structure will need to be resolved, and the rating burden may shift between different classes of ratepayers
- Approaches to water management are different and if water schemes are required to be upgraded to potable supplies this may impose additional costs on communities
- Asset utilisation varies between communities and any economic rationalisation may be sensitive within communities effected
- Implementation of merger strategy across different geographic locations may present practical and cultural changes
- New services are introduced that are not currently delivered in one or more of the former council areas
- Challenges of integration at the corporate, cultural and community level, including issues related to staffing. Additional staff accommodation is required to housed the merged council.
- The financial performance of the merged council is less than that modelled, resulting in the need to either reduce services, find further efficiency gains and/or increase rates to address the operating deficit

4. DETAILED ANALYSIS

4.1 Status quo

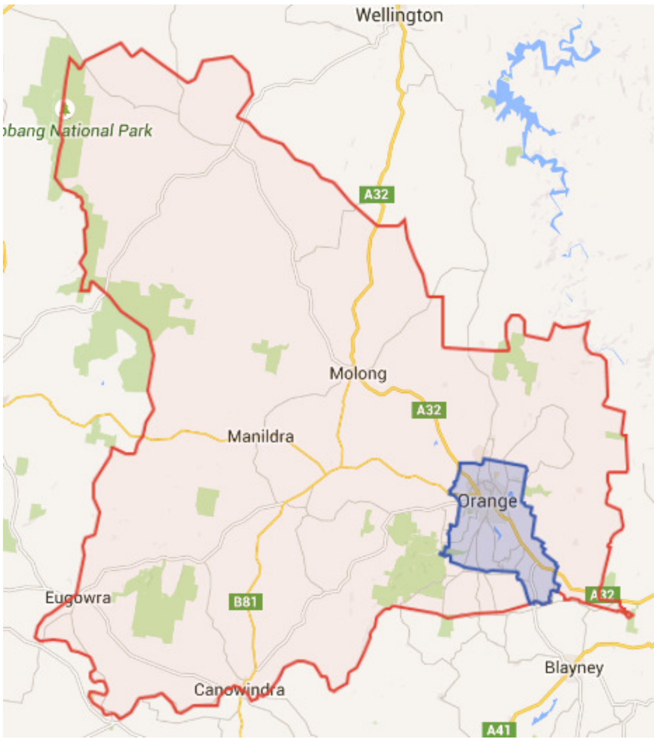
Cabonne and Orange are located in Central West New South Wales.

Cabonne Council is a rural based council with a number of villages, surrounding the local government area of Orange. As *Australia's Food Basket,* the Council has a strong agricultural base and a focus on the natural environment.

Orange is a major regional centre located approximately 250km west of Sydney. The city operates as a retail and educational hub, but has strong ties to its agricultural base in the surrounding communities. The city area is predominantly urban, with approximately 90% of the population living in the urban area.

A map of the area is set out below and shows each council area and the current location of the main council offices.

Figure 1 Map of Cabonne and Orange Councils



As a starting point, each Councils' current performance against the Fit for the Future benchmarks[5] has been considered and set out in the table below. We believe it is important to understand the respective position of each Council as it is today, and the results are those reported in the 2014 Financial Statements of each Council as they report them. There is no standard way of reporting, with some measures reported as ratios while others are reported as percentages. Figures in red are those where the Council does not meet the benchmark. We note that previously councils have not been required to report on the Real Operating Expenditure Ratio, consequently these results were not published in the 2014 Financial Statements.

[5] Reported in the 2013/14 Financial Statements for the respective councils

An explanation of each indicator and the basis of the calculation are set out in Appendix A. Each has been calculated in accordance with the requirements set down by the Office of Local Government. The ratios are a reduced set of benchmarks drawn from those used by TCorp in its 2013 analysis of the Financial Sustainability of the New South Wales Local Government Sector.

Table 8 Fit for the Future benchmarks 2014

Council	Operating Performance (%)	Own Source Revenue (%)	Debt Service Cover (%)	Asset Maintenance (%)	Infrastructure Backlog (%)	Asset Renewal (%)
Cabonne Council	2.19	66.01	27.97	1.40	0.04	115.07
Orange Council	-6.09	68.33	182.35	1.37	0.01	6.97

Based on each Council's reporting in their 2014 Financial Statements, Cabonne meets all but one of the Fit for the Future benchmarks while Orange meets all but two of the measures.

4.1.1 Fit for the Future indicators

While looking at the 2014 Financial Statements provides an historic view of performance, Fit for the Future concentrates of forecast performance. We have undertaken an analysis of both Council's current financial statements, projected financial performance and infrastructure ratios to provide consistency and comparability for the purposes of this assessment.[6]

Based on that modelling, Cabonne Council will meet all of the benchmarks over the period until 2023. Cabonne's Infrastructure Backlog Ratio is the only ratio that fails to meet the benchmark at day one but then declines steadily over the period until it meets the 2% benchmark from 2020 onwards.

Orange Council is projected to meet all of the benchmarks over most of the modelling period, the exception being the Asset Renewal Ratio which it meets until 2021 when it dips below the required level of 100% averaged over three years. While Orange is forecast not to meet the Operating Performance Ratio in 2016 it does meet this ratio for the rest of the period.

The following tables provide a summary of each Council's performance against the benchmarks while the figures that follow show the trends of the benchmarks over time for each Council. The government has made it clear that the trend of councils should be improving against the benchmarks.

[6] The explanation for each is set out in section 4.2

Table 9 Cabonne Council performance against Fit for the Future benchmarks

Indicator	Modelling Outcome
Operating Performance	*Meets the benchmark*
Own Source Revenue	*Meets the benchmark*
Debt Service Cover	*Meets the benchmark*
Asset Maintenance	*Meets the benchmark*
Asset Renewal	*Meets the benchmark*
Infrastructure Backlog[7]	*Meets the benchmark from 2020*
Real Operating Expenditure	*Meets the benchmark*

Table 10 Orange Council performance against Fit for the Future benchmarks

Indicator	Modelling Outcome
Operating Performance	*Meets the benchmark (except 2016)*
Own Source Revenue	*Meets the benchmark*
Debt Service Cover	*Meets the benchmark*
Asset Maintenance	*Meets the benchmark*
Asset Renewal	*Meets the benchmark (until 2021)*
Infrastructure Backlog[8]	*Meets the benchmark*
Real Operating Expenditure	*Meets the benchmark*

7 The forecast of a councils infrastructure backlog is based on using condition 3 as satisfactory
8 The forecast of a councils infrastructure backlog is based on using condition 3 as satisfactory

Figure 2 Operating performance ratio

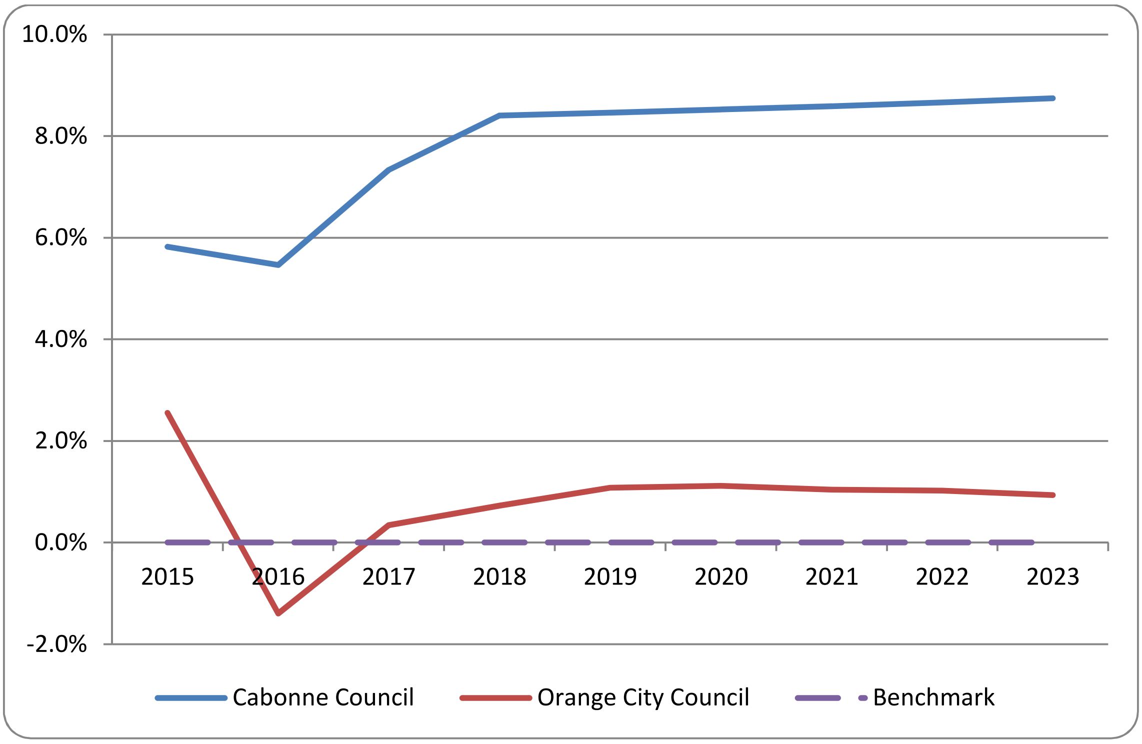


Figure 3 Own source revenue

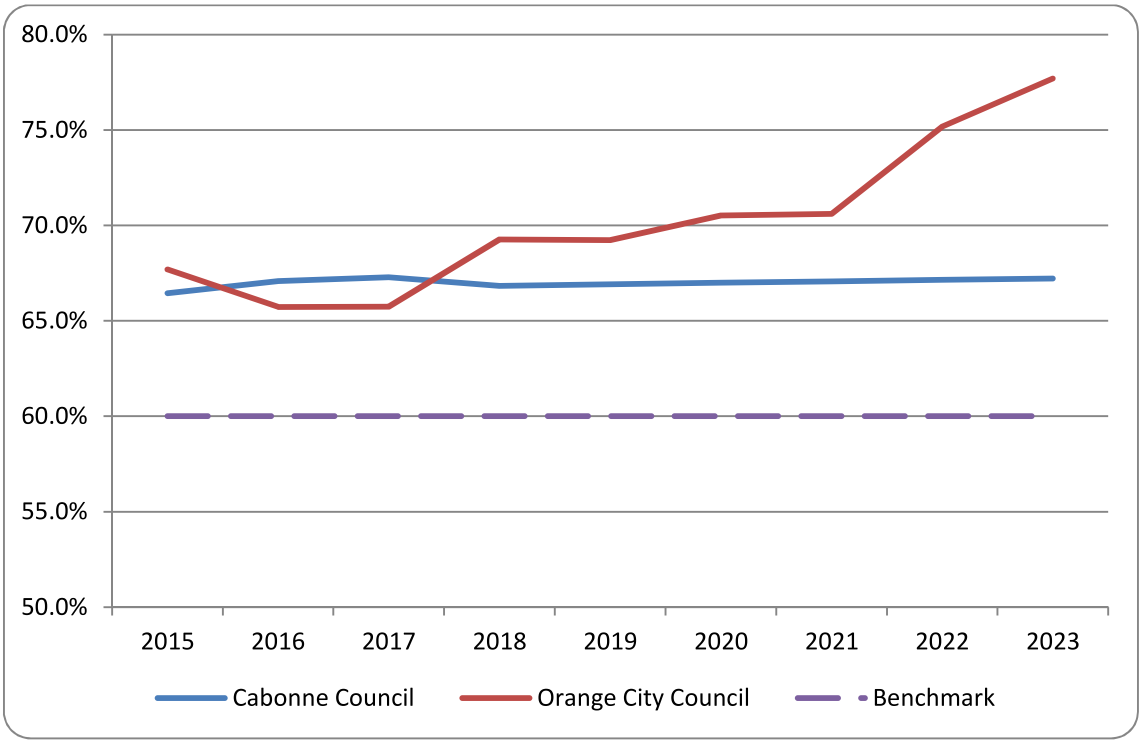


Figure 4 Debt service ratio

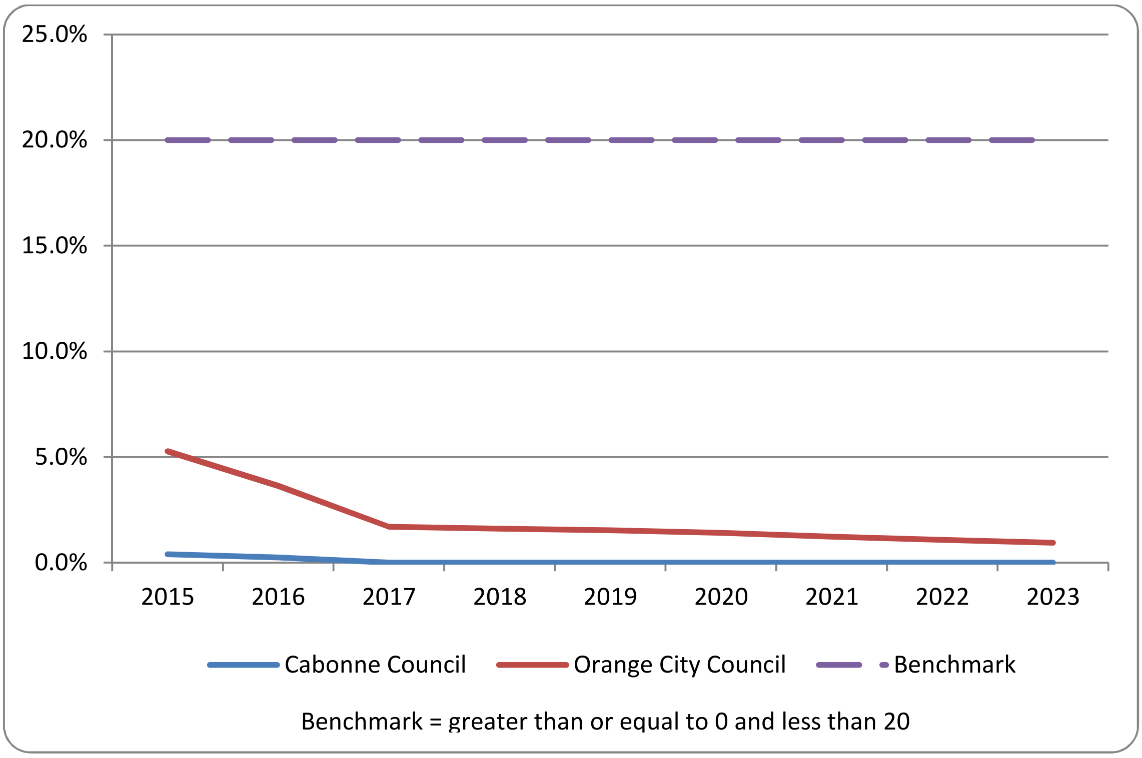


Figure 5 Asset renewal ratio

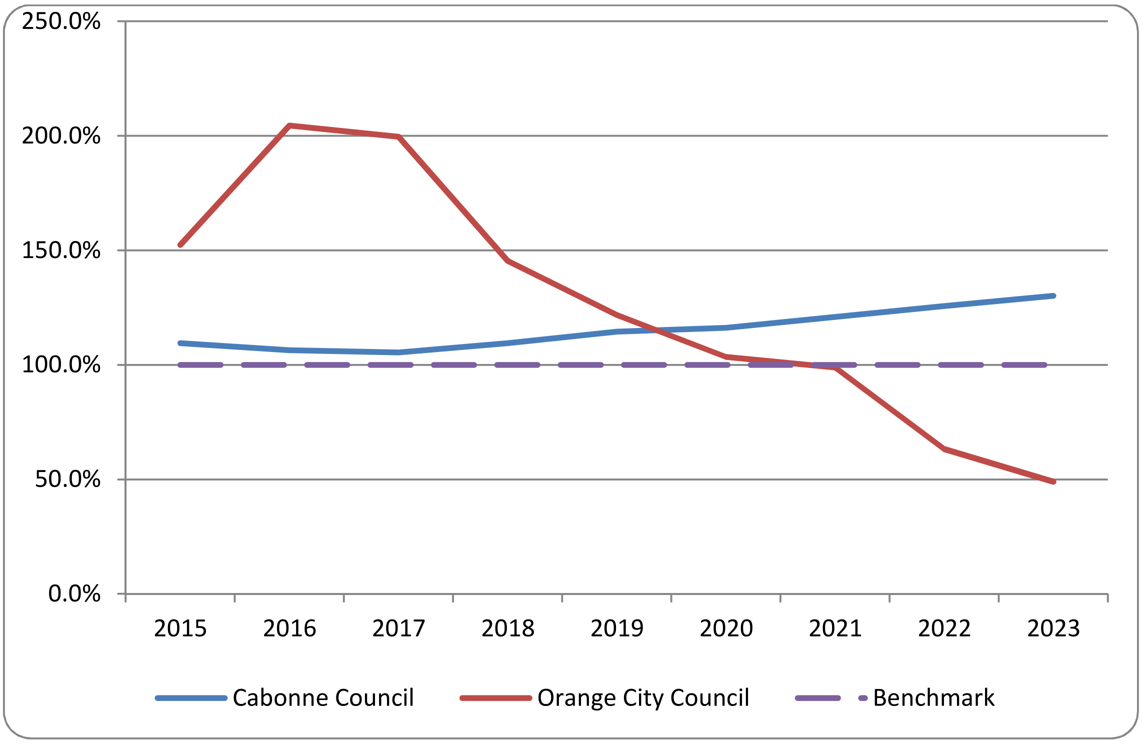


Figure 6 Infrastructure backlog ratio

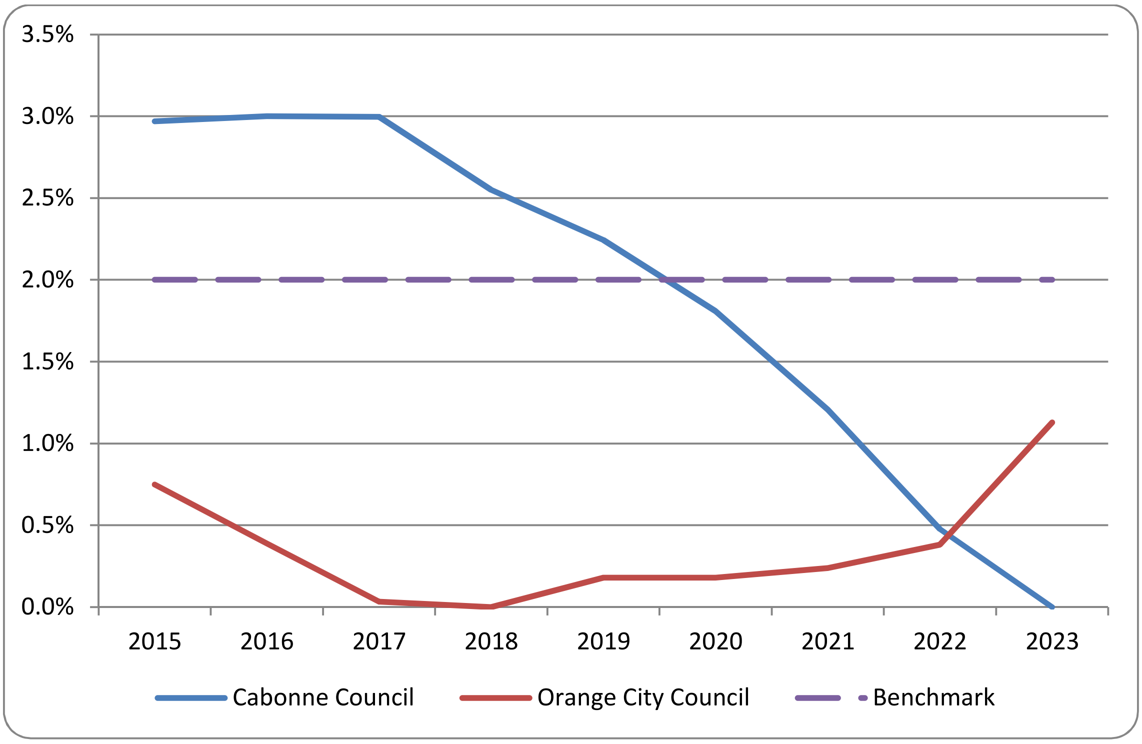


Figure 7 Asset maintenance ratio

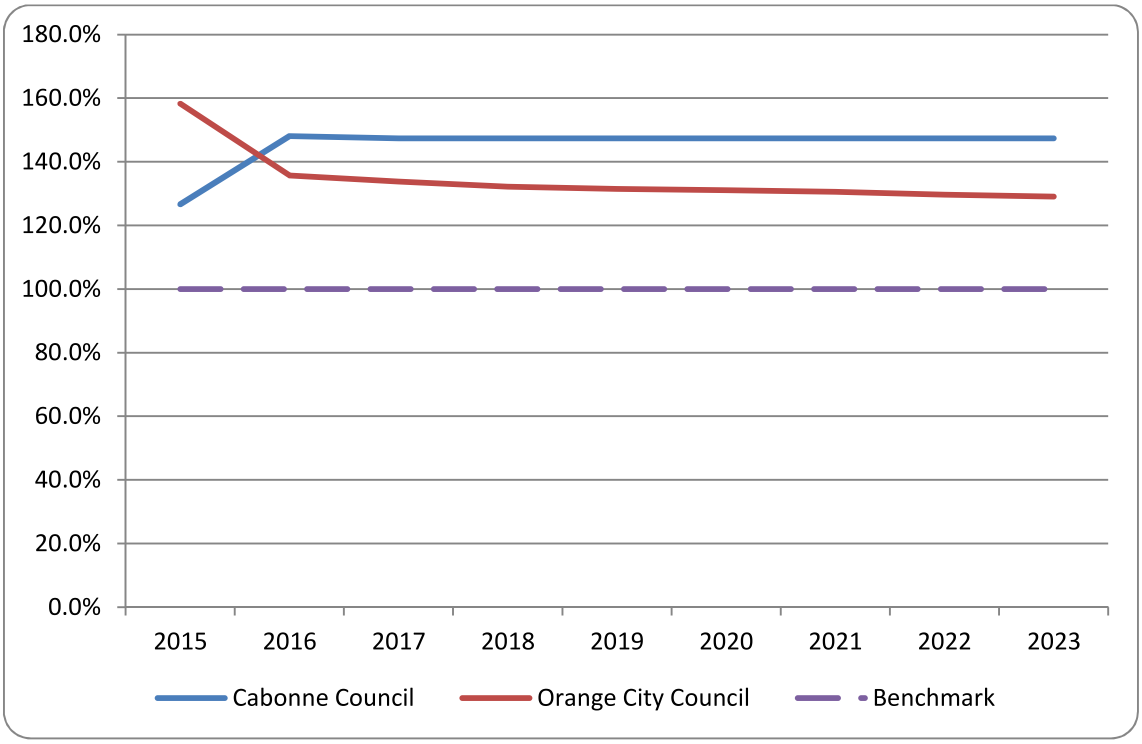
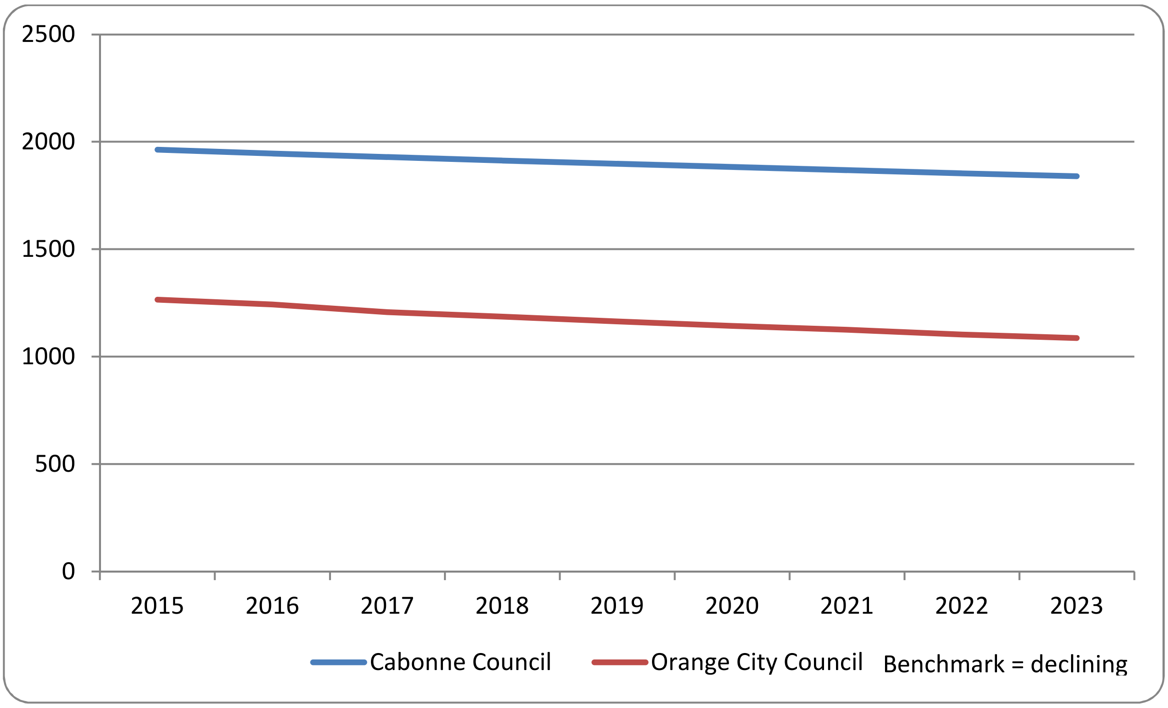


Figure 8 Real operating expenditure



4.2 Meeting the benchmarks

An analysis of what would need to be done in order for each Council to satisfy the Fit for the Future benchmarks has been undertaken. The analysis is against each Council's base case scenario. The asset based ratios (asset maintenance, asset renewal and infrastructure backlog) have been considered as has the Operating Performance Ratio. Each aspect has been separated out in the following sections before being combined into an overall figure which identifies what, if any, funding gap exist that, if satisfied, would enable the Council to meet the Fit for the Future benchmarks.

