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Deniliquin, Murray, and Wakool Fit for the Future Business Case

22 May 2015

1. Executive Summary

There are many similarities and some differences in the way the Councils of Deniliquin, Murray and Wakool express their community aspirations. All Councils organise their aspirations around the themes of community, economy, environment and leadership. However, within these themes, the Councils' governance and management arrangements reflect the differing priorities that their diverse communities have placed upon them. See Section 5, pages ten and eleven, for details.

Geographically, they are adjacent, with the Murray River as the southern border. There is consistently an obvious tendency towards interaction and engagement with Victoria in health, education, sport, transport and commerce. Moreover, telecommunications have a 03 prefix and the area is serviced by Victorian-sourced electronic media. Indeed, the three Councils themselves share some services with their neighbouring Victorian Councils, practicalities transcending State boundaries. There is only a passing community connection with the NSW towns and services, despite the legislative framework under which the Councils and the communities are governed.

Deniliquin LGA comprises only a small urban area surrounded by Conargo, Wakool and Murray Councils. Deniliquin and Moama, in Murray Council, have similar populations and are designated by the NSW Government as Major Towns in the Murray – Murrumbidgee Regional Growth Plan. While Moama has projected long term growth which is observable, Deniliquin at best is static. Both Deniliquin and Murray Councils contest the Department of Planning growth forecasts. Wakool Council comprises a number of small population centres across a large rural area, with its headquarters in Moulamein.

The Councils provide a similar range of services with only small variances in the manner in which they are delivered. These could be standardised with any merger to both achieve appropriate asset condition and enable efficiencies to be achieved.

The priorities and the methods that the Councils use to deliver their strategic directions are different. A vital issue in achieving a successful merger is the integration of different organisational cultures. Whatever the shared vision or strategic direction of the new Council, the realisation will depend upon a cohesive organisation working together. Furthermore, a strategic direction will need to be agreed upon and investment in its delivery prioritised since the communities within each current Council have different expectations.

Any merger of Deniliquin, Murray and Wakool Councils cannot be simply a bolting together of the existing Councils. None of the Councils on their own meet the Fit for the Future outcome criteria. While a merger also does not meet this in the short

term, a more stable, financially sustainable future is predicted from the model. This could form the basis of achieving the criteria in the medium term.

While the assumption in the modelling is relatively conservative, after 10 years on a no-change or status quo basis, Deniliquin Council should turn an existing small deficit to a small surplus. Further, if available cash was applied to asset renewal the asset backlog could move from \$7M. to \$9M. If not, it could be as high as \$21M. Deniliquin Council does not fully meet the Fit for the Future criteria and could be described as a medium financial risk. Analysis at Murray Council shows a \$1.5M deficit reducing slightly over the 10 years with the asset backlog remaining at zero for the next 10 years. In not fully meeting Fit for the Future criteria, it could also be categorised as a medium financial risk. At Wakool Council, an existing deficit of \$1M would improve to break even over the 10 year period. The asset backlog will show a slight reduction on the current \$42M to \$39M. It could be categorised as a medium to low financial risk and also does not fully meet the Fit for the Future criteria.

Based on the agreed assumptions, a merger of the three Councils would show a current deficit of \$2.7M, improving to a surplus of \$5.0M. If the available cash were applied to the asset backlog, this could be eliminated in 10 years' time.

A merger of Deniliquin and Murray Councils would result in an improvement from a current deficit of \$2.0M to a surplus of \$3.6M, with a low financial risk category an asset backlog of \$15.5m, which could be eliminated by 2020 if available cash were applied to asset renewal.

Representation is a critical issue for all Councils. Consideration of the size of the elected Councils has taken into account the existing representation and the geographically and demographically diverse communities. However, an elected body needs to be of a workable size and enable the communities to participate in shaping the area in which they live.

Provision of integrated information technology and business systems will be essential to a merged entity. A preliminary desktop analysis provides an indication of the costs necessary to achieve a common information technology platform and policy framework. Broadband constraints are currently an issue. This will be improved in the medium term with the NBN rollout.

No assessment of rating equalisation has been attempted.

Several covenants should be noted. These are Workers Compensation premiums where recent increases are evident in individual Council information; Wakool Council's pending special rate application, and Deniliquin Council's 2015/16 budget proposal to undertake an ambitious capital works program.

Employment provisions of the Local Government Act require retention of employment in small population centres where “practicable”. It will be the responsibility of any transition committee to determine “practicability”. However, a model to address this is proposed in which functional activities are allocated to small centres, having consideration of skill availability, complexity of work activity, and the existing State Government centres policy. See pages 23 and 24 for detail.

2. Introduction

In March 2015, Deniliquin, Murray and Wakool Councils issued a brief to develop a Business Case for two options of:

- A merger of Deniliquin, Murray and Wakool Councils and
- A merger of Deniliquin and Murray Councils

This consultancy was sought in the context of the local government reforms proposed by the State Government, which were announced as the Fit for the Future program in October 2014. This program requires Councils to either demonstrate their fitness for the future against several criteria or present their pathway for structural change. For those Councils presenting the latter, the Government announced the availability of significant packages of support. These Councils do not need to demonstrate their scale and capacity threshold or meet the financial outcome criteria.