Where such a gap has been identified, and should a council choose to pursue a standalone response to Fit for the Future, then the council would then need to determine how they best address that gap. We would expect that this would be either through additional revenue, a reduction in operating expenses or a combination of both.

4.2.1 Operating performance

The operating result of each Council (calculated on the same basis as the Operating Performance Ratio and so excluding capital grants and contributions) has been reviewed and the gap, if any, between the operating revenue and operating expenses identified below. For simplicity, this is presented as an average of the years projected in each Council's LTFP.

The following table identifies the average surplus between operating revenue and operating expenditure (as per the Operating Performance Ratio guidelines) over the time period within each Council's LTFP, with both Council's showing an operating surplus over the period modelled.

Table 11 Operating performance funding gap

Council	Gap ($000)
Cabonne Council	3,194
Orange Council	546

4.2.2 Asset maintenance

The Asset Maintenance Ratio is based in part on the number each Council reports as 'required maintenance'. However there are no guidelines on how required maintenance is to be calculated and when the required maintenance figures from across the Councils were considered some significant variations were identified.

While we would normally adopt a standardised approach for the purposes of providing a relative comparison between the two Councils and for use when estimating the required annual maintenance for the merged council, in this case this has not been possible and we have adopted the Councils' published maintenance requirements and expenditure.

The table below sets out the results of the modelling for both Councils, with both demonstrating that they meet this benchmark. For simplicity, this is presented as an average of the years projected in each Council's LTFP.

Table 12 Asset maintenance funding gap

Council	Actual Annual Maintenance ($000)	Estimated Required Maintenance ($000)	Gap ($000)
Cabonne Council	3,816	2,590	1,226
Orange Council	4,171	3,178	993

Based on the modelling, neither Council has a funding gap between what is spent currently and what we estimate to be needed. The figures show a surplus spend that could be reallocated while still satisfying the Asset Maintenance Ratio.

4.2.3 Asset renewal

The Asset Renewal Ratio is based on each Council's assessment of annual depreciation on buildings and infrastructure and their actual expenditure on building and infrastructure renewals. If asset depreciation is calculated appropriately then this represents the loss of value of an asset on an annual basis, and a renewal ratio of 100% reflects (at an overall level) restoring that lost value.

The calculation of depreciation can vary quite significantly across the two Councils. The assessment of depreciation is integral to the financial management of each Council and their LTFP. Any change requires a proper assessment of the assets, condition, lives and values. The assessment of required asset renewals is therefore based on each Council's own assessment of depreciation and required renewals.

The table below sets out the suplus spend between the required annual renewals and projected renewals expenditure.

Table 13 Asset renewal gap

Council	Average predicted annual renewals ($000)	Average required annual renewals ($000)	Average Annual Gap ($000)
Cabonne Council	6,842	5,800	1,041
Orange Council	10,875	9,641	1,234

Based on the modelling, both Councils are funding more than is required.

4.2.4 Calculating the estimated cost to satisfactory

The estimated cost to satisfactory is the key driver of the Infrastructure Backlog Ratio. However, there are no clear guidelines as to how the cost to satisfactory has to be calculated and, as such, the approach varies significantly across NSW.

The two Councils elected not to standardise the calculation of required maintenance. Each Council's assessment of their cost to satisfactory is therefore assumed to represent the actual amount required to bring their assets to a satisfactory condition.

The table below sets out what each Council would need to spend on additional renewals (i.e. over and above maintaining a 100% Asset Renewal Ratio) to reduce the Infrastructure Backlog Ratio to the benchmark within five years. Negative figures are highlighted in red and show the annual additional amount a council (in this case Cabonne Council) would need to spend on renewal to satisfy the Infrastructure Backlog Ratio.

Table 14 Cost to bring assets to satisfactory

Council	Total value of assets[9] ($000)	Cost to satisfactory ($000)	Target Backlog ($000)	Reduction Required ($000)	Per year (5 years) ($000)
Cabonne Council	355,915	6,245	4,206	-2,039	-408
Orange Council	601,408	449	9,065	8,616	1,723

4.2.5 Annual funding gap

The following table summarises the expenditure required by each Council, based on our standardised approach, in order to meet all three asset based ratios within five years. Once the infrastructure backlog is brought to the benchmark then the required expenditure in both Councils falls.

Cabonne meets the Asset Renewal Ratio benchmark near the end of the modelled period and Orange meets both the Asset Renewal Ratio until 2021 and the Infrastructure Backlog Ratio until 2023. Any increase in expenditure on maintenance or renewals will flow through to affect the operating revenue and expenses of the Council and therefore the Operating Performance Ratio.

[9] Current replacement costs (2014)

Table 15 Combined asset funding gap

Council	Asset Maintenance	Renewals	Infrastructure Backlog	Average funding required per annum (5 years)	Average funding required per annum (5 years+)
Cabonne Council	1,226	1,041	-408	1,860	2,267
Orange Council	993	1,234	1,723	3,950	2,227

4.3 Merged council

4.3.1 Description

The merging of the two Councils into one council would create a council of roughly 20 times the geograhic area of Orange City, serving a reasonably distributed population.

To give some scale to the proposed council organisation, set out below are some broad indicators of the attributes of a new merged council and a comparison against Tamworth Regional Council[10].

Table 16 Comparison of proposed merged council and Tamworth Regional Council

	Merged Council	Tamworth Regional Council
Full time equivalent staff	536	520
Geographic area	6,311 km^2	9,893 km^2
Population	53,589	60,495
Annual expenditure	$113.8 million	$119.6 million

4.3.2 Services

The range of services and facilities provided by any council to its community varies significantly from place to place. Not only do the types of services vary, but the levels of service will often be quite different from council to council. A comparative view of this analysis is included in Appendix E. Our initial analysis indicates that there are some significant service level differences in the following areas:

- Representation structures
- Customer service models
- Streetscape and street cleaning
- Water and wastewater
- Swimming pools
- Parks, sportsfields and cemeteries
- Community and social services
- Arts, culture and heritage
- Swimming pools

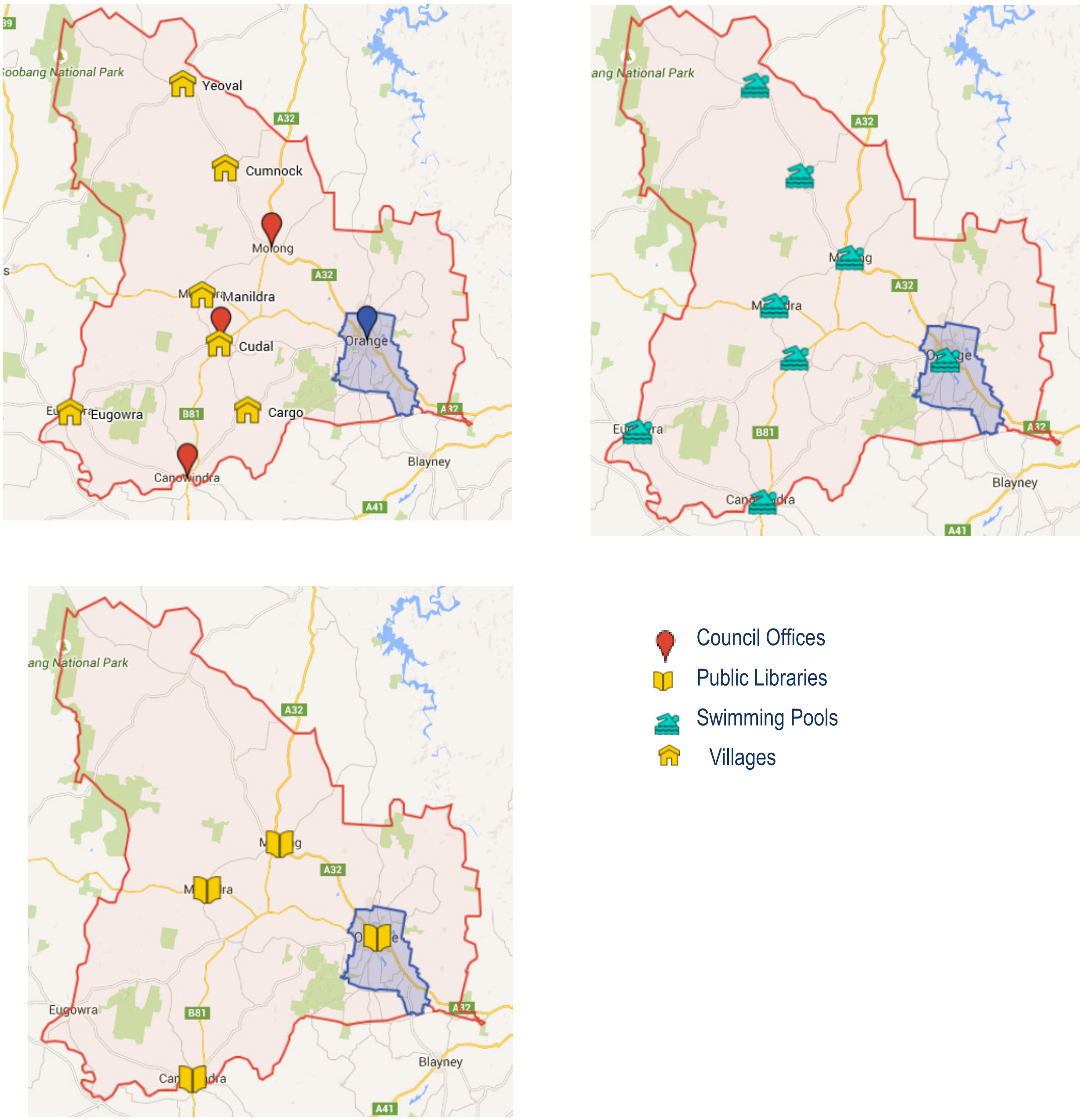
[10] OLG Comparative Performance Data 2012-13

- Events
- Airport
- Waste
- Construction and maintenance activities

The reasons for these variations are numerous. For many councils the suite of services that they offer in the present day is a reflection of decisions made by councils past. Those decisions are generally based on community desires and needs, funding availability or strategic business choices.

Figure 9 highlights the locations of some key council services, including council offices, libraries and swimming pools.

Figure 9 Key services and facilities of the councils



Regardless of the original rationale for service types, levels and delivery decisions, councils need to continue to make regular and structured revisions to their service portfolios in order to meet emerging or changing community needs, capacity to pay issues or regulatory change.

The two Councils are reflective of the broader local government industry and exhibit many variations on the types and levels of service that they offer to their communities despite their relative proximity. There are obviously cost implications for the Councils providing different services and levels of service.

There are a range of examples where services vary across council borders and those variations can be in the form of:

- providing a particular service or not doing so
- differing methods of delivering services (in house, outsourced, collaborative)
- variety in the levels of service delivered (frequency, standard)
- pricing.

Appendix E and Figure 9 serve to highlight the different challenges that a merged council will be faced with in regards to the provision and the location of services and facilities. Having responsibility for a larger area without the existing internal boundaries will require a different approach and will likely lead to changes in services and service delivery.

Establishing a uniform, structured, or at least consistent service offering through the mechanisms of service standard setting, pricing and delivery will be a challenging exercise for any merged council; however it does provide opportunities for service review and re-evaluation. Often in a merged council the desire to ensure an equitable and fair service across the entire local government area can result in an immediate and sometimes dramatic increase in services, services levels and therefore costs. If the merged council fails to address these differences and bows to pressure to standardise its service offering, regardless of location, to the highest level of the two previous councils the resulting cost is likely to be many millions of dollars.

In assessing the advantages and disadvantages of a merger of the two councils, the assumption has been made that current service levels will continue until such time as the merged council makes a decision otherwise.

4.3.3 Social, environmental and economic

The following is a summary of a detailed communities profile and communities of interest study that is set out in Appendix F.

This desktop review of the communities of the two councils has been undertaken in order to understand the current demographic composition of the area, the similarities and differences between the council areas and the interrelationships and communities of interest that currently exist within the area.

Communities of interest and geographic cohesion are considered essential considerations for any boundary adjustment process (Section 263 of the Local Government Act). The key references for this review is ABS Census Data, NSW Department of Planning's Population Forecast (2014), the ABS Estimated Residential Population figures for 2011 and 2012, along with the analysis contained in the *New South Wales Local Government Areas: Similarities and Differences, A report for the Independent Local Government Review Panel* report.

The local government areas of Cabonne and Orange have some similar features and some differences, many of which reflect the different natures of the areas; Cabonne being the larger rural shire while Orange is a smaller and more urbanised area.

There are a number of similarities between the two council areas. Similarities include:

- Full time employment makes up the majority of employment across the regions, but participation in the labour market is an issue across the two council areas
- The percentage of Indigenous Australians in each community sits just above the State average
- Both have lower levels of year 12 and post schooling education attainment as compared to the New South Wales average
- English proficiency is high, and there is a very low level of people born in countries other than Australia across the region
- Both areas will experience significant population growth, Cabonne's sits very high at 24.5% to 2031
- There is a high level of interdependence between the two regions economically, particularly with regards to workforce with the majority of residents of both regions likely to work and reside in these locations

However a number of differences can also be observed:

- There are differences in the industry profile in the region
- While the age profile is broadly comparable across most years, Cabonne has a lower number of young people aged 25 – 35
- Orange has a higher percentage of individuals speaking a language other than English (4.9% compared to 1.8%)
- Cabonne sits above the NSW average with regards to its SEIFA Index rating, whereas Orange falls below

The strategic priorities of each of the communities, as expressed in the Community Strategic Plans, display commonality, with a clear priority around the unique environments of the areas.

4.3.3.1 Current base information

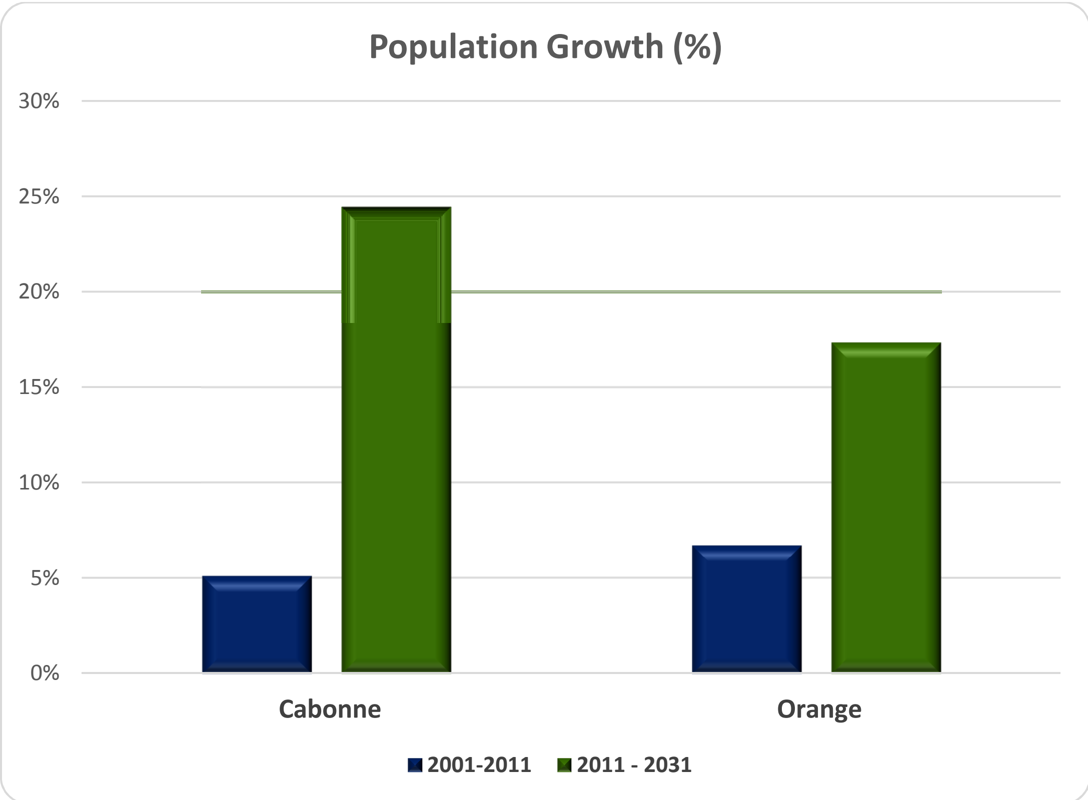
Table 17 Current base information

	Population (ERP 2013)	No. Households	Land Area (km^2)	Population Density (persons per km^2)
Cabonne	13 481	4704	6023.9	2.2
Orange	40 108	13 865	283.9	141.3
Total	53 589	18 569	6307.8	8.5

4.3.3.2 Population growth and forecasts

Analysis of the census data and the NSW Department of Planning's population forecasts has been undertaken to identify the patterns of past and future population growth within the Cabonne and Orange areas. The region has experienced low levels of growth for the period 2001 – 2011. In the period from 2011 – 2031 however the community of Cabonne is expected to see significant growth of over 24.5%. Orange will also see significant growth, though lower than Cabonne at 17.4%.

Figure 10 Population projections

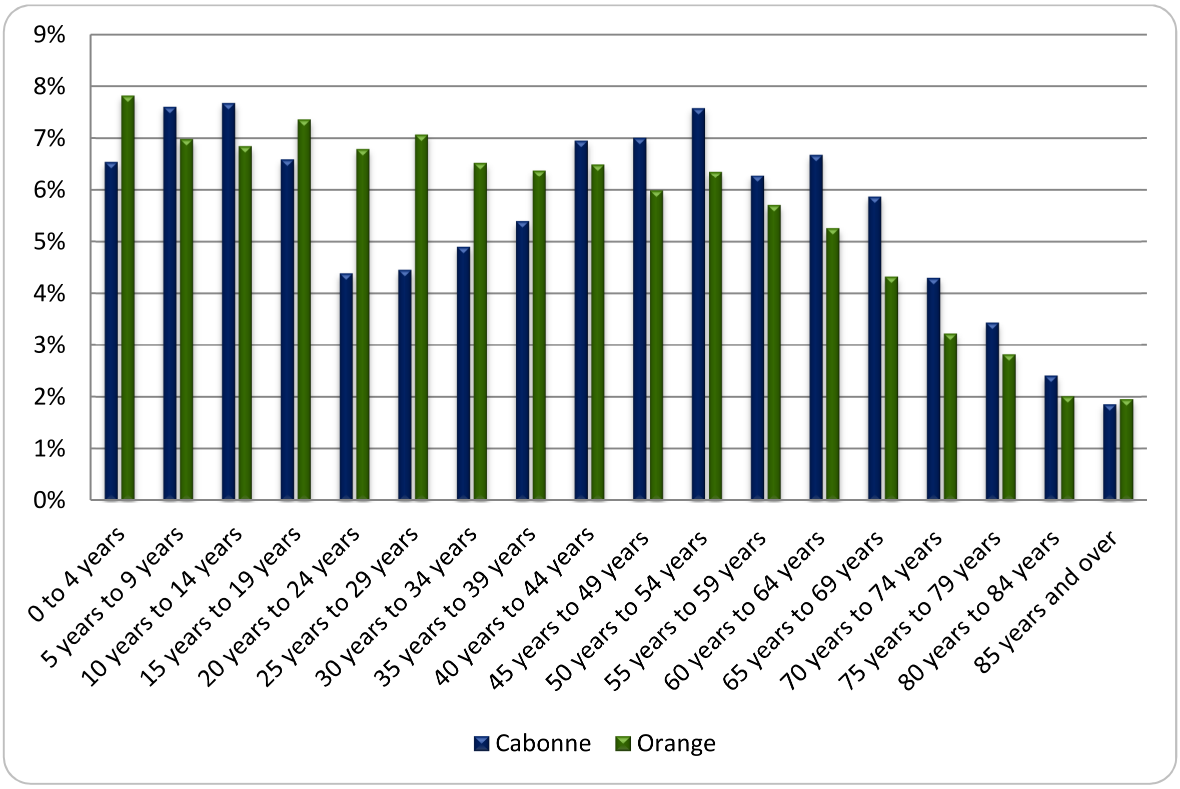


4.3.3.3 Age structure

The age structure of the community provides an insight into the level of demand for age based services and facilities as well as the key issues on which local government will need to engage with other levels of government in representation of their community.

The *Similarities and Differences* analysis groups both Councils in a cluster with high ratios of children to adults of parenting age coupled with low retention of young adults. It has a lower proportion of elderly residents, including a relatively low ratio of the very old to the next youngest cohort.

Figure 11 Age Structure



4.3.4 Environment

4.3.4.1 Natural and built

A summary assessment of the Council's LEPs has been considered with the emphasis on:

- protection of the natural environment
- protection of the built environment/heritage and character of the existing urban area
- the overall (policy) approach to growth and development.

In terms of the natural environment, both Councils have clearly stated visions around the environment, with both reflective of their urban or rural basis. Orange's vision has a greater focus on balancing growth and development with the protection and enhancement of the built and natural environment, with environmental protection being viewed in the context of growth management and overall development opportunities in the LGA. They also look to conserve and enhance the water resources on which Orange depends, particularly water supply catchments.

Cabonne similarly looks to care for and respect the environment, and their approach indicates that environmental protection is to be pursued in the context of a sustainable development policy and as it contributes to broader community values.

While Cabonne Council includes an aim to identify and protect Cabonne's built and cultural heritage assets for future generations, perhaps more reflective of its more urbanised footprint, Cabonne Council does not appear to have any specific aims in respect of protecting the built environment.

In terms of growth, Orange's LEP seeks to recognise the importance of Orange as a regional centre in a diverse economy, preserve its landscape and scenic character and pursue a policy of supporting sustainable growth and housing choice. The LEP contains a range of residential zones allowing significant flexibility in dwelling types, particularly in new urban growth areas, indicating an accommodative approach in support of the economic development of Orange and supporting the smaller settlements in the LGA.

Cabonne's LEP aims to look to continue rural production in the context of a mixed economy, minimise land use conflict and environmental impacts (which can be significant issues on the rural/urban interface) and promote sustainable growth and housing choice. The LEP contains R1 (General) and RU5 (Village) residential zones allowing significant flexibility in dwelling types, indicating an accommodative approach in support of the economic development of Molong and Canowindra townships and supporting the smaller settlements in the LGA.

A summary of the comparisons of the approach to growth and protection of the natural and built environment is set out in Appendix C.

4.3.5 Representation

Assuming a merged council has less councillors overall, compared to the present 12 each for Cabonne and Orange Councils, the number of people represented by each councillor would increase for both areas, significantly in the case of Cabonne. The table below shows the impact if there were 12 councillors in the merged council.

Table 18 Comparison of representation

Council	Representation (population / councillor)
Cabonne Council	1,123
Orange Council	3,342
Merged	4,466 [11]

It may be possible to put in place measures to address the loss of representation for the Cabonne Council residents through local or community boards, but at present the government has not set out in detail any proposal that the community could consider.

4.3.6 Organisation alignment

4.3.6.1 Policy alignment

A high level analysis of the vision and key directions in the Community Strategic Plans identifies the areas of relative emphasis for each council area (Appendix D).

Cabonne and Orange Councils have adopted very similar styles in expressing their respective vision and associated themes for their local areas. Both have brief vision statements and elaborate on these with a series of focus areas around which their Community Strategic Plans have been created. Whilst there are minor differences in the expression of their themes and the accentuation of specific thematic components, there is a strong consistency and commonality in the foundations of the two CSPs.

[11] Based on 12 councillors

Both Councils have clearly stated visions around the environment, with any differences being reflective of their urban or rural basis. Orange's vision has a greater focus on balancing growth and development with the protection and enhancement of the built and natural environment. Cabonne looks to care for and respect the environment and has a particular statement about having an agricultural heart.

Orange looks to plan and grow an innovative, diverse and balanced economy while protecting the character of the city and the region. Cabonne wants to ensure that the vibrancy of the social and economic life of their villages is retained and that the communities are supportive and welcoming. They also want to Cabonne residents to connect with each other and the world, build business and generate employment, to provide and develop community facilities, to grow Cabonne's culture, and community and to manage their natural resources.

In general terms, the themes address priority areas including community strength and wellbeing, the natural environment, the local economy and employment, infrastructure and the built environment and strong and effective governance.

The comparison is presented visually below through Word Clouds in the figures below.

Figure 12 Summary of Cabonne Community Strategic Plan

Figure 13 Summary of Orange Community Strategic Plan

4.3.6.2 Cultural alignment

While it is difficult to compare the internal cultures of the council organisations in this exercise, there are both subjective and objective indicators that give an insight into how aligned or misaligned the organisations' cultures can be.

Communities

Often an organisation's culture develops as a direct influence of the community it serves. There are a number of indicators of cultural alignment of local government areas, including the social and cultural diversity of the community (discussed in this report under communities of interest), the community aspirations and values and how the community views its relationship with Council.

While there can be quite specific local needs and community aspirations, there are themes that emerge from a comparison of the visions for their communities that are expressed by the Councils in their Community Strategic Plans.

Cabonne and Orange have quite different communities demographically and socially although they maintain a common bond as neighbours with a high level of social and economic cross over between each community.

Cabonne's Community Strategic Plan focuses more on traditional rural services, pride in place, strong communities, a sustainable environment and a thriving agricultural community. The plan identifies a number of 'community values' including:

- respecting each other and the environment
- having courage to 'have a go', doing your best and being accountable for what you do

- being friendly and working together, and
- when making decisions today, think about the future impacts.

These values are typical of what you would expect to find in rural communities where pride, identify and self help remain strong.

The Cabonne Council has conducted a number of surveys of its community. The response rates have been high, suggesting the community is engaged. The results identify four out of five residents want to remain independent. A separate survey identifies an average 85% satisfaction rate with Council services, suggesting Council has a good relationship with its community and understands the community's service delivery priorities and service levels.

Orange on the other hand identifies a range of social/community service priorities in addition to the normal range of core local government functions as important community aspirations.

The community vision is to be 'proud, vibrant, supporting and enhancing, with a focus on the natural, social, cultural and economic diversity'.

Orange City Council has not recently surveyed community perceptions of Council performance.

Corporate Organisations

Both organisations are structured similarly. Orange operates a four-directorate model while Cabonne has three. Orange's four directorate model recognises the importance of community service activities, and while the organisational structures themselves are unlikely to result in substantially different corporate organisational cultures we note that Cabonne has its directorates separated over two locations. Individual operational locations where they are significant in size tend to develop their own unique cultures and therefore a merger is likely to need to accommodate and combine three separate location based cultures.

Orange's workforce is more than twice the size of that of Cabonne. This and the differences above are likely to contribute to different organisational practises, behaviours and even performance.

Organisational size can also impact on culture in a range of ways, such as diversity of skills and workforce characteristics, level of specialisation vs. multifunctional roles, capacity to undertake a greater range of functions and services, and partnership and advocacy capacity with other levels of government.

The following table shows some key differences and similarities between the workforces.

	Cabonne	Orange
FTE (including vacancies)	170	366
Percentage of employee costs allocated to training	1.6%	1.6%
Total annual employee cost ($000) per FTE	$63	$64
Total annual expense ($000) per FTE	$189	$210

By measuring training and development expenditure against both total expenditure and full time equivalent staff numbers we can assess each of the Council's approach to staff development. Both Councils spend the same on training and development, which is sightly less than the recommended industry average.

The annual employee costs, per employee, are almost identical. Variances can be due in part to salaries and wages but is also as a result of the organisational structure and type of roles the Council has. Organisations whose costs vary substantially can prove more problematic to merge as harmonisation issues can impact on relationships and behaviours.

A crude indicator of staff productivity can be the portion of the operating costs spent per staff member. Both Councils are again not too dissimilar. While we identify this as an indicator we do not recommend taking these figures at face value as they can be influenced by factors such as the maturity of the workforce and the fluctuating nature of total expenditure year on year and capital projects. Ideally they should be compared over time.

The Councils' Workforce Plans identify common national strategic issues that impact on the local employment market for which the Councils have strategies. One significant difference is in the skill sets each Council identifies as hard to recruit. For Cabonne technical and professional skills are the hardest to recruit while for Orange hard to fill roles are in some parts of the outside workforce and early childhood areas.

The Cabonne workforce is male dominated (75%) while Orange has a reasonable gender balance. Over 70% of Cabonne's workforce is over 45 compared to around 50% of Orange's. Anecdotally there is significant cross boundary movement between both workforces.

Orange moved to a new salary system in 2013 that made radical changes to the previous remuneration systems. Harmonisation of remuneration systems may be a challenge.

Corporate values

Councils will naturally take a different approach to developing their own corporate culture but generally each is underpinned by a set of organisational values.

Cabonne directly adopts the community values and repackages them as the organisation values. The nature of the community values (respect, courage, friendly, working together and being accountable) translates well into organisation values and behaviours. Rather than adopt a set of organisational values, Orange confirms the connection between the community's vision and strategic direction to its workforce culture and behaviours.

In any event most Councils would have a relatively common set of corporate values that are heavily influenced by the public nature of their role and service focus.

Corporate Policies

A review of the policy registers can identify some interesting philosophical differences and issues that have been given priorities (at some point in time) by the different councils. While policies change from time to time they can both reflect and influence the organisational culture that is tasked with implementing them.

A desktop review of both Council's policies shows that each has an extensive range of policies that cover most traditional government functions and responsibilities. Cabonne's policy register is extensive with many 'operational policies' that frame expected outcomes and limit officer discretion. Orange also has an extensive range of policies, but it is noticeable that a large number address social issues and service provision that you would only find in a city.

Any merger plan must have a strategy that specifically addresses organisational culture.

4.3.7 Financials

The estimated costs and savings of a merger of the two Councils have been modelled with the results set out below.

Tables 20 and 21 provide a summary, narrative and financials of the costs and savings of the merger with the detailed assumptions set out in Appendix B. The NPV of the costs and savings is set out in Table 22. The costs and savings arising from the merger are in comparison to the current operating costs of the combined councils.

The merged council is modelled on the basis of a combined base year where both Council costs and revenues set out in the LTFP are brought together (2015), common assumptions are then modelled forward for increase in revenue and costs (2016). Overlaid are the costs and savings of the merger with Short (1-3 years), Medium (4 – 5 years) and Long Term (6 – 10 years) time horizons. For simplicity all transitional costs are modelled as taking place within the first three years.

Financial Assistance Grants to the merged council have have been assumed to stay the same for the purpose of this modelling.

Table 23 then summarises the overall financial performance of the merged council with the Fit for the Future indicators set out later in section 4.3.9.

Table 19 High level description of financial costs and savings arising from merger

Item	Short Term (1 – 3 years)		Medium term (4 – 5 years)		Long Term (6-10 years)	
	Cost	Benefit	Cost	Benefit	Cost	Benefit
Governance		Reduction in total cost of councillors				
Staff	Redundancy costs associated with senior staff Harmonisation	Reduction in total costs of senior staff	Redundancy costs associated with any reduction in staff numbers Increase in staff costs associated with typical increase in services and service levels from merger	Reduction in staff numbers in areas of greatest duplication	Increase in staff costs associated with typical increase in services and service levels from merger	
Materials and Contracts		Savings from Procurement and network level decisions over asset expenditure		Savings from procurement and network level decisions over asset expenditure		Savings from procurement and network level decisions over asset expenditure
IT	Significant costs to move to single IT system across entire council					Benefits arise from single IT system and decrease in staff
Assets		Rationalisation of plant and fleet		Rationalisation of plant and fleet		
Transitional Body	Establish council and structure, policies, procedures Branding and signage	Government grant				

Table 20 Summary of financial costs and savings [12][13]

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Governance		-211	-217	-224	-231	-238	-245	-252	-260
Staff		0							
-Redundancies		961	0	0	862	0	0	0 0	0
-Staff cost changes		-199	-783	-1,349	-2,568	-1,820	-1,037	-202	690
IT									
-Transition costs		4,000	2,000	0	0	0	0	0	0
-Long term benefits		0	0	0	0	0	-738	-760	-783
Materials and Contracts		-59	-61	-63	-119	-123	-184	-190	-196
Assets									
-Plant and fleet		0	0	0	-1,091	0	0	0	0
-Buildings		0	0	0	-1,000	0	0	0	0
Grants and Government Contributions		-5,000	0	0	0	0	0	0	0
Transitional Costs									
-Transitional body		2,500	0	0	0	0	0	0	0
- Rebranding		300	0	0	0	0	0	0	0
Total		2,292	939	-1,636	-4,148	-2,180	-2,205	-1,404	-548

The NPV of the costs and benefits over the period being modelled (2023[14]) has been calculated and set out below and indicate that there would be a net cost to the two Councils and their communities from the merger.

12 The table provides a simple representation of costs and benefits which in the modelling are subject to appropriate inflationary adjustments
13 Costs are shown as positive figures, benefits as negative
14 2023 is the period being modelled to match the time covered by both council LTFPs

Table 21 Summary of financial costs and savings

NPV at 4%	NPV at 7%	NPV at 10%
-$6,664,150	-$5,378,840	-$4,343,370

While the merged council has a number efficiencies modelled over the short, medium and longer term the short term costs arising from the merger and the redundancy costs that arise in the medium term are exceeded by benefits in the medium and longer term and as a result the financial performance provides benefits throughout the period being modelled.

The merged council produces a positive operating result (excluding grants and contributions for capital purposes) over the the latter period being modelled.

Table 22 Summary of financial impacts of merger

Selected Councils Combined LTFP - 2014/15 Extrapolated	2013 (000s)	2014 (000s)	2015 (000s)	2016 (000s)	2017 (000s)	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)
Operating Results											
Income Statement **Source: Council Financial Statements and Long Term Financial Plan**	**2013 (000s)**	**2014 (000s)**	**2015 (000s)**	**2016 (000s)**	**2017 (000s)**	**2018 (000s)**	**2019 (000s)**	**2020 (000s)**	**2021 (000s)**	**2022 (000s)**	**2023 (000s)**
Rates & Annual Charges	40,327	41,911	43,676	44,986	46,336	47,726	49,158	50,632	52,151	53,716	55,327
User Fees & Charges	19,198	19,487	22,825	23,441	24,074	24,724	25,392	26,077	26,781	27,505	28,247
Grants & Contributions - Operations	23,158	18,806	20,716	25,657	20,965	21,442	21,884	22,298	22,751	23,238	23,733
Grants & Contributions for Capital	9,449	14,840	17,754	21,589	17,178	9,295	23,038	14,132	10,329	9,178	7,329
Interest and Investment Income	5,836	4,510	3,369	2,203	2,203	2,203	2,203	2,203	2,203	2,203	2,203
Gains from disposal assets	834	1,440	200	197	201	206	2,302	215	220	226	231
Other Income	4,852	4,680	4,755	4,678	4,786	4,896	5,008	5,123	5,241	5,362	5,485
Total Income	**103,654**	**105,674**	**113,295**	**122,751**	**115,743**	**110,491**	**128,984**	**120,681**	**119,677**	**121,427**	**122,555**
Income excl Gains\losses	102,820	104,234	113,095	122,554	115,541	110,285	126,682	120,466	119,457	121,201	122,324
Income excl Gains\losses & Capital Grants	93,371	89,394	95,341	100,965	98,363	100,990	103,644	106,334	109,128	112,023	114,995
Expenses											
Borrowing Costs	1,064	1,200	1,155	839	1,139	1,224	1,224	1,224	1,224	1,224	1,224
Employee Benefits	36,332	36,590	38,561	40,287	39,727	40,132	40,796	41,754	43,658	45,647	47,728
Gains & losses on disposal	20	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortisation	14,168	17,294	17,684	18,215	18,761	19,324	19,903	20,501	21,116	21,749	22,402
All other Expenses	31,406	36,120	36,304	43,560	39,492	38,239	38,947	39,722	39,717	40,500	41,298
Total Expenses	**82,990**	**91,204**	**93,704**	**102,901**	**99,120**	**98,920**	**100,870**	**103,201**	**105,715**	**109,121**	**112,651**
Operating Result	**20,664**	**14,470**	**19,591**	**19,850**	**16,623**	**11,572**	**28,114**	**17,480**	**13,963**	**12,306**	**9,904**
Operating Result before grants & contributions for capital purposes	**11,215**	**- 370**	**1,837**	**- 1,739**	**- 555**	**2,277**	**5,076**	**3,348**	**3,634**	**3,128**	**2,575**

4.3.7.1 Rates

Given the differing rating structures between the Councils it is difficult to model the impact of a merger on rate revenue and, in particular, the impacts on individual land owners. As a starting point the current rates for the two Councils are set out below, highlighting the existing differences as well as the different approaches.

Based on current rating undertaken by each Council, a merged council would have a rating revenue of $37.5m, with 24.8% being drawn from Cabonne and the remaining 75.2% being drawn from Orange.

Table 23 Comparison of total and average rating revenue

Rating Revenue	Cabonne Council	Orange Council
Total	$9.31m	$28.38m
Average Residential rate	$608	$1,298
Average Business rate	$517	$5,534
Average Farmland Rate	$2,386	$1,722
Average rates	$1,347	$1,612

When looking at the average rates paid under the different classifications in each council area, it appears that there are some significant differences, particularly with the business rates and to a lesser extent, the residential rates. In the case of the business rates, this is reflective of the differing natures of the two Councils with the more urban, built up Orange Council having a greater number of businesses and some larger businesses which would naturally attract a higher proportion of rates.

Figure 14 Current average rate (2014 - 15)

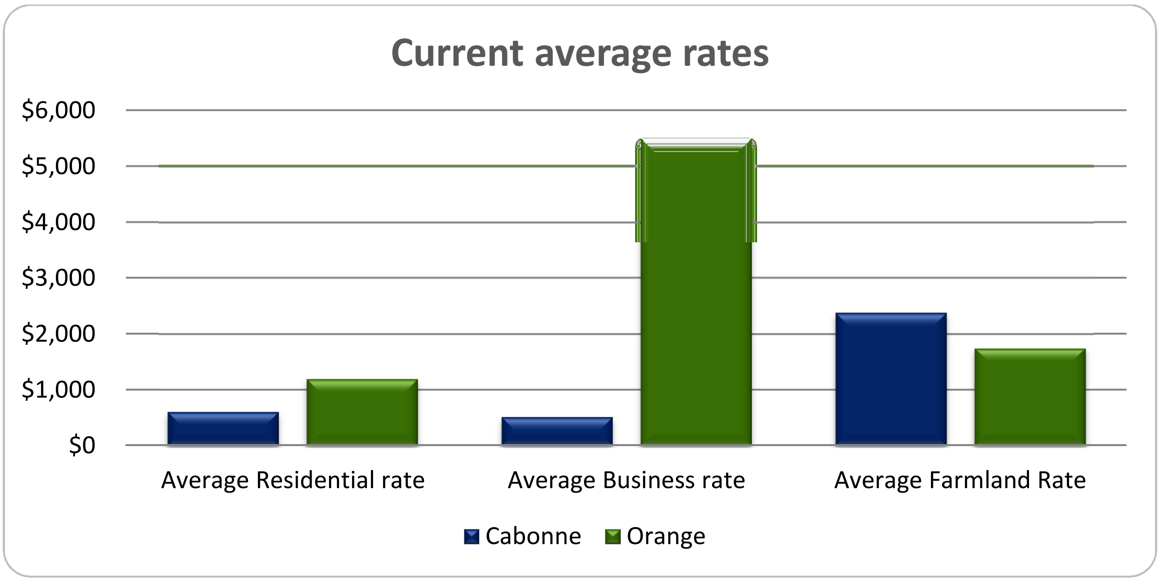


Table 24 Comparison of proportion of rates

Proportion of rates	Cabonne Council	Orange Council
Residential	29.5%	72.9%
Business	2.3%	24.8%
Farmland	50.3%	2.3%
Mining	18.2%	0%

The two Councils draw the majority of their rates in different proportions of residential, business farmland, and in the case of Cabonne, mining land, which is reflective of the differing natures of their communities and economies. Proportionally, Cabonne draws more of its rating base from farmland, while Orange has a larger residential and business base.

Figure 15 Cabonne Rates Proportion

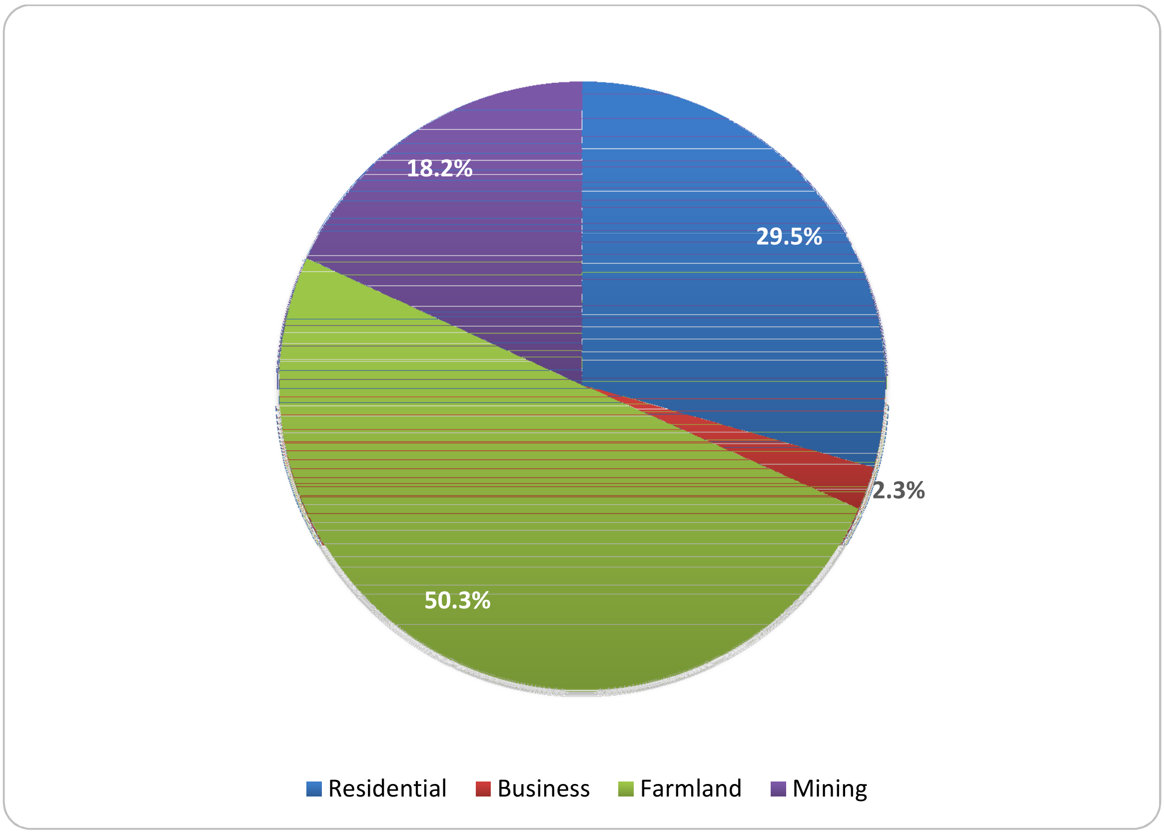
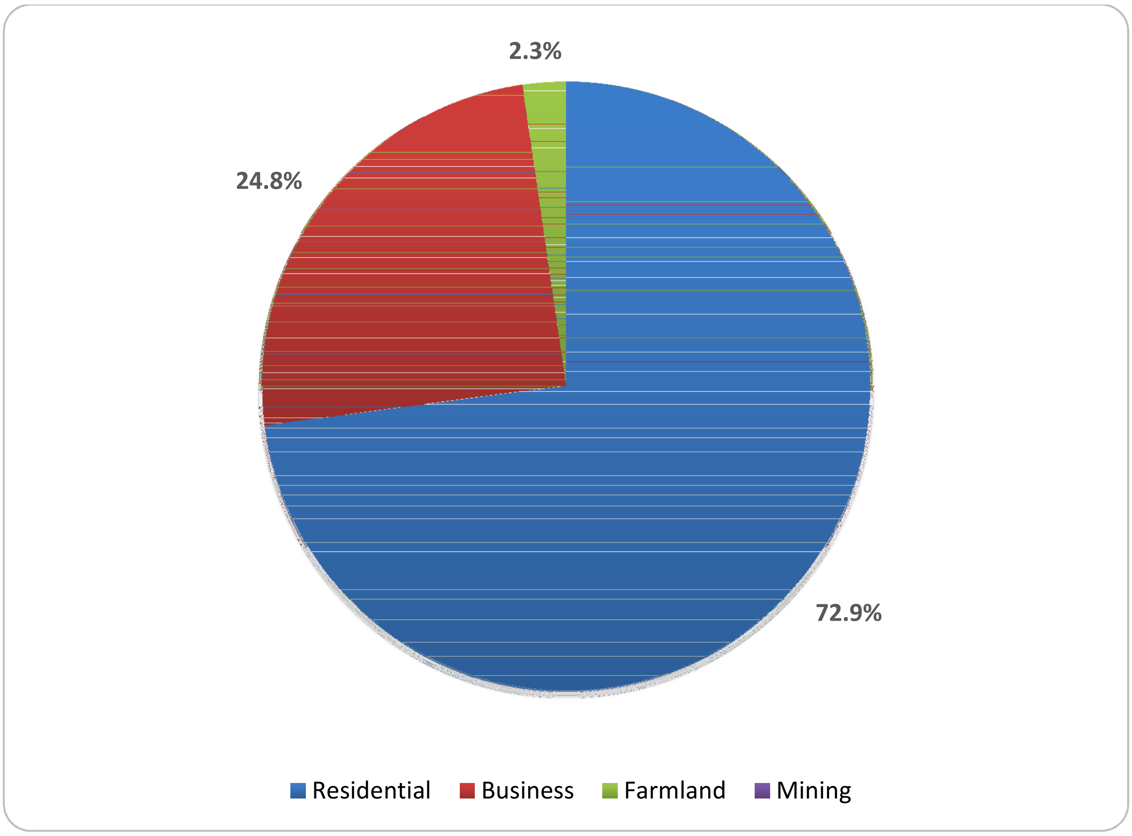


Figure 16 Orange Rates Proportion



In order to provide information on what the potential impact of a merger on rates would be, representative examples have been modelled by redistributing the 2014/15 rates without adjusting the rating structures. Two scenarios have been used based on the total rate revenue (residential and business) of the two Councils. In each scenario the total rates (residential, business or farmland) are apportioned across the two Councils consistently. Scenario 1 is entirely ad valorem and scenario 2 provides for a base charge to be set at the maximum level with the remainder ad valorem.

The key drivers are therefore land values and the differences in the way in which Councils currently allocate rates between categories. The actual impact on any property or properties will be the result of the actual rating structure chosen by any new council and how quickly a merged council decided to adopt and then implement a single rating structure. Within each council area there will be individual properties that are affected in different ways by the changes due to categorisation and land valuation issues. It is apparent that neither of the current rating structures will provide for an equitable distribution of the rating apportionment in a merged Council.

Analysis of potential changes in average rates indicate that in comparison the standard rate peg change in rate (2.3% for 2014) there would be significant changes in rates across the two Councils arising from a merger. The changes are described in the figures below by reference to a change from the 2014-15 rate and expressed as a percentage change.

The changes suggest that a new rating apportionment model will be required by a merged Council to fairly distribute rates between communities and land use types.

Figure 17 Impact on average residential rates

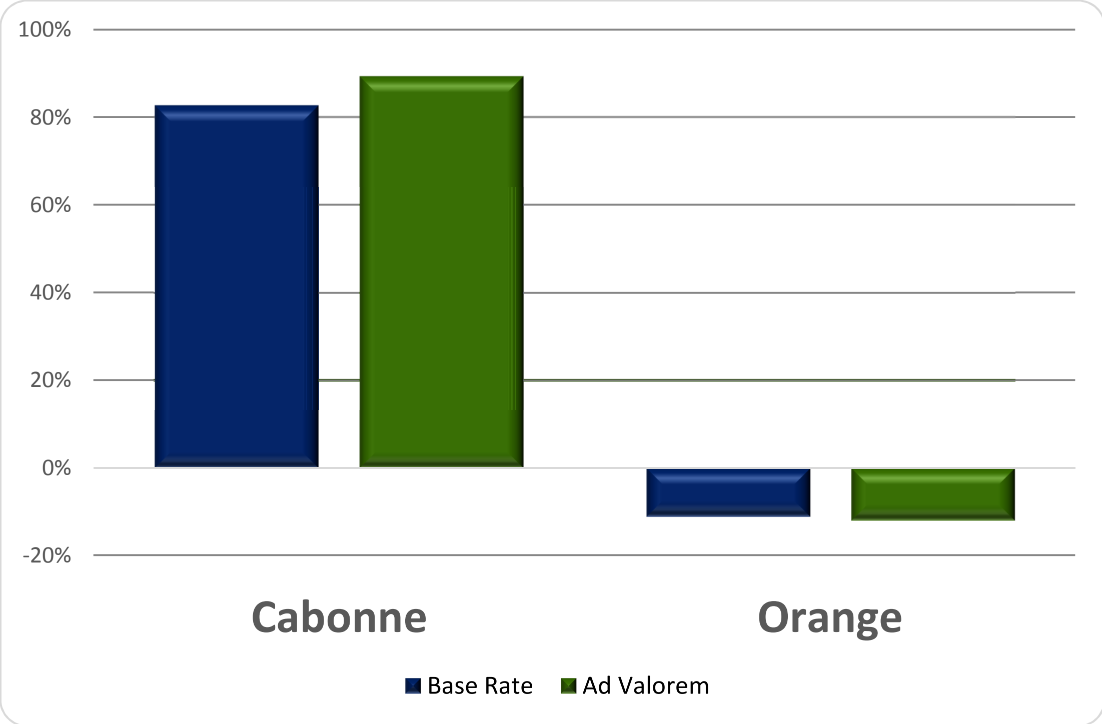


Figure 18 Impact on average business rates

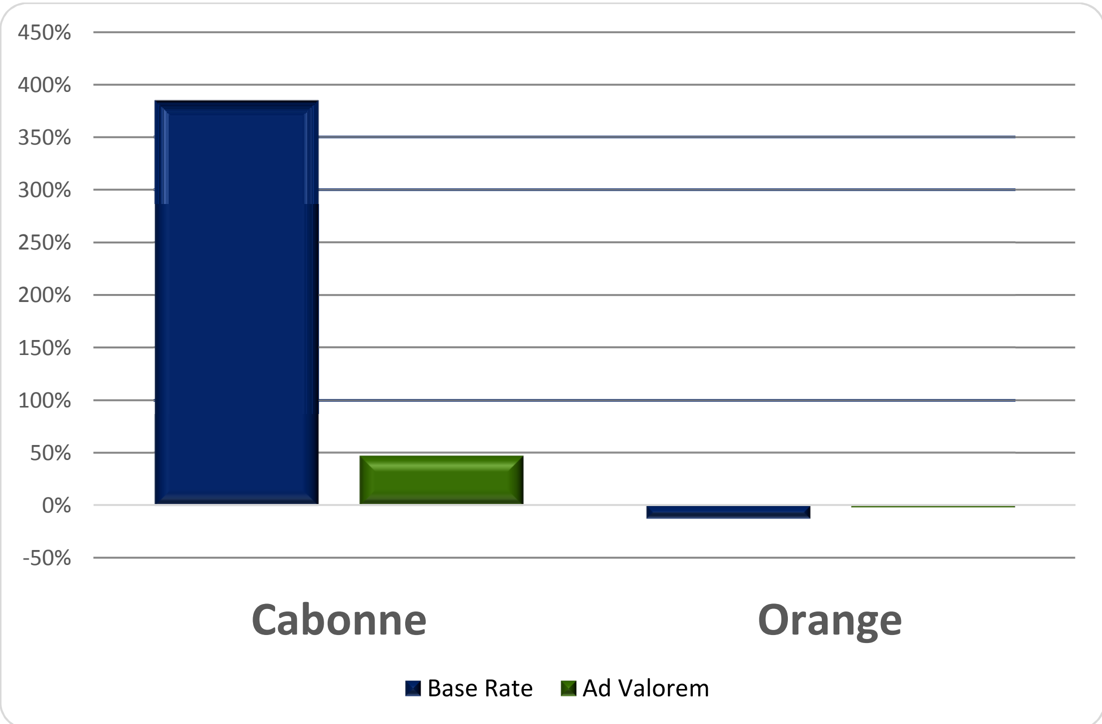
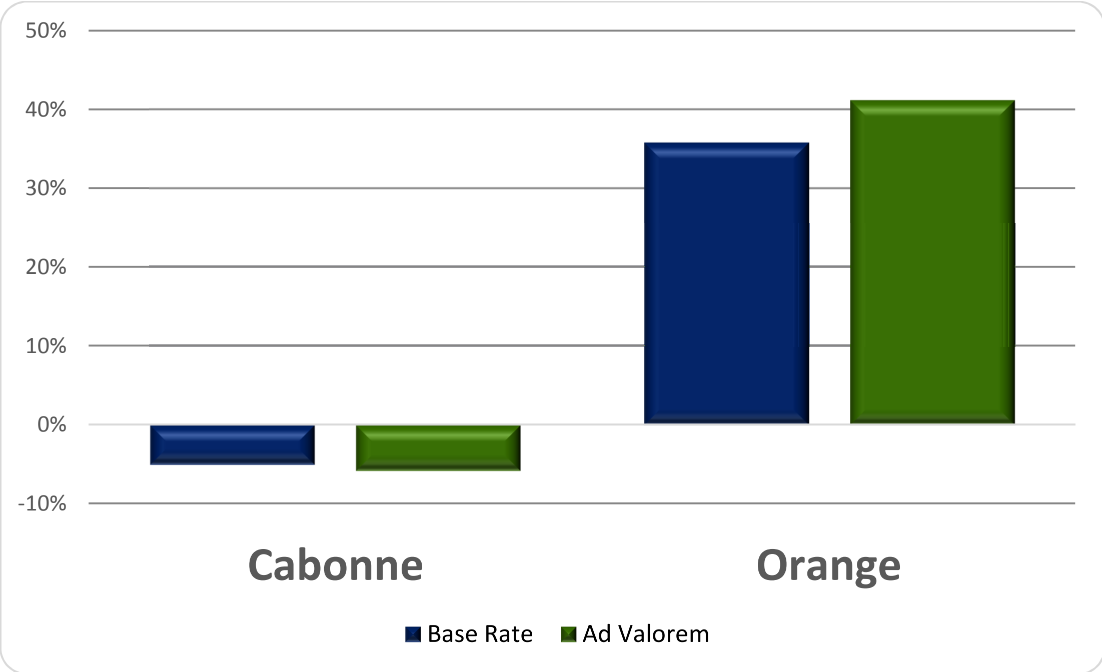


Figure 19 Impact on average farmland rates



4.3.7.2 Debt

Both Council's carry low levels of debt, with Cabonne having almost no debt at all, which would be taken over by a merged council. Both Councils meet the Fit for the Future benchmarks Debt Servicing Ratio, as does the merged council. It is recognised that debt is an issue of general concern to communities, and the Cabonne community may have a view about an increase in debt on a per capita basis with a merger, although this is may be offset by the greater capacity to meet the debt servicing requirements. Overall, debt levels are still very modest.

Table 25 Comparison of debt

Council	Debt ($000)	Debt Service Ratio	Debt per Capita ($)
Cabonne Council	$8	0.8%	$0.57
Orange Council	$16,786	7.6%	$405.95
Combined	$16,794	5.3%	$303.69

4.3.8 Scale and capacity

Scale

Scale has not been defined by either the Independent Review Panel or the Office of Local Government. The government has asked each council to begin with the recommendation proposed by the Independent Review Panel as that is considered to be the appropriate scale and capacity for the council.

On the basis that the Independent Panel recommendation proposed that the two Councils merge, it can be assumed that a merged council would achieve the scale and capacity requirements.

IPART have recently been appointed to independently assess councils' FFTF proposals. IPART have proposed a set of guidelines as part of their assessment process to consider scale and capacity including:

- an appropriate minimum population size
- a target number of councils in a metropolitan or regional area
- a future plan to achieve scale in the medium to longer term.

IPART propose that all FFTF proposals should be broadly consistent with the ILGRP preferred option (the option in bold where more than one option is identified). In the case of Cabonne and Orange, merger is the preferred option. They also propose to apply a set of wider tests including ensuring:

- local government remains fit for purpose
- where possible, creating regional centres with necessary scale and capacity
- functional relationships between regional centres and surrounding councils
- addressing councils at risk through amalgamation with adjoining areas

As yet there is no clarity around how each of these tests will be applied consistently across all proposals.

Capacity

The panel report articulated the Key Elements of Strategic Capacity as follows, and this has been adopted by IPART as a key measure.[15]

Figure 20 Scale and capacity

Box 8: Key Elements of Strategic Capacity

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

The performance of the merger options against each of the key elements is set out in the following table. The assumption is that in a strict application of capacity each council on its own does not meet the capacity elements because each council was put into a potential merger group by the Independent Review Panel. We have also noted the extent to which there is any real change from the status quo when the criteria is compared to a single council.

15 Box 8, Page 32 of Revitalising Local Government

Table 26 Scale and capacity in the merged councils

Criteria	Merged Council	Degreee of change
More robust revenue base and increased discretionary spending	Yes	Limited change
Scope to undertake new functions and major projects	Yes	Limited change
Ability to employ wider range of skilled staff	Yes	Limited change
Knowledge, creativity and innovation	Yes	Limited change
Effective regional collaboration	Yes	Limited change
Credibility for more effective advocacy	Yes	Limited change
Capable partner for state and federal agencies	Yes	Limited change
Resources to cope with complex and unexpected change	Yes	Limited change
High quality political and managerial leadership	Yes	No change

4.3.9 Indicators

A merged council would meet six of the measures from day one and all seven measures for most of the modelling period.

Of the measures not achieved for the entire period modelled for the merged council:

- the Operating Performance Ratio starts out just under the break-even position for the first three years largely due to the costs from the merger
- the Asset Renewal declines steadily from a peak of 181% in 2016 until it dips below the required ratio of 100% averaged over 3 years, in 2022

Table 27 Summary of merged council using Fit for the Future indicators

Indicator	At Day One	Over Modelling Period
Operating Performance	Does not meet the benchmark	Yes from 2019
Own Source Revenue	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark
Asset Maintenance	Meets the benchmark	Meets the benchmark
Asset Renewal	Meets the benchmark	Yes until 2022
Infrastructure Backlog	Meets the benchmark	Meets the benchmark
Real Operating Expenditure	Meets the benchmark	Meets the benchmark

Figure 21 Merged council operating performance ratio

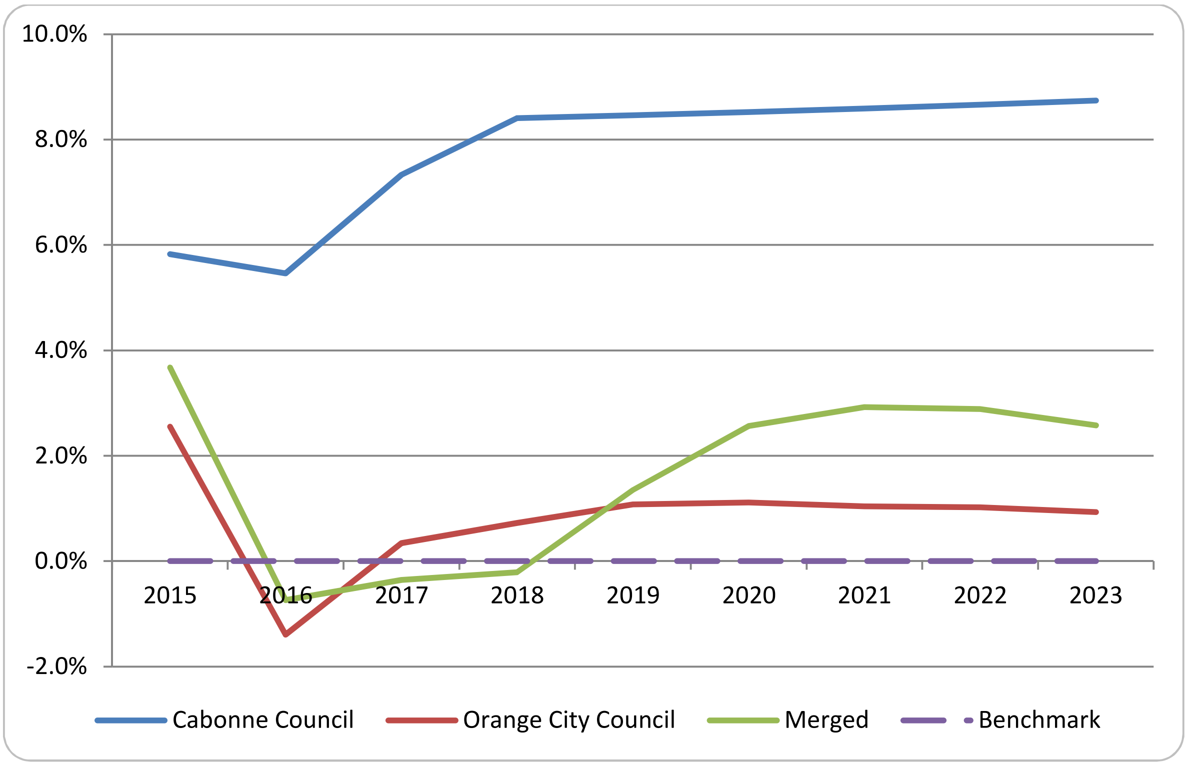


Figure 22 Merged council own source revenue

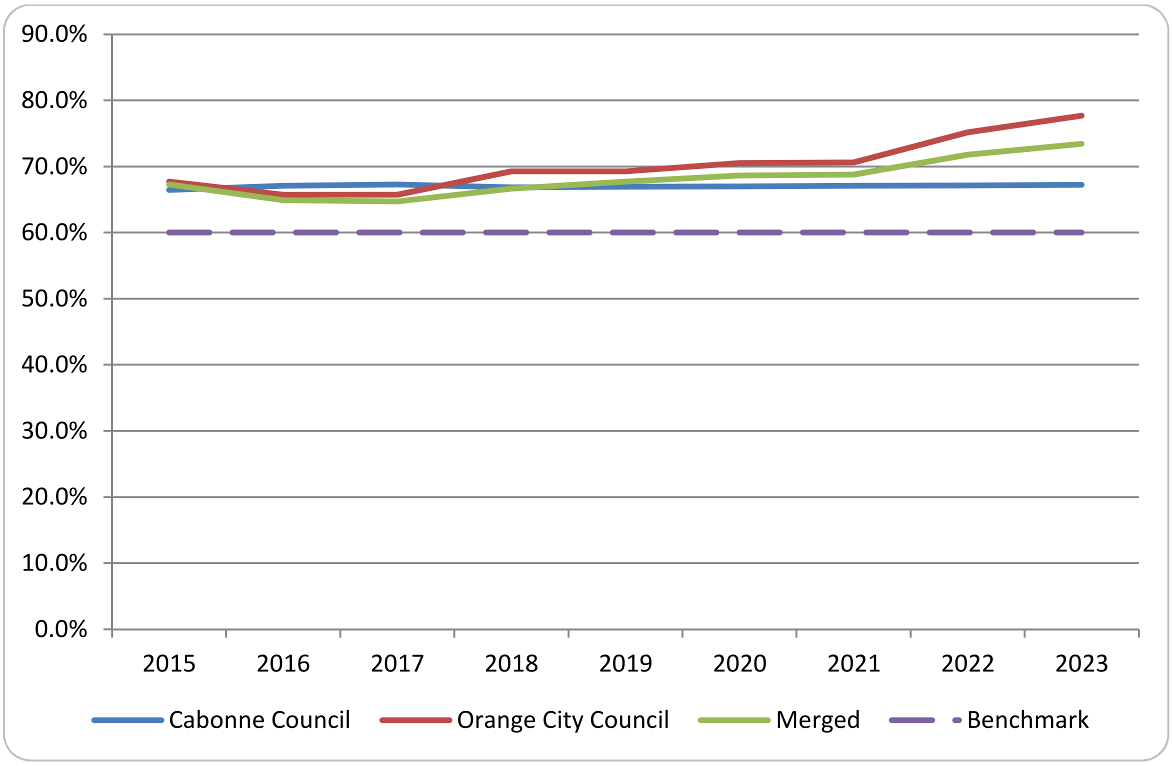


Figure 23 Merged council debt service ratio

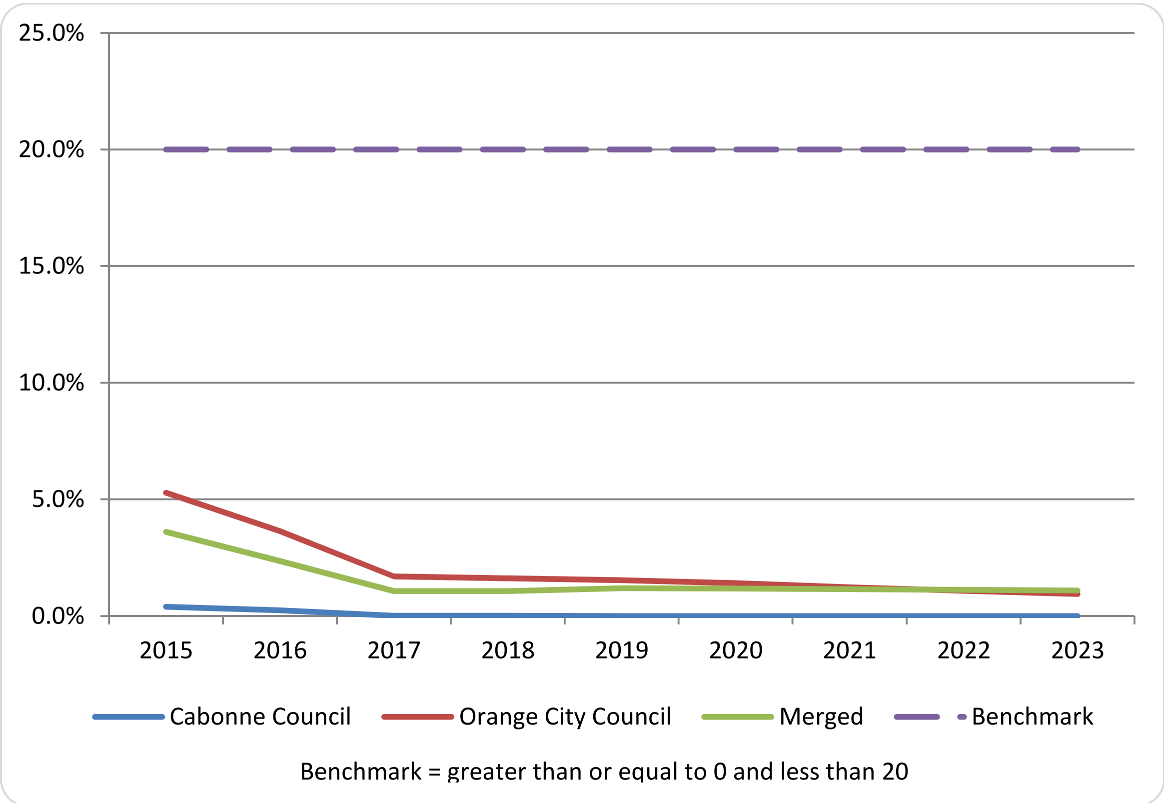


Figure 24 Merged council asset renewal ratio

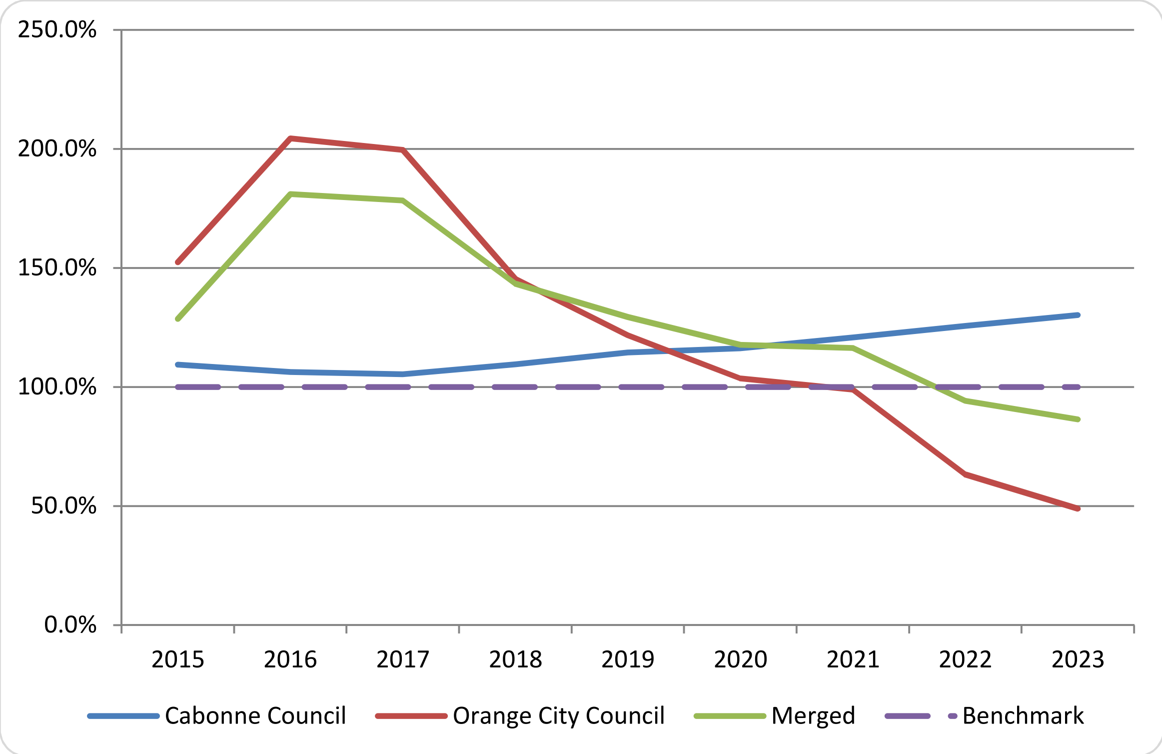


Figure 25 Merged council infrastructure backlog ratio

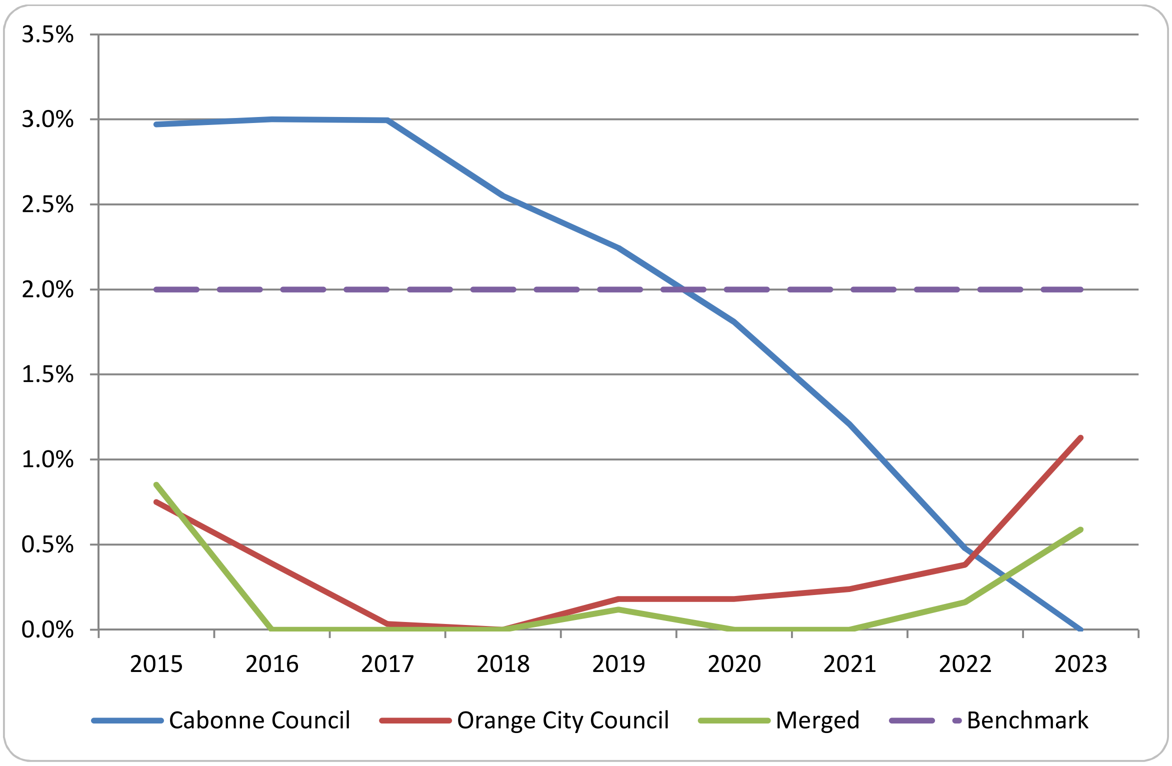


Figure 26 Merged council asset maintenance ratio

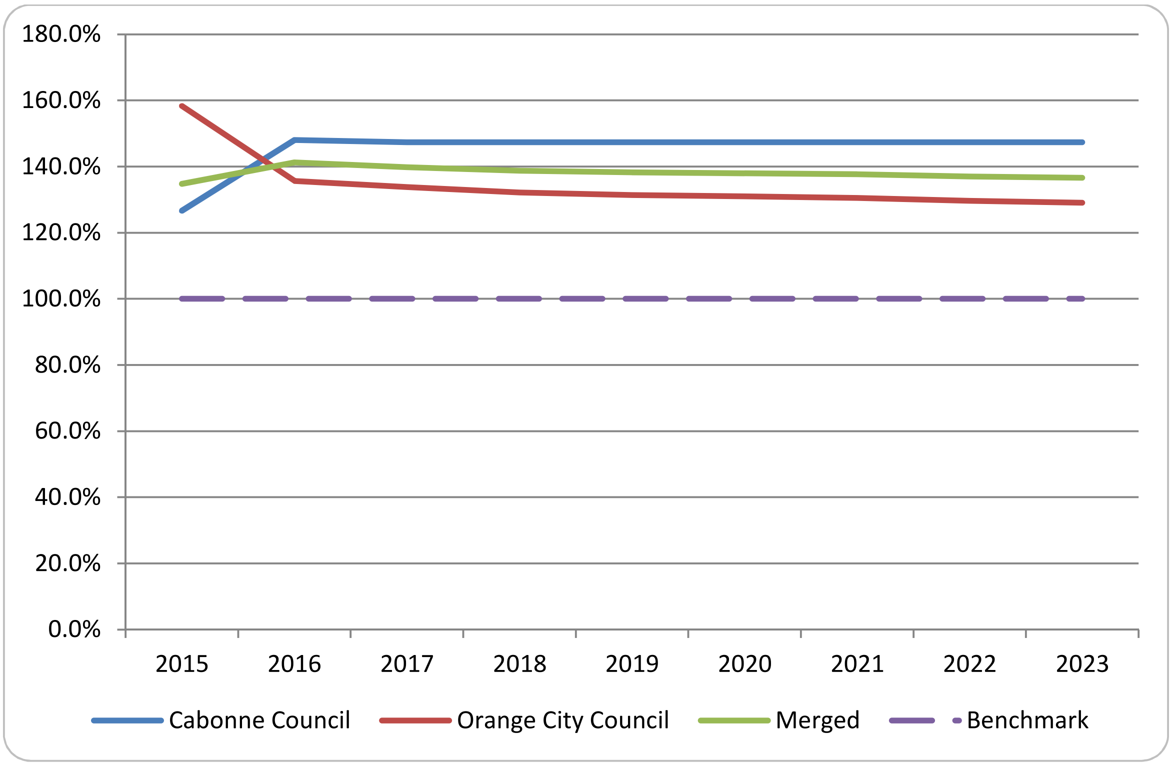
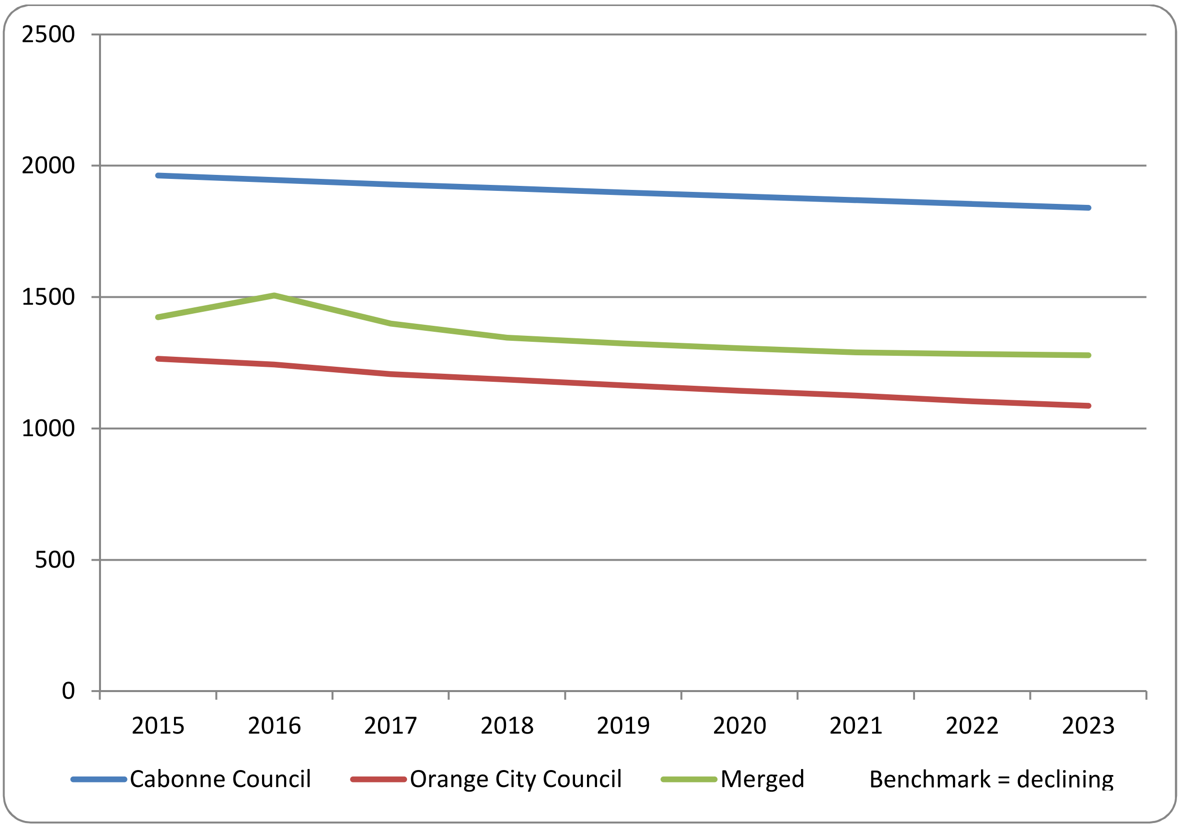


Figure 27 Merged council real operating expenditure



4.3.9.1 Asset maintenance

The same approach to the calculation of required annual maintenance used for each individual Council was applied to a merged council to identify what, if any, gap in maintenance expenditure would exist. For the purposes of the modelling it is assumed that the combined expenditure on maintenance for the merged council is the total of the existing/predicted maintenance budgets.

In the case of the merged council there is no gap, with the estimated requirements being some $2.2M more than required. This is not unexpected given that both individual Councils also met this measure.

For simplicity, the figures in the table below are presented as an average of the years projected in each Council's LTFP while the model projects actual expenditure year by year.

Table 28 Merged council asset maintenance funding gap

Council	Actual Annual Maintenance ($000)	Estimated Required Maintenance ($000)	Gap ($000)
Merged Council	7,987	5,799	2,188

4.3.9.2 Asset renewal

The required annual renewal expenditure for the merged council is based on the combined calculation of the depreciation on building and infrastructure assets. For the purposes of the modelling it is assumed that the combined expenditure on building and infrastructure renewals for the merged council is the total of the existing/predicted renewal budgets for these assets.

For simplicity, this is presented as an average of the years projected in each council's LTFP while the model projects actual expenditure year by year.

Table 29 Merged council asset renewal funding gap

Council	Average predicted annual renewals ($000)	Average required annual renewals ($000)	Gap ($000)
Merged Council	16,842	14,417	2,425

Not unexpectedly, given that each Council met this benchmark on their own, the merged council has a surplus based on our modelling of this benchmark measure.

There is no infrastructure backlog and therefore no additional expenditure is required.

For simplicity, this is presented as an average of the years projected in each Council's LTFP while the model projects actual expenditure year by year.

Table 30 Merged council renewal funding gap

Council	Cost to satisfactory ($000)	Target Backlog ($000)	Reduction Required ($000)	Per year (5 years) ($000)
Merged Council	0	13,709	0	0

4.3.9.3 Funding surplus

As a result, the merged council could reduce its spending on assets by around $4.5M per annum and still meet the FFTF benchmarks, although as the renewal expenditure drops of in later years this decline will need to be addressed.

Table 31 Merged council asset funding gap

Council	Asset Maintenance ($000)	Renewals ($000)	Infrastructure Backlog ($000)	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Merged Council	2,188	2,425	0	4,613	4,613

4.3.10 Operating performance

The operating result of the merged council (calculated on the same basis as the Operating Performance Ratio and so excluding capital grants and contributions) has been assessed and the merged council has a surplus of operating revenue over operating expenses, as identified below. For simplicity, this is presented as an average of the years projected in each Council's LTFP.

Table 32 Operating performance funding gap

Council	Gap ($000)
Merged Council	2,218

4.3.11 Costs and savings of the merger

The costs and savings of the merger arise throughout the period being modelled. The costs and savings should not be considered in isolation. They only form part of the information on which a decision should be made and, in particular, they should be considered in conjunction with the infrastructure funding gap identified above.

Initially in the transition from two councils into one there are costs associated with creating the single entity (structure, process, policies, systems and branding). Costs continue to arise through redundancies of senior staff and the implementation of a single IT system across the new council, which has significant cost implications. Costs of the merger continue to arise in the medium and longer term largely from redundancy costs (one off) but increasingly from an overall increase in staff numbers which is typical of merged councils, and considered to arise as a result of increased services and service levels.

Savings initially arise in the short term through the reduction in the number of senior staff and Councillors required in comparison to the councils combined. Natural attrition is initially applied meaning that overall staff numbers fall in the short term, although the reduction is a small one. We are conscious that there are challenges (both legislative and political) to realising staff savings in small rural centres and this presents a risk to realising any benefits. Savings are also projected to arise in relation to procurement and operational expenditure due to the size and increased capacity of the larger council but again these are modest. In the medium and longer term benefits arise through reducing the overall staff numbers with a focus on removing the duplication of roles and creating greater efficiency in operations and some rationalisation of plant (one off).

The operating performance of the merged council (excluding grants and contributions for capital purposes) is negative in every year of the period being modelled. The NPV of the costs and savings over the period being modelled (2023[16]) has been calculated and set out below and identifies a total net benefit to the Councils and community arising from the merger.

Table 33 Summary of costs and savings

NPV at 4%	NPV at 7%	NPV at 10%
-$6,664,150	-$5,378,840	-$4,343,370

4.3.12 Risks arising from merger

There are significant potential risks arising from the merger both in a financial and non-financial sense. The obvious financial risks are that the transitional costs may be more significant than set out in the business case or that the efficiencies projected in the business case are not delivered. The business case is high level and implementation costs and attaining the savings will be difficult to achieve.

If, for example, the council chooses not to follow through with the projected efficiencies, this will affect the financial viability of the merged council. Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

Careful consideration of the issue of cultural integration will be required and the most consistent remedy to these particular risks is in our view strong and consistent leadership. Corporate culture misalignment during the post-merger integration phase often means the employees will dig in, form cliques, and protect the old culture. In addition to decreased morale and an increased staff turnover rate, culture misalignment reduces business performance. It also prolongs the time it takes for the predicted efficiencies to be achieved.

The integration of services with differing service levels often leads to standardising those service levels at the highest level of those services that are being integrated. This is quite often a response to a natural desire to deliver the best possible services to communities as well as the need to balance service levels to community expectations across the whole area. However it does pose the risk of increased delivery costs and/or lost savings opportunities. Similarly, introducing services that are not currently delivered in one or more of the former council areas to the whole of the new council area will incur additional costs.

Further risks exist with developing an acceptable (to the communities) rating model and to some extent with water supplies. If predicted growth materialises in the rural area, then towns without potable water will come under pressure to be upgraded. While water is a self-funded activity, a large capital cost over a small number of users may place pressure on council for a region wide solution.

Alongside these typical risks arising from a merger any reduced financial performance would be likely to lead to the new council having to review services and service levels to seek significant further efficiency gains and/or increase rates to address the operating deficit.

[16] 2023 is the period being modelled to match the time covered by both council LTFPs

5. CONCLUSIONS

The government has made it clear that the starting point for every council is scale and capacity. Based on the Independent Panel position, it appears that their view was that scale and capacity for each of the two Councils arises through a merger with each other.

Individually, each Council generally achieves (or has the potential to achieve) all of the government's Fit for the Future benchmarks.

5.1 Meeting the benchmarks

Each Council has an operating surplus and no further funding is required to meet the FFTF benchmarks.

The table below shows that the Councils can reduce spending on assets and reallocate this funding to other projects as required.

Table 34 Summary of infrastructure funding gap

Council	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Cabonne Council	1,860	2,267
Orange Council	3,950	2,227

The table below shows the average annual surplus of operating revenue over operating expenditure (as per the Operating Performance Ratio guidelines) over the time period within each Council's LTFP.

Table 35 Operating performance funding gap

Council	Average gap ($000)
Cabonne Council	3,194
Orange Council	546

5.2 Merged council

5.2.1 Scale and capacity

Based on the Independent Panel position, it appears that their view was that scale and capacity for each of the two Councils arises through a merger with each other. While either Council could make an argument that they can meet the scale and capacity tests, councils need to do so recognising the stated government position which runs contrary to that. Although still subject to consultation, IPART have provided further clarification of how scale and capacity will be judged.

In the case of Cabonne it may be more challenging, given the size of the Council and the population it serves, to meet all the tests around scale and capacity on its own but that is something for the Council to assess. Orange can arguably make a stronger case as the merger (which meets scale and capacity) creates less of an impact for Orange than for Cabonne when considered against the key aspects of scale and capacity, however the combination of Cabonne and Orange has limited impact on improving scale and capacity overall.

5.2.2 Fit for the Future benchmarks

The merged council is the sum of its parts. This means that the asset and financial positon of each Council directly contributes to the overall asset and financial position of the merged council.

As the individual Councils meet the Fit for the Future benchmarks so does the merged council, and with the exception of the impact of transition costs and a reduction in renewal expenditure over time the merged council performs well. There is no asset funding gap as shown in Table 36.

Table 36 Merged council asset funding gap

Council	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Merged Council	4,613	4,613

The transitional costs identified throughout this report and the financial performance of the two Councils combined means the Operating Performance Ratio is negative from day one, and benefits that accrue from efficiencies are sufficient to improve the financial performance of the council.

A merged council would meet five of the measures from day one and four measures for the entire period.

Of the measures not achieved for the entire period modelled for the merged council:

- the Operating Performance Ratio starts out just under the break-even position before climbing steadily to achieve the standard from 2019 onwards
- the Asset Renewal declines steadily from a peak of 181% in 2016 until it dips below the required ratio of 100% averaged over three years, in 2022

Table 37 Summary of merged council using Fit for the Future indicators

Indicator	At Day One	Over Modelling Period
Operating Performance	Does not meet the benchmark	Yes from 2019
Own Source Revenue	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark
Asset Maintenance	Meets the benchmark	Meets the benchmark
Asset Renewal	Meets the benchmark	Yes until 2022
Infrastructure Backlog	Meets the benchmark	Meets the benchmark
Real Operating Expenditure	Meets the benchmark	Meets the benchmark

5.2.3 Debt

Both Council's carry low levels of debt which would be taken over by a merged council and both Councils meet the Fit for the Future benchmarks Debt Servicing Ratios, as does the merged council.

5.2.4 Rates

Modelling the changes in rates in a merger is very difficult to do with any degree of accuracy. Presently there are a number of significant differences in the rating systems of the Councils which impact on the rates charged to an individual property.

Table 38 Comparison of proportion of rates

Proportion of rates	Cabonne Council	Orange Council
Residential	29.5%	72.9%
Business	2.3%	24.8%
Farmland	50.3%	2.3%
Mining	18.2%	0%

Changes to the average business, residential and farmland rates were modelled using an entirely ad valorem and then a base rate scenario to represent a range of potential impacts that could be expected, if the current rating model was applied. This identified that the percentage movement for each category would be unacceptable and a new rating model for a merged council would be required.

5.2.5 Environment and community aspirations

In terms of the natural environment, both Councils have clearly stated visions around the environment, with both being reflective of their urban or rural basis. Orange's vision has a greater focus on balancing growth and development with the protection and enhancement of the built and natural environment. Cabonne looks to care for and respect the environment and has a particular statement about having an agricultural heart.

While Cabonne Council includes an aim to identify and protect Cabonne's built and cultural heritage assets for future generations, perhaps more reflective of its more urbanised footprint, Cabonne Council does not appear to have any specific aims in respect of the built environment.

In terms of growth, Orange looks to plan and grow an innovative, diverse and balanced economy while protecting the character of the city and the region. Cabonne's wants to ensure that the vibrancy of the social and economic life of their villages is retained and that the communities are supportive and welcoming. They also want to connect to each other and Cabonne to the world, build business and generate employment, to provide and develop community facilities, to grow Cabonne's culture, and community and to manage their natural resources.

5.2.6 Representation

Assuming a merged council has less councillors overall, compared to the present 12 each for Cabonne and Orange Councils, the number of people represented by each councillor would increase for both areas, significantly in the case of Cabonne.

5.2.7 Community profile and communities of interest

The local government areas of Cabonne and Orange have some similar features and some differences, many of which reflect the different natures of the areas; Cabonne being a smaller rural shire, with Orange a larger and more urbanised area. There are a number of similarities between the two council areas including:

- full time employment makes up the majority of employment across the regions, but participation in the labour market is an issue across the two Council areas
- the percentage of Indigenous Australians in each community sits just above the State average
- Both areas will experience significant population growth, Cabonne at 24.5% to 2031, and Orange 17.4%.
- both have lower levels of year 12 and post schooling education attainment as compared to the New South Wales average
- English proficiency is high, and there is a very low level of people born in countries other than Australia across the region
- there is a high level of interdependence between the two regions economically, particularly with regards to workforce with the majority of residents of both regions likely to work and reside in these locations.

However a number of differences can also be observed:

- There are differences in the industry profile in the region
- While the age profile is broadly comparable across most years, Cabonne has a lower number of young people aged 25 – 35
- Orange has a higher percentage of individuals speaking a language other than English (4.9% compared to 1.8%)
- Cabonne sits above the NSW average with regards to its SEIFA Index rating, whereas Orange falls below

5.2.8 Potential risks

The restructuring of any business activity is always a source of potential risk and the merging of council organisations is no exception. A proper risk assessment and mitigation process is an essential component of any structured merger activity.

Notwithstanding the above, this report is not intended to incorporate or deliver a detailed risk management strategy for any merger of the Councils. However it is possible to at least identify the major risks involved in the process from a strategic perspective.

Subsequent events and policy decisions

The primary risk is that the efficiencies projected in the business case are not delivered. This can occur for a variety of reasons, however the highest risk is that subsequent events are inconsistent with the assumptions or recommendations made during the process.

Those events may arise from regulatory changes between analysis and delivery or subsequent policy decisions about service levels or priorities. As an example, a policy decision to adopt a 'no forced redundancies' position after the statutory moratorium expires is unlikely to deliver on the financial savings proposed.

Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

APPENDIX A Fit For The Future Benchmarks[17]

Operating Performance Ratio

$$\frac{\textit{Total continuing operating revenue (exc. capital grants and contributions) less operating expenses}}{\textit{Total continuing operating revenue (exc. capital grants and contributions)}}$$

Description and Rationale for Criteria:

TCorp in their review of financial sustainability of local government found that operating performance was a core measure of financial sustainability.

Ongoing operating deficits are unsustainable and they are one of the key financial sustainability challenges facing the sector as a whole. While operating deficits are acceptable over a short period, consistent deficits will not allow Councils to maintain or increase their assets and services or execute their infrastructure plans.

Operating Performance Ratio is an important measure as it provides an indication of how a Council generates revenue and allocates expenditure (e.g. asset maintenance, staffing costs). It is an indication of continued capacity to meet on-going expenditure requirements.

Description and Rationale for Benchmark:

TCorp recommended that all Councils should be at least break even operating position or better, as a key component of financial sustainability. Consistent with this recommendation the benchmark for this criteria is greater than or equal to break even over a 3 year period.

Own Source Revenue Ratio

$$\frac{\textit{Total continuing operating revenue less all grants and contributions}}{\textit{Total continuing operating revenue inclusive of capital grants and contributions}}$$

Description and Rationale for Criteria:

Own source revenue measures the degree of reliance on external funding sources (e.g. grants and contributions). This ratio measures fiscal flexibility and robustness. Financial flexibility increases as the level of own source revenue increases. It also gives councils greater ability to manage external shocks or challenges.

Councils with higher own source revenue have greater ability to control or manage their own operating performance and financial sustainability.

[17] Office of Local Government Fit for the Futre Self-Assessment Tool

Description and Rationale for Benchmark:

TCorp has used a benchmark for own source revenue of greater than 60 per cent of total operating revenue. All Councils should aim to meet or exceed this benchmark over a three year period.

It is acknowledged that many councils have limited options in terms of increasing its own source revenue, especially in rural areas. However, 60 per cent is considered the lowest level at which councils have the flexibility necessary to manage external shocks and challenges.

Debt Service Ratio

$$\frac{\textit{Cost of debt service (interest expense \& principal repayments)}}{\textit{Total continuing operating revenue (exc. capital grants and contributions)}}$$

Description and Rationale for Criteria:

Prudent and active debt management is a key part of Councils' approach to both funding and managing infrastructure and services over the long term.

Prudent debt usage can also assist in smoothing funding costs and promoting intergenerational equity. Given the long life of many council assets it is appropriate that the cost of these assets should be equitably spread across the current and future generations of users and ratepayers. Effective debt usage allows councils to do this.

Inadequate use of debt may mean that councils are forced to raise rates that a higher than necessary to fund long life assets or inadequately fund asset maintenance and renewals. It is also a strong proxy indicator of a council's strategic capacity.

Council's effectiveness in this area is measured by the Debt Service Ratio.

Description and Rationale for Benchmark:

As outlined above, it is appropriate for Councils to hold some level of debt given their role in the provision and maintenance of key infrastructure and services for their community. It is considered reasonable for Councils to maintain a Debt Service Ratio of greater than 0 and less than or equal to 20 per cent.

Councils with low or zero debt may incorrectly place the funding burden on current ratepayers when in fact it should be spread across generations, who also benefit from the assets. Likewise high levels of debt generally indicate a weakness in financial sustainability and/or poor balance sheet management.

Asset Maintenance Ratio

$$\frac{\textit{Actual asset maintenance}}{\textit{Required asset maintenance}}$$

Description and Rationale for Criteria:

The Asset Maintenance Ratio reflects the actual asset maintenance expenditure relative to the required asset maintenance as measured by an individual council.

The ratio provides a measure of the rate of asset degradation (or renewal) and therefore has a role in informing asset renewal and capital works planning.

Description and Rationale for Benchmark:

The benchmark adopted is greater than one hundred percent, which implies that asset maintenance expenditure exceeds the council identified requirements. This benchmark is consistently adopted by the NSW Treasury Corporation (TCORP). A ratio of less than one hundred percent indicates that there may be a worsening infrastructure backlog.

Given that a ratio of greater than one hundred percent is adopted, to recognise that maintenance expenditure is sometimes lumpy and can be lagged, performance is averaged over three years.

Building and Infrastructure Renewal Ratio

$$\frac{\textit{Asset renewals (building and infrastructure)}}{\textbf{Depreciation, amortisation and impairment (building and infrastructure)}}$$

Description and Rationale for Criteria:

The Building and Infrastructure Renewals Ratio represents the replacement or refurbishment of existing assets to an equivalent capacity or performance, as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance. The ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration.

This is a consistent measure that can be applied across councils of different sizes and locations. A higher ratio is an indicator of strong performance.

Description and Rationale for Benchmark:

Performance of less than one hundred percent indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially council's infrastructure backlog is worsening. Councils with consistent asset renewals deficits will face degradation of building and infrastructure assets over time.

Given that a ratio of greater than one hundred percent is adopted, to recognise that capital expenditures are sometimes lumpy and can be lagged, performance is averaged over three years.

Infrastructure Backlog Ratio

$$\frac{\textit{Estimated cost to bring assets to a satisfactory condition}}{\textit{Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets}}$$

Description and Rationale for Criteria:

The Infrastructure Backlog Ratio indicates the proportion of backlog against the total value of the Council's infrastructure assets. It is a measure of the extent to which asset renewal is required to maintain or improve service delivery in a sustainable way. This measures how councils are managing their infrastructure which is so critical to effective community sustainability.

It is acknowledged, that the reliability of infrastructure data within NSW local government is mixed. However, as asset management practices within councils improve, it is anticipated that infrastructure reporting data reliability and quality will increase.

This is a consistent measure that can be applied across councils of different sizes and locations. A low ratio is an indicator of strong performance.

Description and Rationale for Benchmark:

High infrastructure backlog ratios and an inability to reduce this ratio in the near future indicate an underperforming Council in terms of infrastructure management and delivery. Councils with increasing infrastructure backlogs will experience added pressure in maintaining service delivery and financing current and future infrastructure demands.

TCorp adopted a benchmark of less than 2 per cent to be consistently applied across councils. The application of this benchmark reflects the State Government's focus on reducing infrastructure backlogs.

Reduction in Real Operating Expenditure

Description and Rationale for Criteria:

At the outset it is acknowledged the difficulty in measuring public sector efficiency. This is because there is a range of difficulty in reliably and accurately measuring output.

The capacity to secure economies of scale over time is a key indicator of operating efficiency. The capacity to secure efficiency improvements can be measured with respect to a range of factors, for example population, assets, and financial turnover.

It is challenging to measure productivity changes over time. To overcome this, changes in real per capita expenditure was considered to assess how effectively Councils:

- can realise natural efficiencies as population increases (through lower average cost of service delivery and representation); and
- can make necessary adjustments to maintain current efficiency if population is declining (e.g. appropriate reductions in staffing or other costs).

Assuming that service levels remain constant, decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).

Description and Rationale for Benchmark:

The measure 'trends in real expenditure per capita' reflects how the value of inflation adjusted inputs per person has grown over time. In the calculation, the expenditure is deflated by the Consumer Price Index (for 2009-11) and the Local Government Cost Index (for 2011-14) as published by the Independent Pricing and Regulatory Tribunal (IPART). It is acknowledged that efficiency and service levels are impacted by a broad range of factors, and that it is unreasonable to establish an absolute benchmark across Councils. It is also acknowledged that council service levels are likely to change for a variety of reasons however, it is important that councils prioritise or set service levels in conjunction with their community, in the context of their development of their Integrated Planning and Reporting.

Councils will be assessed on a joint consideration of the direction and magnitude of their improvement or deterioration in real expenditure per capita. Given that efficiency improvements require some time for the results to be fully achieved and as a result, this analysis will be based on a 5-year trend.

APPENDIX B Costs and Benefits Arising from a Merger of the Cabonne and Orange Councils – Detailed Assumptions

Costs and benefits identified below form the basis of the modelling referred to throughout the report. Costs outlined below are one off unless stated otherwise whereas benefits continue to accrue each year unless stated otherwise.

Assumptions have been made using the best available information including analysis of various reports on, and estimates of, merger costs in other similar situations. This has been supplemented with the professional opinion of Morrison Low staff based on experience, including with the Auckland Transition Authority.

Queensland Treasury Corporation Augsut 2009 Report

In an August 2009 report[18] from the Queensland Treasury Corporation reporting on costs associated with the amalgamation of the Western Downs Regional Council, the report said:

> *A net cost outcome in the first local government term is likely, as local governments will incur most of their amalgamation costs prior to, and in the two to three years subsequent to, amalgamation. These costs then taper off. However, the savings resulting from amalgamation are likely to gradually increase over time through:*
>
> - *Greater efficiency (i.e., a reduction in costs through improved economies of scale)*
> - *Improved decision making capability, and*
> - *Improved capacity to deliver services.*
>
> *While Western Downs only identified minor potential future benefits, it is likely that benefits will be generated from a reduction in CEO wages, natural attrition and procurement efficiencies etc., while providing existing services at current service standards. It is noted that Western Downs has been able to extend the delivery of certain services across the local government area.*

Queensland Treasury also provided comment on the reality that local government is different from businesses and that it can be difficult to measure benefits from mergers on a commercial basis:

> *Businesses generally undertake amalgamations and mergers on the basis of a number of factors such as cost savings, increased market share, improved synergies and improved decision making capability. Generally, these factors are measured in the context of reduced staff numbers, reduced operating costs, improved profitability, increased market share and higher share prices.*
>
> *With local government these benefits are more difficult to measure as local governments may utilise savings achieved from improved economies of scale to increase the range and/or to improve the quality of services offered. As a consequence, the cost savings of amalgamation of local governments do not generally show up as improved profitability (i.e., operating surpluses). Similarly, improved decision making capability results in more effective decisions and better outcomes to residents but may not be reflected in a local government's*

18 Queensland Treasury Corporation - Review of Amalgamation Costs Funding Submission of Western Downs Regional Council, August 2009

bottom line. This is because local governments, unlike the private sector, are not in the business of making profits. Therefore, it is more difficult to measure the cost savings resulting from amalgamation of local governments than it is for corporations, as the benefits will generally be utilised by the amalgamated local government in the provision of services.

Alan Morton in his report titled Outcomes from Major Structural Change of Local Government, which was released in July 2007, estimated administrative cost savings from the Cairns, Ipswich and Gold Coast amalgamations of 1992/93 were between 1.1 per cent and 3.1 per cent. The report also stated that the South Australian Government estimated savings of 3.0 per cent to 5.0 per cent of expenditure resulting from amalgamation.

These estimates focused on administrative efficiency rather than the outcomes achieved through improved local government decision-making capability. A potential measure of improved local government capability is ratepayer satisfaction. Alan Morton, together with the company Market Facts, undertook a survey of ratepayers of the five amalgamated local governments in 1992/93. The outcome of this survey was very positive and it indicated that over double the number of ratepayers considered the amalgamations were successful compared to those that thought the amalgamations were unsuccessful. This is considered a good outcome considering the main ratepayer concerns surrounding amalgamation are loss of jobs and loss of access to elected officials. QTC has not been asked to comment on improved capability.

The costs and benefits that Morrison Low have modelled for a possible merger of Cabonne and Orange Councils are described below:

1 Governance and executive team

The formation of a new entity is likely to result in some efficiencies resulting from a new governance model and rationalisation of the existing executive management teams. For the purposes of this review the governance category includes the costs associated with elected members, council committees and related democratic services and processes, and the executive team.

The table below summarises the expected efficiencies together with the associated timing for governance.

	Staff	Duplicated Services	Elected Members	On Costs
Transition Period	Nil	Nil	Nil	Nil
Short Term (1 to 3 years)	Streamlined Management (General Managers and Directors) Natural attrition (voluntary)	General Managers, Directors, Mayoral/GM support Council/Committee Secretarial Support	Reduced councillors and remuneration	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management and staff Natural attrition (voluntary)			Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Long Term (5 years plus)				

1.1 Governance ($199K)

The formation on a new entity is expected to result in efficiencies resulting from a new governance model and a reduction in the number of existing Mayors and councillors. However, this will depend directly on the adopted governance structure including the number of councillors. Estimated governance costs for the new entity have been based on 12 councillors for the new merged council.

1.2 Executive management ($214K)

The formation of a single entity will result savings in executive management costs. Both General Managers and the four Orange Directors are contracted staff. The three Cabonne Directors are award staff and as such have protected employment for the first three years. It is likely in a merged Council that all senior positions will be advertised. Revised remuneration packages for the new entity have been informed and assumed to be on par with similar sized councils.

It is important to note that while ongoing efficiencies have been identified in the short term, there is the one off cost of redundancies (teir 1 and 2 staff) of an estimated $961k that in our experience is a cost incurred during the transition period. This redundancy cost is based on 38 weeks.

1.3 Rationalisation of services

Under a single entity a number of the existing governance services would be duplicated and there would be an opportunity to investigate rationalising resourcing requirements for a single entity and realise efficiencies in the medium term.

As an example, the Councils currently have the resources necessary to support the democratic services and processes including council and committee agendas and minutes. Under a new entity there is likely to be a duplication of democratic resources and the new entity would need to determine the number of resources required to deliver this service. The expected efficiencies relative to this area are realised in the Corporate Services Section.

2 Corporate services

In the formation of a new entity there is likely to be a reduction in staffing numbers across the corporate services in the medium term. Corporate Services incorporates most of the organisational and corporate activities such as finance and accounting, human resources, communication, information technology, legal services, procurement, risk management, and records and archive management. Across the Councils there is likely to be some element of duplication so there should be efficiency opportunities as it relates to administrative processes and staffing levels.

The potential opportunities for efficiency within the corporate services category are summarised in the table below along with the indicative timing of when the efficiency is likely to materialise.

<table>
<tr><th></th><th>Staff</th><th>Duplicated Services</th><th>Contract/ Procurement</th><th>Information Technology</th><th>On Costs</th></tr>
<tr><td>Transition Period</td><td>Natural attrition (voluntary)</td><td rowspan="3">Finance
ICT
Communications
Human Resources
Records
Customer Services
Risk Management</td><td></td><td></td><td></td></tr>
<tr><td>Short Term
(1 to 3 years)</td><td>Natural attrition (voluntary)</td><td></td><td></td><td>Staff Associated Costs e.g. HR, Accommodation Computers, Vehicles</td></tr>
<tr><td>Medium Term
(3 to 5 years)</td><td>Streamlined Management (Tier 3)
Natural attrition (voluntary)</td><td></td><td></td><td>Staff Associated Costs e.g. HR, Accommodation Computers, Vehicles</td></tr>
<tr><td>Long Term
(5 years plus)</td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

2.1 Rationalisation of duplicate services ($1.16M)

Consistent with the dis-establishment of two Councils and the creation of a single entity, there are a number of back office duplicated services that would be replaced, standardised and simplified. The rationalisation and streamlining of back office services means that there would an opportunity to rationalise financial reporting, business systems, administrative processes and staff numbers. We note that Section 218CA of the Local Government Act 1993 protects the number of staff positions in small communities. This should not be a barrier to the rationalisation of services but will need to be considered when implementing any rationalisation

Examples for the rationalisation of corporate services include:

- Finance - A reduction in finance service costs with the rationalisation of financial reporting and financial planning with a single, rather than separate Resourcing Strategies, Long Term Financial Plans, Asset Management Strategies, Workforce Management Plans, Annual Plans and Annual Reports needing to be prepared, consulted on and printed. In addition the centralisation of rates, accounts receivable, accounts payable and payroll, including finance systems will reduce resourcing requirements and costs.
- Human Resources (HR) – The size of the HR resource would be commensurate with the number of FTEs in the new entity based on industry benchmarks. The number of HR resources would be expected to reduce proportionately to the reduction in organisational staff numbers.
- Communications – The resourcing would be expected to reduce since there would be a single website and a more integrated approach to communication with less external reporting requirements.
- Customer Services – No reduction in the 'front of house' customer services has been assumed on the basis that all existing customer service centres would remain operative under a single entity and the existing levels of service would be retained. However there is potential to reduce the number of resources in the 'back office' such as the staffing of the call centre.

The potential efficiency in the corporate services category is difficult to determine largely due to the fact that ICT accounts for a large cost through the transition into the new entity both in terms of resources and actual cost. However it is expected that ICT would be implemented in the medium term and due to existing employment contracts, the corporate service efficiencies would therefore only be realised in the medium term. The starting point for the assumption underpinning the efficiency for corporate services was a 35%[19] reduction in corporate support personnel based on previous mergers. However, a review of the organisational charts of the two councils means that in this case our view is that there is a lesser opportunity for reductions in corporate services and only amount to 12-16 positions. On costs are considered to be included as the figure used are based on total employee costs as reported by the councils.

There is the potential to reduce FTE numbers in the short term through not replacing positions vacated if they are considered to be duplicate positions through the transition and under the new entity (natural attrition policy). Following the end of the natural attrition period redundancies would be applied to reduce staffing levels to those outlined above.

In order to achieve the opportunities identified would require detailed scoping, investigation and ownership to ensure that they are implemented and realised post amalgamation. The development of a benefit realisation plan would quantify the cost of implementing any identified efficiencies and establish when such efficiencies are likely to accrue.

Redundancy costs have been modelled on an average of 26 weeks.[20]

3 Areas for further efficiency

Based on the experience from previous amalgamations in local government there are other areas where we would expect there to be opportunity to achieve efficiencies. These areas include management, staff turnover, procurement, business processes, property/accommodation, waste and works units.

	Staff	Duplicated Services	Contract/ Procurement	Information Technology	On Costs
Transition Period					
Short Term (1 to 3 years)	Staff Turnover	Property/ Accommodation, Works Units	Printing, stationary, ICT systems/ licences, legal	ICT Benefits	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management (Tier 3 & 4)	ICT Resourcing	Waste	ICT Benefits	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Long Term (5 years plus)					

3.1 Management Tier 3 and 4 ($0)

The extent of efficiencies for Tier 3 and Tier 4 is directly dependent on the organisational structure of the new entity, types of services and the manner in which these services are to be delivered in the future, i.e. delivered internally or contracted out.

On the basis that two councils are being disestablished and a single entity created there is typically opportunity for a reduction in Tier 3 and 4 positions. However, given the geographic

19 Securing Efficiencies from the Reorganisation of Local Governance in Auckland, Taylor Duigan Barry Ltd, October 2010

20 The Local Government (State) Award provides a sliding scale for redundancy pay-outs from 0 for less than 1 year, 19 weeks for 5 years and 34 weeks for 10 years. An average of 26 weeks has therefore been used throughout the modelling.

spread of the merged region, the current organisational structures and the different service levels means that in this case there is unlikely to be any reduction in this aspect of the organisation.

3.2 Staff turnover ($3.34M over 3 years)

While the industry average turnover is approximately 9% and on the basis that the new entity adopts a 'natural attrition' policy not to fill positions in the short term, there is an estimated annual efficiency of $1.1M on staff remuneration based on applying a modest 1.5% natural attrition.

3.3 ICT benefits ($600K)

Without a full investigation into the current state of the two Councils ICT infrastructure and systems, and without an understanding of the future state, the ICT benefits cannot be quantified at this stage. However benefits would include improved customer experience, operational cost saving and reduced capital expenditure, higher quality of IT service and increased resilience of service provision. It is also necessary to model a value for the benefits to balance the costs that have been allowed for in the transition.

The operational cost savings and reduction of capital expenditure would be as a direct result of rationalising the number of IT systems, business applications, security and end user support from two councils to a single entity. The cost of IT and the number of staff resources required to support it would be expected to decrease over time. FTEs are assumed to reduce by 40%[21] over time in line with reduced IT applications and systems. Without the ICT FTE remuneration for the two councils, the 40% efficiency is unable to be determined at this time.

Through the work undertaken as part of the Wellington reorganisation, Stimpson and Co have undertaken a sensitivity analysis on the ICT costs for two options and, based on an ICT cost of $90 million, have estimated the Net Present Value at $200 million and payback period of five years. Without a detailed investigation of systems, processes and the future state of the IT system and support it is not considered possible to model the benefits as arising at a similar rate. However to retain consistency with the estimated costs and the basis for them benefits have been modelled as arising over the long term and a rate of $600K per annum.

3.4 Materials and contracts ($50K)

The opportunity for efficiencies in procurement is created through the consolidation of buying power and the ability to formalise and manage supplier relationships more effectively when moving from two councils to one. An estimate needs to take into account that the councils currently engage in some collective procurement and resource sharing through the various initiatives, as a result a nominal 1% savings has been allowed.

The increased scale and size of the infrastructure networks managed by the council would, in our view, lead to opportunities to reduce operational expenditure through making better strategic decisions (as distinct from savings arising from procurement).

[21] Report to the Local Government Commission on Potential Savings of a Range of Options for the Re-organisation of Local Government in the Wellington Region, Brian Smith Advisory Services Limited, November 2014

3.5 Properties ($1M)

Typically there is an opportunity to rationalise and consolidate the property portfolio through assessing the property needs of the new entity and disposing of those properties no longer required for council purposes. An example is both Councils operate depots in Orange.

However the nature of the two Councils, the geography and the limited opportunities to reduce staff numbers means that in our view that only a modest allowance should be made for the rationalisation of buildings. It is assumed the merged Council staff can be accommodated within current Council buildings.

3.6 Works units

Staff ($870K)

Based on our experience of reviewing a large number of works units across NSW we have found significant savings in all organisations that we have reviewed. As such it is reasonable to assume that a reduction in staff in the order of 5% across the works areas will be easily achieved in the medium term to reflect the duplication of services across the depots.

Redundancy costs have been modelled in for all works staff based on an average of 26 weeks.

Following the end of the natural attrition period redundancies would be applied to reduce staffing levels to those identified above.

Plant and Fleet ($1.1M – one off)

Based on our experience of reviewing a large number of works units across NSW, most councils have significantly more plant and equipment than reasonably required to undertake their day to day functions. As such it is reasonable to assume that a reduction in plant and fleet in the order of 5% would be achievable should there be an amalgamation of the councils.

4 Services and Service Levels

Typically merged councils see an increase in staff associated with rises in services and service levels. Research conducted for the Independent Review Panel noted that each of the councils involved in the 2004 NSW mergers had more staff after the merger than the combined councils together[22] and an average over the period of 2002/3 to 2010/11 of 11.7%.

An allowance has been made for a 2% increase in staff from year 4 onwards (i.e. after the period of natural attrition).

5 Transition costs

The formation of the new entity from the current state of two Councils to one will require a transition to ensure that the new entity is able to function on Day 1. This section identifies tasks to be undertaken and estimates transitional costs that are benchmarked against the Auckland Transition Agency (ATA) results and the costs as estimated by Stimpson & Co.[23] for the proposed Wellington reorganisation.

---

22 Assessing processes and outcomes of the 2004 Local Government Boundary Changes in NSW, Jeff Tate Consulting

23 Report to Local Government Commission on Wellington Reorganisation Transition Costs, Stimpson & Co., 28 November 2014

In the transition to an amalgamated entity there are a number of tasks that need to be undertaken to ensure that the new entity is able to function from Day 1 with minimal disruption to customers and staff. The types of tasks and objectives are summarised in the table below:

Governance	• Developing democratic structures (council committees) • Establishing the systems and processes to service and support the democratic structure • Developing the governance procedures and corporate policy and procedures underlying elected member and staff delegations • Developing the organisational structure of the new organisation
Workforce	• Developing the workforce-related change management process including new employment contracts, location and harmonisation of wages • Establishing the Human Resource capacity for the new entity and ensuring all policies, processes and systems are in place for Day 1 • Ensuring that positions required are filled
Finance and Treasury	• Ensuring that the new entity is able to generate the revenue it needs to operate • Ensuring that the new entity is able to satisfy any borrowing requirements • Ensuring the new entity is able to procure goods and services • Developing a methodology for interim rates billing and a strategy for rates harmonisation • Developing a plan for continued statutory and management reporting requirements • Developing a financial framework that complies with legislative requirements
Business Process	• Planning and managing the integration and harmonisation of business processes and systems for Day 1 including customer call centres, financial systems, telephony systems, office infrastructure and software, payroll, consent processing etc. • Developing an initial ICT strategy to support the Day 1 operating environment that includes the identification of those processes and systems that require change • Developing a longer term ICT strategy that provides a roadmap for the future integration and harmonisation of business processes and systems beyond Day 1
Communications	• Ensuring that appropriate communication strategies and processes are in place for the new entity • Developing a communication plan for the transition period that identifies the approach to internal and external communication to ensure that staff and customers are kept informed during the transition period
Legal	• Ensuring any legal risks are identified and managed for the new entity • Ensuring that existing assets, contracts etc. are transferred to the new entity • Ensuring all litigation, claims and liabilities relevant to the new entity are identified and managed
Property and Assets	• Ensuring that all property, assets and facilities are retained by the new entity and are appropriately managed and maintained • Ensuring the ongoing delivery of property related and asset maintenance services are not adversely impacted on by the reorganisation • Facilitating the relocation of staff accommodation requirements as required for Day 1

Planning Services	• Ensuring the new entity is able to meet its statutory planning obligations from Day 1 and beyond • Ensuring that the entity is able to operate efficiently and staff and customers understand the planning environment from Day 1 • Developing a plan to address the statutory planning requirements beyond Day 1
Regulatory Services	• Ensuring that Day 1 regulatory requirements and processes including consenting, licensing and enforcement activities under statute are in place • Ensuring that business as usual is able to continue with minimum impact to customers from Da1 and beyond
Customer Services	• Ensuring no reduction of the customer interaction element – either face to face, by phone, e-mail or in writing from Day 1 and beyond • Ensuring no customer service system failures on Day 1 and beyond • Ensuring that staff and customers are well informed for Day 1 and beyond
Community Services	• Ensuring that the new entity continues to provide community services and facilities • Ensuring that current community service grant and funding recipients have certainty of funding during the short term

Note - This is not an exhaustive list but provides an indication of the type of work that needs to be undertaken during the transition period.

The transition costs are those costs incurred, during the period of transition, to enable the establishment of the new entity and to ensure that it is able to function on Day 1. The estimated transition costs for establishment of a new entity are discussed below.

5.1 Transition body ($2.5M)

In the case of Auckland, the ATA was established to undertake the transition from nine councils to one entity. In order to undertake the transition the ATA employed staff and contractors and it had other operational costs such as rented accommodation, ICT and communications. The cost of the ATA in 2009 was reported at $36 million and it is important to note that a substantial number of staff were seconded to the ATA from the existing councils to assist with undertaking the transition tasks. The cost of these secondments and support costs was at the cost of the existing councils and not the ATA.

The work undertaken for the reorganisation of Wellington identified the cost of the transition body as $20.6 million[24] including an assessment of the merger costs for the three rural councils of the Wairarapa. On the assumption of FTEs to transition body costs for Wellington, the estimated cost of the transition body for the councils is $2.5 million. This figure may be understated and is dependent on the governance structure adopted and other unknown factors that may influence the cost of the transition body. The cost of staff secondment and support costs from existing councils to the transition body is not included in the cost estimate.

5.2 ICT ($6M)

The costs associated with ICT for the new entity relate to rationalising the existing councils ICT infrastructure, business applications, security and end user support for the single entity. We know that both Councils operate different core IT systems, therefore merging systems will be difficult and compounded by connectivity challenges working across a large geographic area.

24 Report to Local Government Commission on Wellington Reorganisation Transition Costs, Stimpson & Co., 28 November 2014

The full rationalisation of IT systems based on other amalgamation experience will not occur for Day 1 of the new entity and could take anywhere between three to five years to finalise depending on the complexities of the preferred system. However there are some critical aspects for the new entity to function on Day 1 including the ability to make and receive payments, procurement and manage staff so there are ICT costs incurred during the transition.

Estimating the costs for ICT is inherently difficult due to the complexities associated with integrating systems and applications, and not knowing what the new entity may decide on as a future system. Two approaches were considered; the first being the costs to transition the new council to a single system(s) across the board. The second was to take a 'best of breed approach' and use the best existing systems and migrate data across.

The significant costs involved in the first option mean that it is not considered appropriate for a merger of Orange and Cabonne. Comparatively the costs remain high for the second option as well as the difficulties in migrating data and working through system capabilities etc will still incur costs. Given the respective size of the Councils and the populations they serve in the context of the studies cited it is considered that the most likely costs are in the region of $6 million.

The estimated cost are spread across the initial two years of the council's operations.

5.3 Business Process (existing Council budget)

Part of ensuring the entity is functional on day 1, is the requirement to redesign the business processes of the existing Councils to one that integrates with the ICT systems. This would include the likes of consents, licensing and forms to replace that of the two existing Councils. In the case of Auckland these tasks were largely undertaken by staff seconded to the transition body, the cost of which was not identified as it was a cost picked up by the nine existing councils.

5.4 Branding ($300K)

The new entity will require its own branding and as part of this a new logo will need to be designed. Once agreed there will be a need to replace the existing signage of the two councils for Day 1 of the new entity on buildings, facilities and vehicles. In addition it will be necessary to replace the existing staff uniforms, letterheads, brochures, forms and other items. The estimated cost for branding is $300K based on other amalgamation experience.

5.5 Redundancy Costs ($961K)

This is based on a reduction from two general managers to one for a merged council together with a reivew of tier two staffing and is based on employment contracts with a redundancy period of 38 weeks, and based on the Councils' respective Annual Reports 2013/14.

5.6 Remuneration Harmonisation ($607K)

The remuneration, terms and conditions for staff would need to be reviewed as part of the transition as there is currently a variation in pay rates and conditions across the two Councils. In order to estimate the cost of wage parity for moving to a single entity, the average employee costs for similar councils have been compared to that of the Councils combined as well as between the two Councils.

5.7 Elections ($0K)

There is a possibility of proportional savings in existing council budgets as instead of two separate elections there will be one for the new entity. However the costs of the election are likely to be higher than for future elections as there will need to be additional communication and information provided to voters to inform them of the new arrangements. The costs will also be dependent on the future governance structure, as was the case in the Auckland amalgamation the election costs were more than the budgeted amounts from the previous councils. For the purposes of the transition costs, no additional budget has been allowed for assuming there is sufficient budget in the two Councils.

APPENDIX C Orange and Cabonne - Planning Controls around Natural Environment, Built Heritage and Approach to Growth and Development

The following is based on overarching aims of applicable planning instruments as an indication of:

- protection of the natural environment
- protection of the built environment and built heritage
- general approach to growth and development.

	Natural	Built	Approach to Growth
Cabonne (Cabonne LEP 2012)	**Emphasis on natural environment** The particular aims of the LEP which relate to the protection of the natural environment are: • *To provide for a range of development opportunities that contribute to the social, economic and <u>environmental resources</u> of Cabonne in a manner that allows present and future generations to meet their needs by implementing the principles of ecologically sustainable development* (emphasis added) • *To facilitate and encourage sustainable growth and development that achieves the following:* *Protects and enhances places and buildings of <u>environmental</u>, archaeological, cultural or heritage significance, including Aboriginal relics and places* (emphasis added) *Protects and enhances environmentally sensitive areas, ecological systems, and areas that have the potential to contribute to improved environmental, scenic or landscape outcomes.* This indicates that environmental protection is to be pursued in the context of a sustainable development policy and as it contributes to broader community values	**Emphasis on built heritage** The particular aim of the LEP which relates to the protection of built heritage is: • *To facilitate and encourage sustainable growth and development that achieves the following:* *Protects and enhances <u>places and buildings</u> of environmental, archaeological, cultural or <u>heritage significance</u>, including Aboriginal relics and places* (emphasis added) This indicates that heritage protection is to be pursued in the context of a sustainable development policy	**Emphasis on Growth** The aims of the LEP look to continue rural production in the context of a mixed economy, minimise land use conflict and environmental impacts (which can be significant issues on the rural/urban interface) and promote sustainable growth and housing choice: • *To encourage development that complements and enhances the unique character and amenity of Cabonne, including its settlements, localities, and rural areas* • *To facilitate and encourage sustainable growth and development that achieves the following:* *Contributes to continued economic productivity, including agriculture, business, tourism, industry and other employment opportunities* *Allows for the orderly growth of land uses while minimising conflict between land uses within the relevant zone and land uses within adjoining zones* *Encourages a range of housing choices and densities in planned urban and rural locations that is compatible with the residential and rural environment and meets the diverse needs of the community*

	Natural	Built	Approach to Growth
			Promotes the integration of land uses and transport to improve access and reduce dependence on private vehicles and travel demand *Protects, enhances and conserves agricultural land and the contributions that agriculture makes to the regional economy* *Avoids or minimises adverse impacts on drinking water catchments to protect and enhance water availability and safety for human consumption* The LEP contains R1 (General) and RU5 (Village) residential zones allowing significant flexibility in dwelling types, indicating an accommodative approach in support of the economic development of (e.g.) Molong and Canowindra townships and supporting the smaller settlements in the LGA.
Orange (Orange LEP 2011)	**Emphasis on natural environment** Two aims of the LEP relate to the protection of the natural environment: • *To provide for a range of development opportunities that contribute to the social, economic and <u>environmental resources</u> of Orange in a way that allows the needs of present and future generations to be met by implementing the principles of ecologically sustainable development* (emphasis added) • *To conserve and enhance the water resources on which Orange depends, particularly water supply catchments* • *To recognise and manage valued environmental heritage, landscape and scenic features of Orange*	**Emphasis on built heritage** There are no specific aims in the LEP which relate to the protection of built heritage	**Emphasis on Growth** The aims of the LEP seek to recognise the importance of Orange as a regional centre in a diverse economy, preserve its landscape and scenic character and pursue a policy of supporting sustainable growth and housing choice: • *To encourage development that complements and enhances the unique character of Orange as a major regional centre boasting a diverse economy and offering an attractive regional lifestyle* • *To provide for a range of development opportunities that contribute to the social, economic and environmental resources of Orange in a way that allows the needs of present and future generations to be met by implementing the principles of ecologically sustainable development*

	Natural	Built	Approach to Growth
	Environmental Protection is viewed in the context of growth management and overall development opportunities in the LGA		• *To conserve and enhance the water resources on which Orange depends, particularly water supply catchments* • *To manage rural land as an environmental resource that provides economic and social benefits for Orange* • *To provide a range of housing choices in planned urban and rural locations to meet population growth* • *To recognise and manage valued environmental heritage, landscape and scenic features of Orange* The LEP contains a range of residential zones allowing significant flexibility in dwelling types, particularly in new urban growth areas, indicating an accommodative approach in support of the economic development of Orange and supporting the smaller settlements in the LGA.

APPENDIX D Comparison of Community Strategic Plans of the two Councils

Council	Vision	Values

Cabonne	**Passionate People**
	In a world where we yearn for a more genuine life, Cabonne offers a pace of living that is both relaxing and invigorating.
	
	Those of us who live where are passionate about the place we call home and others recognise this immediately.
	
	Thriving villages and caring communities
	There is a thriving heartbeat to Cabonne. The social and economic life of our villages is vibrant. Our communities supportive and welcoming.
	
	Respecting and sustaining our environment.
	We care for and respect our environment making sure our rivers, waterways, soil, vegetation and air are clean and healthy for all living things.
	
	With an agricultural heart
	The heart of Cabonne is found in our beautiful and productive landscapes. The land nurtures and sustains us and at the same time provides the inspiration for us to strive and reach our full potential.
	
	• Connect Cabonne to each other and the world
	• Build business and generate employment
	• Provide and develop community facilities
	• Grown Cabonne's culture and community
	• Manage our natural resources
		• Respect each other, our community and the environment in which we live
		• Have the courage and confidence to 'have a go'
		• Balance today's decisions with the long term future in mind
		• Be friendly, approachable and work together
		• Strive to do our very best and take personal responsibility for our actions.
		• Social Justice principles of:
		  ○ Equity
		  ○ Access
		  ○ Participation
		  ○ Rights
		• Sustainability

Council	Vision	Values
Orange	**Our City** The Orange community will embrace and support strong, accountable leadership to ensure effective, long term, inclusive planning and decision-making within the region. **Our Community** The Orange community will support and enhance a healthy, safe and liveable city with a range of recreational, cultural and community services to cater for a diverse population. **Our Economy** The Orange community will plan and grow an innovative, diverse and balanced economy while protecting the character of the City and the region. **Our Environment** The Orange community will pursue the balance of growth and development with the protection and enhancement of the built and natural environment while recognising climate impacts and the diverse needs of the urban, village and rural communities.	• Managing the risks inherent in community life • Supporting, promoting and enhancing the principles of social justice, and • Assessing actions, projects and policies against a broad range of criteria that cover economic (or financial), social (including social justice above), environmental, (including ecological and ethical impacts) and governance, or what is in the best interests of the community.

APPENDIX E Service Delivery Comparison

SERVICES	*CABONNE*		*ORANGE*	
Public Order and Safety	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Enforcement of Local Government Regulations	Internal	Similar	Internal	Similar
Animal Control	Internal	Similar	Internal/contract	Similar/Pound contracted to RSPCA
Governance	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Council – elected members	Internal	Monthly meetings	Internal	Twice monthly meetings 5 policy committees 40 community committees
Elections	Internal/external	Similar	Internal/external	similar
Civic Functions	Internal	Similar	Internal	Similar
Corporate image & publications	Internal	Similar	Internal	Similar
Community Strategic Plan	Internal	Similar	Internal	Similar
Administration	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Communications	Internal	Similar	Internal	Similar
Customer service	Internal	Receive and allocate enquiries Infoexpert document management system	Internal	One stop customer centre receives and answers majority of calls TRIM records management.
Internal audit	Internal/external	Contract out individual audits	Internal/external	Shared Internal Auditor between Dubbo, Bathurst and Orange Pulse Enterprise Risk Management system
Health	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Inspections	Internal/Contract when insufficient resources	Similar	Internal	Similar
Environment	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Noxious Plants and Insect / Vermin Control	Internal	Similar	Internal	Similar
Other Environmental Protection	Internal	Similar	Internal/ SOE outsourced	Similar
Solid Waste Management	External contract	Similar	External contract New contract for 10yrs from 2016	Similar
Street Cleaning	Internal	Different By hand as required. Hire in street sweeper when necessary	Internal	Different Mechanical CBD streets swept daily Remaining streets are swept twice a year Includes bus shelter cleaning; CBD paver scrubbing and maintenance of CBD street furniture

SERVICES	*CABONNE*		*ORANGE*	
Drainage	Internal	Similar	Internal	Similar
Stormwater Management	Internal	Similar	Internal	Similar except urban nature and concentration of development impacts service levels, responses
Water Supply	Internal/external	Different 4 supplies managed by Central Tablelands Water 4 Supplies manages by Council (2 potable supplies)	Internal	Different Urban commercial/domestic supply
Sewage Treatment	Internal	Different 3 conventional systems 4 low pressure systems	Internal	Different Residential and industrial service levels Trade Waste
Housing and Community Amenities	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Public Cemeteries	Internal/external	Different Seasonal works program adhered to	Internal	Different High maintenance expectations and standards New cemetery site required
Public Conveniences	Internal	Different Twice weekly or by complaint	Internal/External contract	Different CBD daily
Town Planning	Internal/WBC Alliance	Similar	Internal	Similar
Construction Approvals	Internal	Similar	Internal	Similar
Development Assessment & Compliance	Internal	Similar	Internal	Similar
Planning and Building	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Planning	Internal	Similar	Internal	Similar
Building Control	Internal/ contract when resources required	Similar	Internal	Similar
Community Services and Education	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Administration and Education and Social Protection	Internal/external	Different Leased buildings for preschools 3 social houses run by 355 cttees	Internal	Different Residential service (3 houses) Neighbour Aid Social support groups
Aged Persons and Disabled	Internal	Similar	Internal/external	Similar Meals on wheels provided by Bathurst
Children's Services	Internal	Similar	Internal	Similar
Community transport	Internal	Different 4000 passenger trips	Not provided	Different

SERVICES	CABONNE		ORANGE	
Community Safety	Internal	Road transport similar	Internal	Road transport similar Plus CCTV
Aboriginal, youth and migrant services, Healthy lifestyle services	Internal	Similar	Internal	Similar
Recreation and Culture	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Public Libraries	Regional Library Service	Similar (except branch library numbers)	Regional Library Service	Similar (except branch library numbers)
Museums	Internal/external cttees	Different Number and type Funding arrangements Collections	External contracts	Different Number and type Funding arrangements Collections Regional museum under construction
Art Galleries	Not provided	Different	Internal	Different
Community Centres and Halls	Internal/Cttees	Different 2 Council managed Rest committees Number of facilities	Internal	Different All Council managed Number of facilities
Performing Arts Venues	Not provided	Different	Internal	Different
Heritage and village development	External	Similar	Internal/external	similar
Colour City Caravan Park	Internal/external	Different 2 parks contracted 1 park internally managed	Internally managed	Different
Visitors Information Centre	Internal	Similar	Internal	Similar
Sporting Grounds and Venues	Internal	Different Community demanding higher service levels (artificial turfs)	Internal/external	Different Higher service levels
Swimming Pools	External	Different 2 pools contracted out 5 managed by 355 cttees	Internal	Different 50m pool and leisure facilities open daily
Parks and Gardens (Lakes)	Internal/external	Different Some facilities leased i.e. showgrounds	Internal/external	Different Botanic gardens CDB landscaping Tree care Higher service standards Some contract mowing
Events	Internal	Different	Internal/external	Different Major events contracted to Taste orange

SERVICES	CABONNE		ORANGE	
Transport and Communication	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Road Maintenance	Internal/external	Different Rural focus and service levels Some functions contracted out Supply of materials	Internal	Different Urban service levels Supply of materials
Road Construction	Internal/external	Different Rural focus and service levels Bridges and culverts Some functions contracted out Supply of materials	Internal	Different Urban service levels Supply of materials
Footpath maintenance	Internal	Different	Internal	Different Larger asset base Higher service levels Renewal program
Footpath construction	External	Different	Internal	Different
Parking Areas	Not provided	Different	Internal	Different
Kerb and Gutter	External	Different	Internal	Different
Aerodromes	Not provided	Different	Internal	Different
Drainage	Internal	Different	Internal	Different Number of pits and performance requirements
Works Depots	Internal	Different 3 depots	Internal	Different 1 depot
Plant and Fleet	Internal	Different Own most plant Service locally	Internal	Different Own and lease Serviced under warranty where applicable

APPENDIX F Communities of Intererst

Orange and Cabonne Communities of Interest

INTRODUCTION

A desktop review of the communities of Cabonne and Orange has been undertaken in order to understand the current demographic composition of the area, the similarities and differences between the council areas, and the interrelationships and communities of interest that currently exist within the area.

Communities of interest and geographic cohesion are considered essential considerations for any boundary adjustment process (Section 263 of the Local Government Act). The key references for this review is ABS Census Data, NSW Department of Planning's Population Forecast (2014), the ABS Estimated Residential Population figures for 2011 and 2012, along with the analysis contained in the *New South Wales Local Government Areas: Similarities and Differences, A report for the Independent Local Government Review Panel* report[25].

SUMMARY OF KEY SIMILARITIES AND DIFFERENCES

There are a number of similarities between the two council areas. Similarities include:

- Full time employment makes up the majority of employment across the regions, but participation in the labour market is an issue across the two council areas
- The percentage of Indigenous Australians in each community sits just above the State average
- Both have lower levels of year 12 and post schooling education attainment as compared to the New South Wales average
- English proficiency is high and there is a very low level of people born in countries other than Australia across the region
- Both areas will experience population growth, Cabonne's sitting higher than Orange's to 2031
- There is a high level of interdependence between the two regions economically, particularly with regards to workforce, with the majority of residents of both regions likely to work and reside in these locations

However a number of differences can also be observed:

- There are differences in the industry profile in the region
- While the age profile is broadly comparable across most years, Cabonne has a lower number of young people aged 25 – 35
- Orange has a higher percentage of individuals speaking a language other than English (4.9% compared to 1.8%)
- Cabonne sits above the NSW Average with regards to is SEIFA Index rating, whereas Orange falls below

[25] National Institute of Economic and Industry Research, March 2013

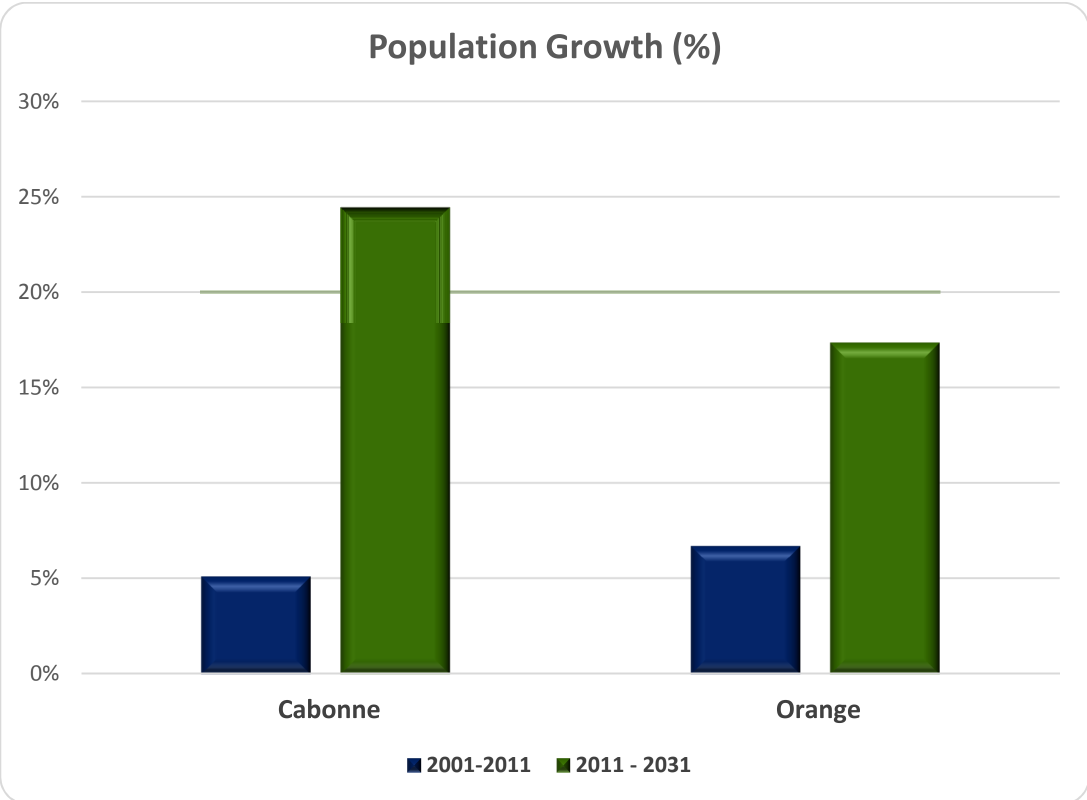
POPULATION SUMMARY

Current Base Information

	Population (ERP 2012)	No. Households (Census 2011)	Land Area	Population Density
Cabonne	13 481	4704	6023.9	2.2
Orange	40 108	13 865	283.9	141.3
Total	53 589	18 569	6307.8	8.5

Population Growth and Forecasts

Analysis of the Census data and the NSW Department of Planning's Population forecasts has been undertaken to identify the patterns of past and future population growth within the region. The region has experienced lower levels of growth for the period 2001 – 2011 at 5.1% and 6.7 percent respectively. In the period from 2011 – 2031 however the community of Cabonne is expected to see considerable growth at 24.5%. Orange will also considerable growth though lower than Cabonne at 17.4%. The *Similarities and Differences* Report groups these two Council's in a cluster with population growth, with a birth rate slightly above the state average which may drive some of this growth.

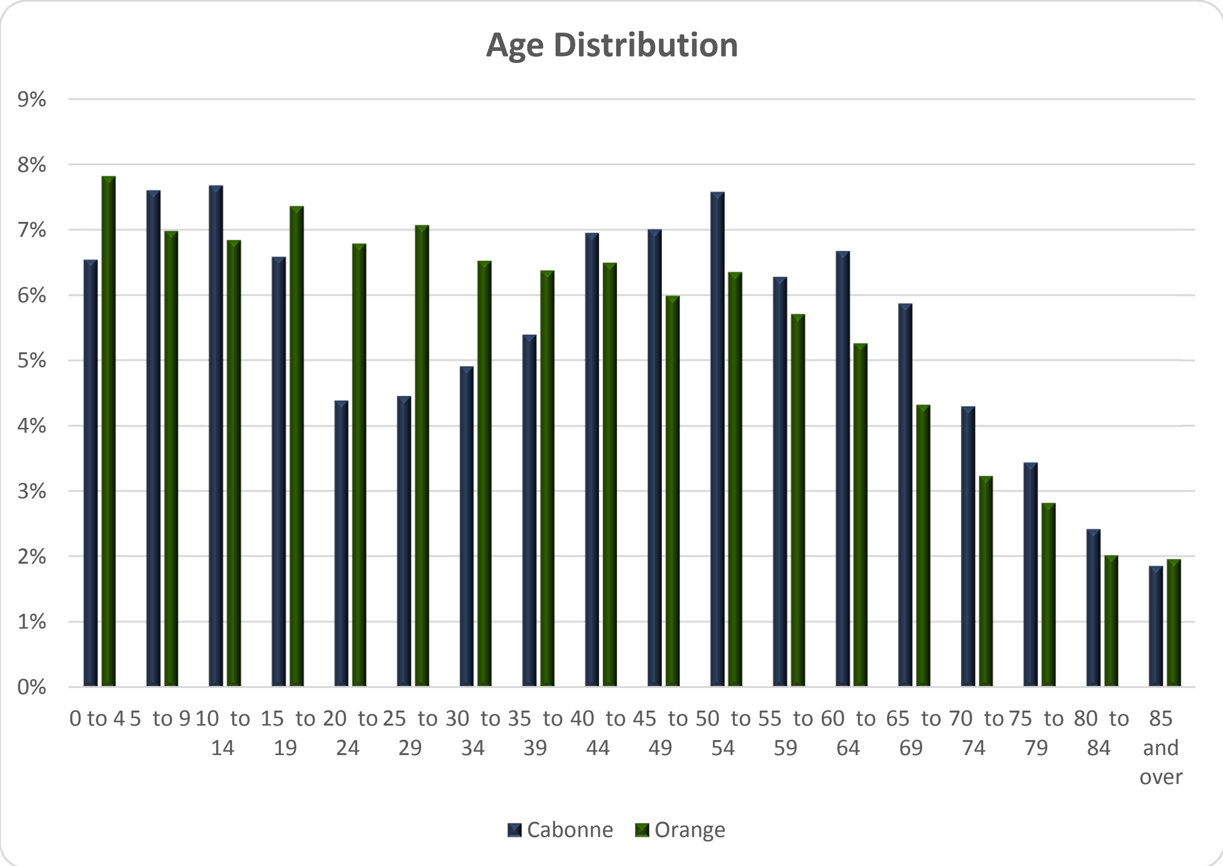


There will be some change to population density in both regions, reflective of the growth in population in the region. Cabonne will see an increase from 2.2 to 2.73 people/km^2, with a more noticeable increase in Orange from 141.3 to 162.9 people per km^2.

The Age Structure

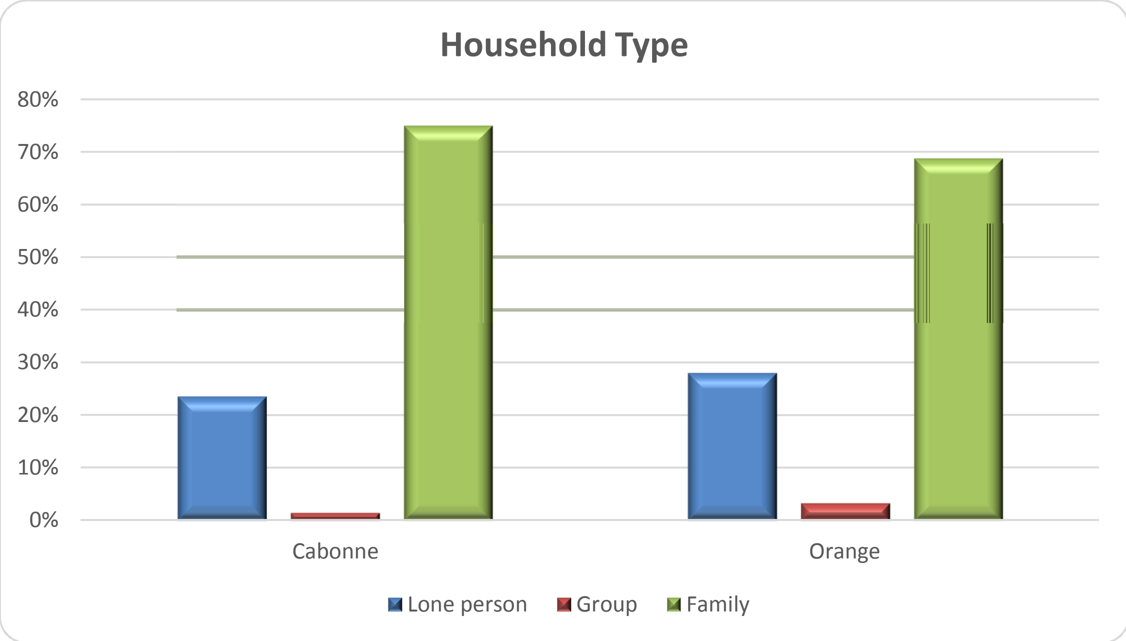
The age structure of the community provides an insight into the level of demand for age based services and facilities, as well as the key issues on which local government will need to engage with other levels of government in representation of their community.

The *Similarities and Differences* analysis groups both Councils in a cluster with high ratios of children to adults of parenting age coupled with low retention of young adults. It has a lower proportion of elderly residents, including a relatively low ratio of the very old to the next youngest cohort.



Household Types

Families make up the largest proportion of household types across the two council areas.



LANGUAGE AND CULTURE

The majority of residents in the region were born in Australia.

	Born overseas
Cabonne	10.0%
Orange	14.7%

This background is reflected in very high levels of English being spoken at home with the following breakdown of households where English is not spoken at home. Orange has higher levels that Cabonne, noting its role as a regional hub. In this regard, languages are largely from European countries.

Cabonne	Orange
1.8%	4.9%

Representation of Aboriginal and Torres Strait Islander people in both council areas sits higher as a proportion of the total New South Wales and Australian population more broadly.

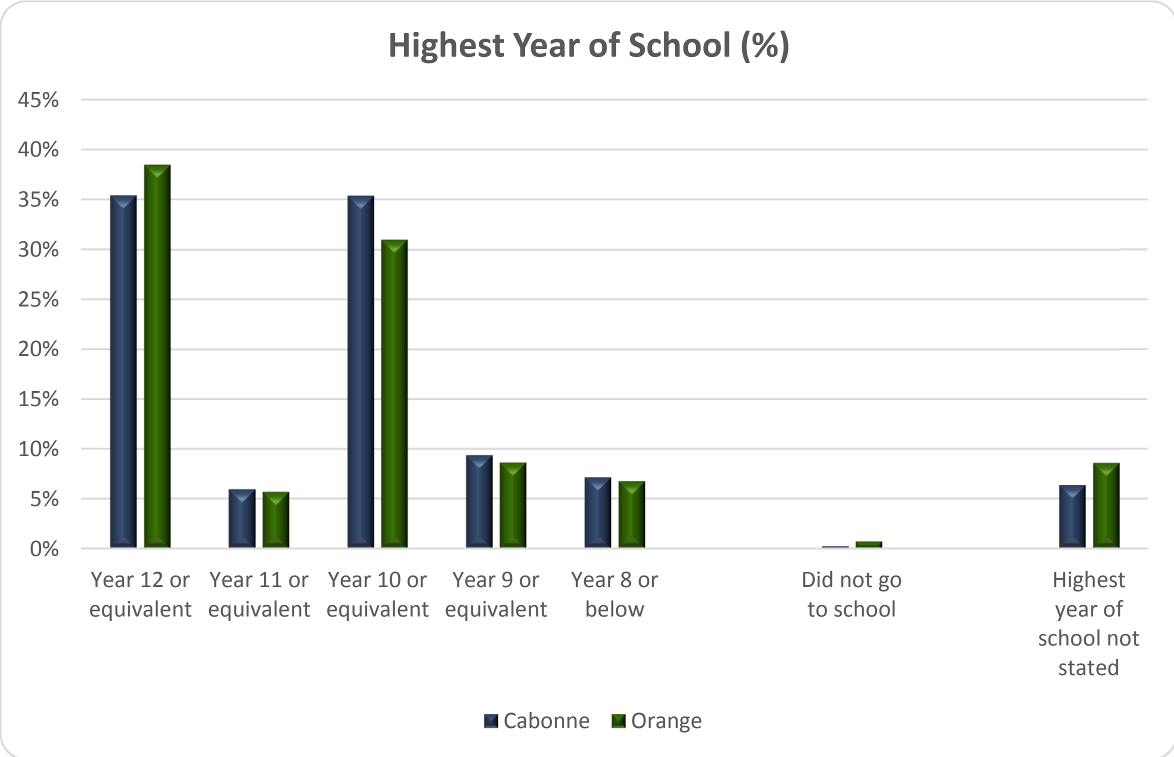
Cabonne	Orange	New South Wales	Australia
3.1	5.4	2.89%	3%

EDUCATION

School Completion

School completion data is a useful indicator of socio-economic status. Combined with Educational Qualifications it also allows assessment of the skill base of the population.

Overall, the rates Year 12 school completion sit between 35 - 38 percent across the two council areas. This is compared to an average of 47.6% across New South Wales

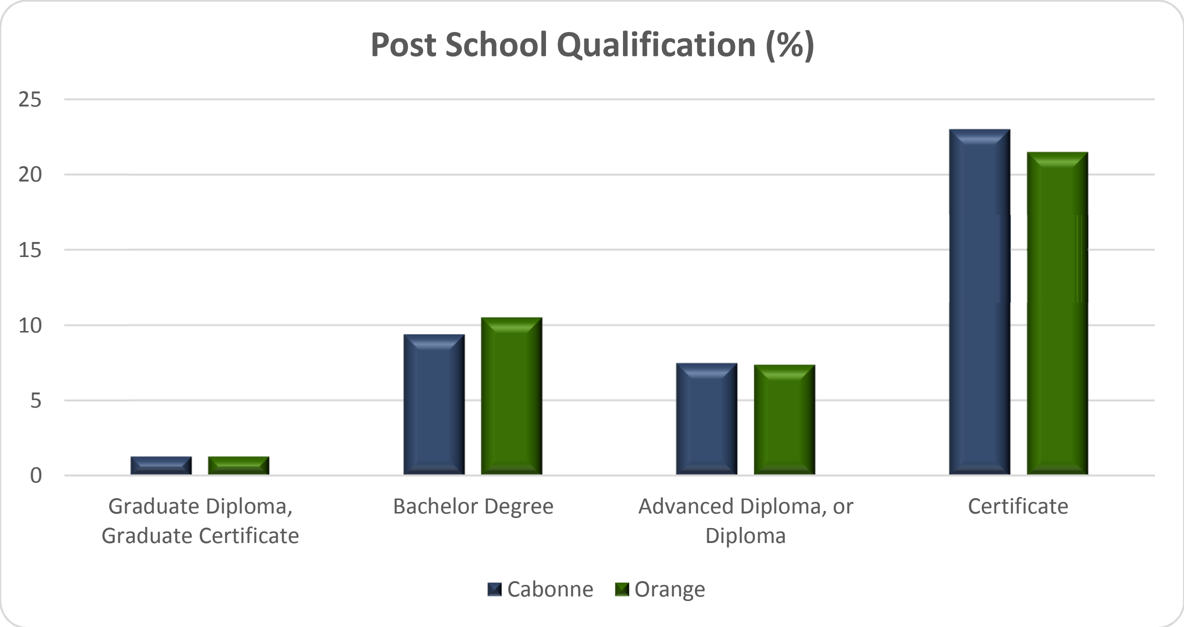


Post School Qualifications

Educational Qualifications relate to education outside of primary and secondary school and are one of the most important indicators of socio-economic status. With other data sources, such as Employment Status, Income and Occupation, an area's Educational Qualifications help to evaluate the economic opportunities and socio-economic status of the area and identify skill gaps in the labour market.

Certificate level studies form the largest proportion of post school qualifications achieved by residents across the two council areas. Across the areas, levels of attainment are comparable in each qualification bracket.

Post graduate qualifications are low, which may reflect access to these qualifications, and employment opportunities in the region which require this level of qualification.

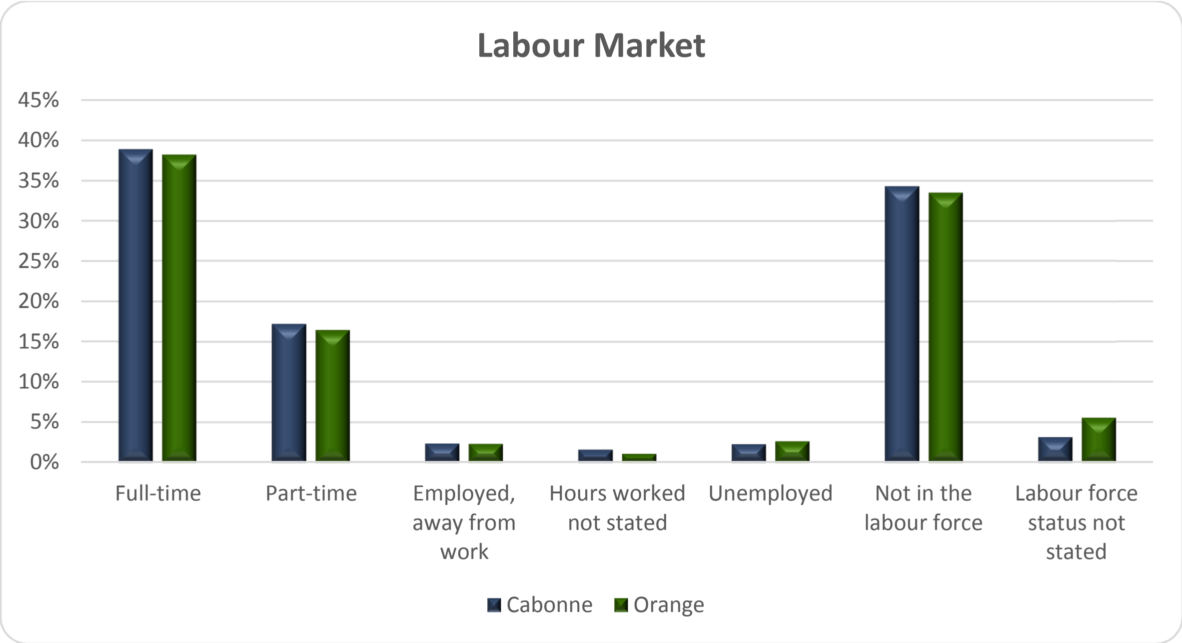


LABOUR MARKET

The *Similarities and Differences* report splits the communities across two clusters in terms of employment, however with similar characteristics. All of them have moderate, but hours worked are lower and the FTE employment rate is generally low.

Employment Status

Labour market indicators are comparable across the two council areas. Full time employment make up the majority of roles in the regions. While people who identify as unemployed are low, the proportion of people not in the labour market is high which is a concern for overall productivity and confidence in the region.



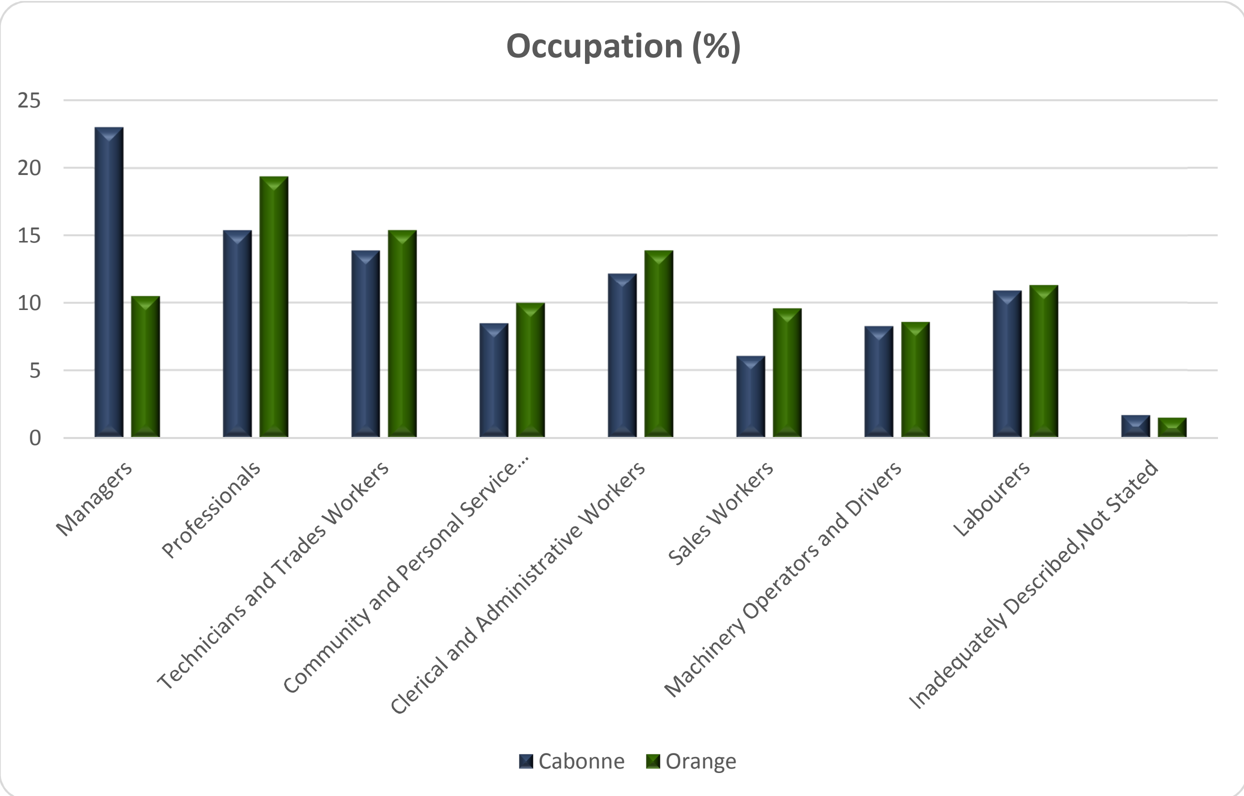
Industries of Employment

There are differences in the industry composition of the two council areas. Cabonne's industry profile reflects its strong agricultural background, whereas Orange's is reflective of its function as a regional hub. Health and social assistance features in both council areas, and is consistent with industry trends nationally.

	1	2	3
Cabonne	Agriculture, Forestry and Fishing	Health Care and Social Assistance	Manufacturing
Orange	Health Care and Social Assistance	Retail Trade	Education and Training

Occupations

There is a spread of occupation types across the two council areas. Cabonne shows the highest number of people employed in manager roles, whereas Orange fall into professional roles. While other occupations are broadly comparable, Orange also shows a higher number of people in sales, reflective of the retail trade in the community.



HOUSEHOLD INCOME AND WEALTH

In considering household income across the two Councils, the *Similarities and Differences* report groups the Councils income in one cluster.

Both Cabonne and Orange are grouped with 70 other LGAs in a cluster that comprises nearly half the State. Average incomes are low to middle with per capita disposable incomes typically round $35,000 but with some cluster members significantly above this. Income sources tend to be diversified: around 60 per cent wages contribution to disposable income and 15 per cent each from small business, property and benefits. The income growth rate has generally been fairly low over the past five years.

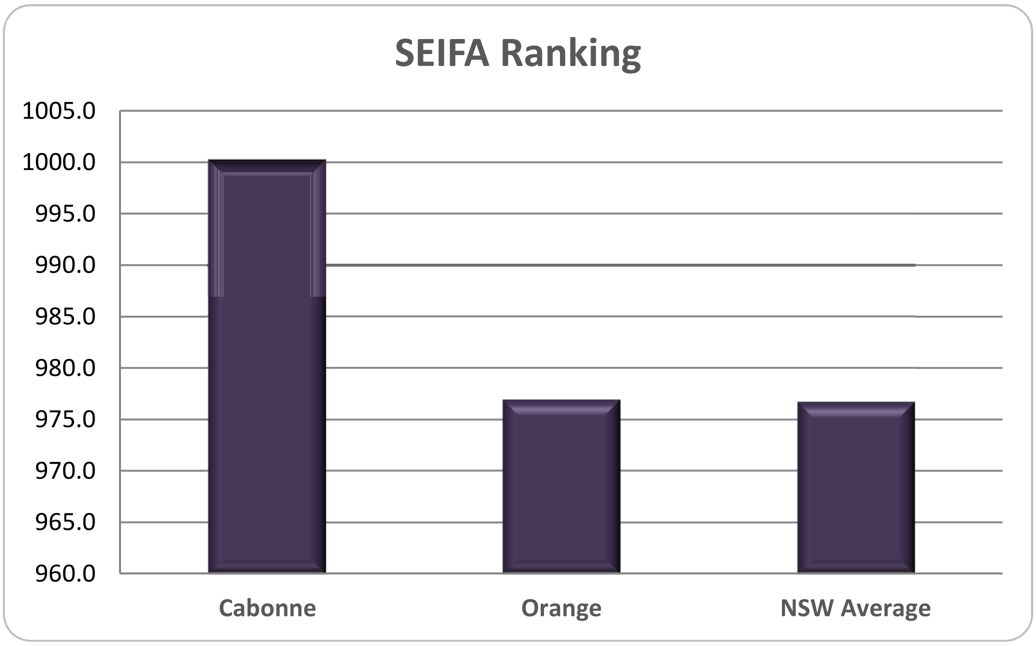
SOCIOECONOMIC DISADVANTAGE

The SEIFA Index of Disadvantage measures the relative level of socio-economic disadvantage based on a range of census characteristics. It is a good place to start to get a general view of the relative level of disadvantage in one area compared to others and is used to advocate for an area based on its level of disadvantage.

The index is derived from attributes that reflect disadvantage such as low income, low educational attainment, high unemployment, and jobs in relatively unskilled occupations.

Lower scores on the index reflect higher levels of disadvantage, where higher scores indicate greater advantage.

Cabonne is considered less disadvantaged than Orange against the SEIFA index, and has a higher score than the NSW average. Orange's rating is comparable to the NSW average. Given the comparability of councils against other measures, it is difficult to account for these differences.



POLITICAL PARTY COMPOSITION

Both council areas are represented at state and federal government levels by the National Party. At the local government level, all representatives are classed as Independent or unaligned.

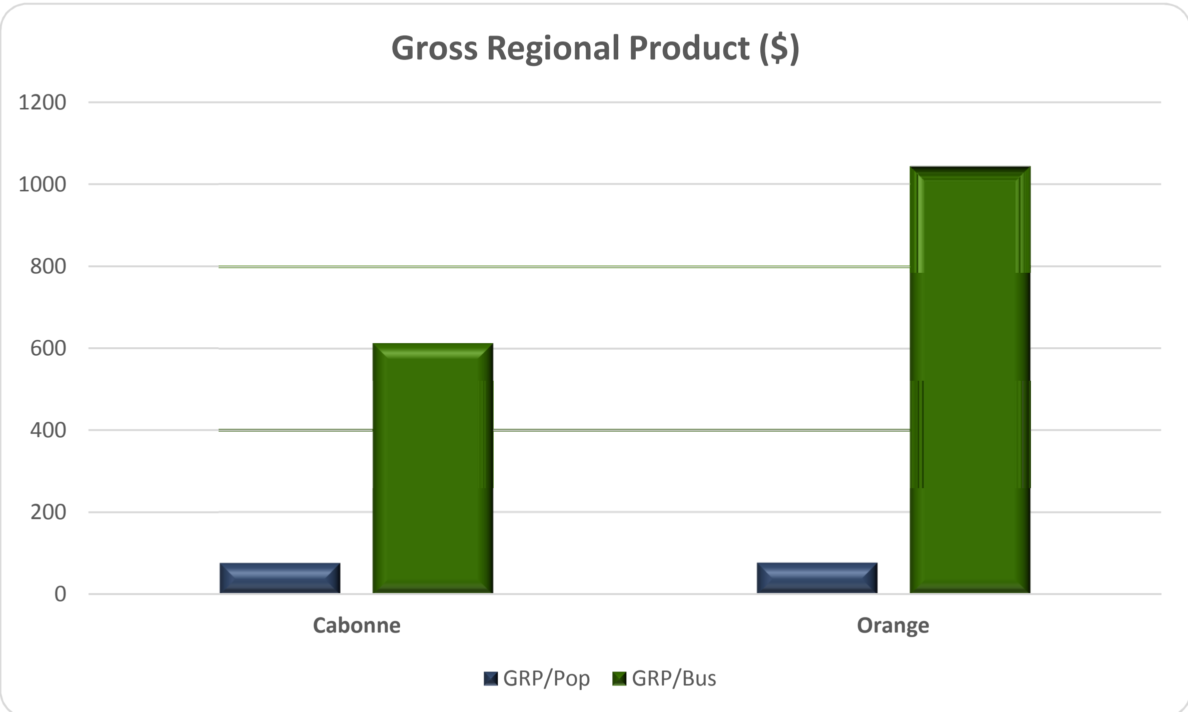
	State Electorate	Party	Federal Electorate	Party
Cabonne	Orange, Dubbo	National	Calare	National
Orange	Orange	National	Calare	National
Wellington	Orange	National	Parkes	National

LOCAL ECONOMIC FEATURES

Gross Regional Product

The Gross Regional Product for each council area is:

Council Area	Gross Regional Profit	GRP/Pop	GRP/Bus
Cabonne	$1 032M	76.55	614.28
Orange	$3 107M	77.46	1043.66



Journey to Work

Journey to work information shows strong ties between the two council areas. Residents of Cabonne are likely to work either within the council area or in Orange, with some minor outflows to other regions. Likewise, workers in Cabonne are likely be residents of these two areas.

Orange shows that the majority of residents and workers reside with the council area. There is however again strong crossover with Cabonne featuring as the second most likely council area of residents of the region to work in.

Cabonne area residents that are employed grouped by area of employment (Local Government Areas 2011 Boundaries)	
Albury (C)	3
Auburn (C)	9
Bathurst Regional (A)	51
Blacktown (C)	4
Blayney (A)	76
Bogan (A)	4
Brewarrina (A)	3
Brisbane (C)	6
Cabonne (A)	2766
Cobar (A)	5
Cowra (A)	124
Dubbo (C)	35
East Pilbara (S)	4
Forbes (A)	55
Griffith (C)	4
Hawkesbury (C)	5
Hornsby (A)	4
Lithgow (C)	6
MacDonnell (S)	4
Maitland (C)	3
Narromine (A)	4
Newcastle (C)	5
Orange (C)	2017
Parkes (A)	62
Parramatta (C)	7
POW Capital city undefined (ACT)	5
POW Capital city undefined (Greater Darwin)	4
POW Capital city undefined (Greater Sydney)	4
POW No Fixed Address (NSW)	203
POW No Fixed Address (Qld)	3
POW not stated	131
POW State/Territory undefined (NSW)	363
POW State/Territory undefined (NT)	4
Sydney (C)	11
Townsville (C)	4
Wellington (A)	27
Young (A)	5
Total	**6030**

Workers in Cabonne area grouped by Place of Usual Residence (Local Government Areas 2011 Boundaries)	
Armidale Dumaresq (A)	3
Bathurst Regional (A)	102
Belmont (C)	3
Blayney (A)	185
Brisbane (C)	13
Cabonne (A)	2767
Cobar (A)	4
Coffs Harbour (C)	4
Cowra (A)	150
Dubbo (C)	16
Forbes (A)	30
Gladstone (R)	4
Gold Coast (C)	6
Gosford (C)	4
Goulburn Mulwaree (A)	6
Great Lakes (A)	5
Greater Geelong (C)	5
Gympie (R)	4
Hawkesbury (C)	6
Hurstville (C)	3
Ipswich (C)	7
Lachlan (A)	4
Lake Macquarie (C)	6
Latrobe (C)	4
Liverpool (C)	5
Logan (C)	6
Melbourne (C)	5
Melville (C)	5
Mid-Western Regional (A)	9
Moreton Bay (R)	4
Narromine (A)	4
Newcastle (C)	4
No Usual Address (NSW)	11
Oberon (A)	7
Onkaparinga (C)	4
Orange (C)	901
Parkes (A)	49
Penrith (C)	5
Pittwater (A)	6
Randwick (C)	6
Rockdale (C)	6
Shellharbour (C)	18
Stirling (C)	4
Sunshine Coast (R)	13
Sutherland Shire (A)	7
Swan (C)	4
The Hills Shire (A)	6
Townsville (C)	4

Cabonne area residents that are employed grouped by area of employment (Local Government Areas 2011 Boundaries)	
Tumut Shire (A)	5
Tweed (A)	3
Upper Lachlan Shire (A)	6
Wanneroo (C)	4
Warringah (A)	6
Warrumbungle Shire (A)	4
Weddin (A)	11
Wellington (A)	80
Wollondilly (A)	5
Wollongong (C)	42
Wyong (A)	3
Yass Valley (A)	6
Total	**4609**

Orange area residents that are employed grouped by area of employment (Local Government Areas 2011 Boundaries)	
Albury (C)	3
Auburn (C)	6
Bankstown (C)	12
Bathurst Regional (A)	239
Blacktown (C)	4
Bland (A)	8
Blayney (A)	482
Blue Mountains (C)	3
Botany Bay (C)	4
Bourke (A)	4
Brisbane (C)	8
Cabonne (A)	902
Camden (A)	7
Canada Bay (A)	5
Canterbury (C)	4
Cobar (A)	8
Cowra (A)	10
Dubbo (C)	26
East Pilbara (S)	15
Fairfield (C)	4
Forbes (A)	6
Gilgandra (A)	4
Gold Coast (C)	3
Goulburn Mulwaree (A)	3
Holroyd (C)	3
Kalgoorlie/Boulder (C)	7
Kiama (A)	4
Ku-ring-gai (A)	4
Kwinana (T)	4
Lachlan (A)	6
Lismore (C)	4
Lithgow (C)	13
Liverpool (C)	4
Maitland (C)	3
Melbourne (C)	4
Mid-Western Regional (A)	9
Muswellbrook (A)	4
Narromine (A)	3
Newcastle (C)	4
North Sydney (A)	8
Oberon (A)	4
Orange (C)	13292
Parkes (A)	18
Parramatta (C)	11
Penrith (C)	5
Port Phillip (C)	5
POW Capital city undefined (Greater Sydney)	5
POW No Fixed Address (ACT)	4

Orange area residents that are employed grouped by area of employment (Local Government Areas 2011 Boundaries)	
POW No Fixed Address (NSW)	464
POW No Fixed Address (Qld)	3
POW No Fixed Address (SA)	4
POW No Fixed Address (Vic.)	4
POW No Fixed Address (WA)	7
POW not stated	338
POW State/Territory undefined (NSW)	1076
POW State/Territory undefined (Qld)	5
POW State/Territory undefined (WA)	4
Randwick (C)	8
Rockdale (C)	3
Ryde (C)	6
Singleton (A)	4
Snowy River (A)	3
Strathfield (A)	4
Sydney (C)	33
The Hills Shire (A)	4
Tumut Shire (A)	4
Unincorporated ACT	6
Unincorporated SA	3
Vincent (T)	3
Wagga Wagga (C)	4
Warringah (A)	4
Warrumbungle Shire (A)	4
Weddin (A)	5
Wellington (A)	28
Willoughby (C)	5
Wollondilly (A)	4
Wollongong (C)	4
Wyndham-East Kimberley (S)	4
Young (A)	3
Total	**38057**

Workers in Orange area grouped by Place of Usual Residence (Local Government Areas 2011 Boundaries)	
Albury (C)	7
Armadale (C)	4
Ashfield (A)	4
Ballarat (C)	5
Bankstown (C)	3
Bathurst Regional (A)	542
Blacktown (C)	7
Bland (A)	4
Blayney (A)	760
Blue Mountains (C)	13
Bogan (A)	5
Boorowa (A)	4
Botany Bay (C)	3
Brisbane (C)	6
Cabonne (A)	2017
Cairns (R)	4
Camden (A)	9
Canada Bay (A)	4
Canning (C)	4
Coffs Harbour (C)	5
Cooma-Monaro (A)	4
Corowa Shire (A)	4
Cowra (A)	63
Dubbo (C)	55
Eurobodalla (A)	5
Fairfield (C)	4
Forbes (A)	21
Gilgandra (A)	4
Gold Coast (C)	5
Gosford (C)	10
Greater Bendigo (C)	4
Greater Taree (C)	3
Gympie (R)	3
Hawkesbury (C)	3
Holroyd (C)	4
Hornsby (A)	8
Inverell (A)	4
Kogarah (C)	4
Ku-ring-gai (A)	3
Kwinana (T)	4
Lachlan (A)	4
Lake Macquarie (C)	3
Lane Cove (A)	5
Lithgow (C)	18
Liverpool (C)	4
Maitland (C)	3
Manly (A)	3

Workers in Orange area grouped by Place of Usual Residence (Local Government Areas 2011 Boundaries)	
Marion (C)	4
Mid-Western Regional (A)	21
Narromine (A)	9
Newcastle (C)	6
No Usual Address (NSW)	21
No Usual Address (Qld)	4
North Sydney (A)	3
Oberon (A)	13
Orange (C)	13290
Palerang (A)	4
Parkes (A)	51
Parramatta (C)	7
Penrith (C)	5
Pittwater (A)	3
Port Macquarie-Hastings (A)	6
Port Stephens (A)	3
Randwick (C)	6
Redland (C)	4
Rockdale (C)	4
Ryde (C)	4
Shellharbour (C)	3
Shoalhaven (C)	7
Singleton (A)	5
Sunshine Coast (R)	4
Sutherland Shire (A)	9
Sydney (C)	13
Tablelands (R)	5
Tamworth Regional (A)	4
Tenterfield (A)	4
The Hills Shire (A)	5
Townsville (C)	3
Tweed (A)	4
Unincorporated ACT	5
Upper Lachlan Shire (A)	7
Wagga Wagga (C)	10
Warringah (A)	6
Warrumbungle Shire (A)	6
Wellington (A)	80
Willoughby (C)	3
Wingecarribee (A)	5
Wollongong (C)	12
Young (A)	6
Total	**17339**

g