Deniliquin Council has resolved to merge with adjoining Councils. Murray seeks to stand alone. The preference for Wakool Council is to become a “Rural” Council. This would involve Wakool Council obtaining strategic resources from a Joint Organisation (JO) or Local Government entity. There are no such entities currently existing nearby.

Despite these preferences, all Councils are keen to ensure that they and their communities have at their disposal a business case that models the impact of merging with adjoining Councils. This will enable informed consideration based on transparent assumptions and evidence, gathered with the help of all Councils involved in the process.

The Brief

The brief issued by Deniliquin, Murray and Wakool Councils is attached as Appendix 1.

In fulfilling the brief, the Red Quadrant Group was mindful of the underpinning principles that were to partly form the criteria against which options could be addressed. Firstly, it was important to gain a picture of the region and provide a representation of it that encompassed more than the geographic boundaries of the Councils.

However, this was not a full review for the purposes of any boundary adjustment. The Red Quadrant Group undertook analysis of the services, finances, and structures of the existing Councils in conjunction with financial modelling projected

out over 10 years. This analysis served as the baseline against which the results of the modelling of different scenarios could be viewed and assessed.

Aside from an examination of the existing situation, the brief also required the examination of the following possibilities:

- A full merger of the three Councils, including a single elected Council
- A merger of Deniliquin and Murray Councils (with Wakool Council separately considering becoming a “rural ” Council)

The review involved both on site and off site research and analysis. In addition to specialist financial input, consultants reviewed the business systems and organisational structures. Individual interviews with each Mayor and Deputy Mayor, General Manager, members of executive staff, and other specialist staff as required were also undertaken. Workshops with General Managers were held in person or by teleconference.

Deniliquin and Murray Councils have extended our brief to provide independent advice on a “stand alone” position for each Council.

3. Definition of the Area

This information has been sourced from Council or State Government publications to provide a snapshot of the area being investigated. It is not exhaustive and may not be current.

Demography

According to the State Government's 2014 projections, in 2011, Deniliquin Local Government Area's (LGA) population was 7,300. It is projected to decrease to 5,700 by 2031 and covers an area of 143.2km². Murray LGA's population was 7,200 in 2011 and is projected to increase to 7,750 by 2031. Covering 4,328km², Murray LGA is 800km south of Sydney and 205km north of Melbourne. Lastly, Wakool LGA's 2011 population was 4,050, with a projected decrease to 3,200 by 2031. Ranging over 7,549km², Wakool LGA is located between the Murray River and the Murrumbidgee River, adjacent to the Sturt Highway.

Economy

The labour force of the Deniliquin LGA was 3,169 in 2011, Murray LGA's was 3,201, and Wakool LGA's was 1,827. Agriculture was the biggest sector across the three local government areas (LGAs), employing 6.2% of Deniliquin workers, 14% of Murray workers, and 32.4% of Wakool workers. Uniquely, agriculture was outweighed in Deniliquin by retail trade as well as health care and social assistance. The unemployment rates were lower than the regional NSW average at respectively 4.6%, 4.6%, and 3.6%.

Health, Education, Sport, Leisure, and Transport

With 61 beds in 2011, Deniliquin Hospital provides emergency, medical, surgical, and allied health services. There are also four doctors' clinics and one general practice in the LGA as well as a nursing home and a hostel that provides aged care. Murray LGA has a community health centre, a medical practice, and a 50 bed high and low care aged care facility that provides both permanent and respite care. In Wakool LGA, Barham-Koondrook Soldiers Memorial Hospital has an emergency department and fewer than 50 beds, as well as a palliative care suite and an attached aged care facility with 10 high care placements. Wakool LGA also has two medical centres, community nursing and health centres, an aged care home, and a retirement village.

Deniliquin LGA has four primary schools, three of which are public; a public high school; an independent high school; and a Riverina Institute of TAFE campus. Murray LGA has two public primary schools and a Catholic K-12 school. In Wakool LGA, there are four public primary schools, one public high school, and one public K-12 school that also serve students from Victoria.

Health and education are both broadly focussed towards Victoria.

Deniliquin LGA has a wide range of sporting facilities and clubs. Murray LGA also has sporting facilities and clubs, including excellent bowling greens and golf courses. Similarly, Wakool LGA also has a substantial sporting presence geared at all ages throughout the area.

In general, shopping is oriented towards Bendigo, Shepparton and Melbourne for big expenditure items. Murray LGA residents may shop in Echuca-Moama.

In all three LGAs, cars are the main form of transport, with limited bus and train services. In 2011, 60.8% of Deniliquin LGA residents, 62.8% of Murray LGA residents, and 62.8% of Wakool LGA residents travelled to work by car, either as drivers or passengers. The transport links are oriented towards Victoria, although residents do often travel to Albury and Wagga Wagga as well.

4. Recent Council History

The Mid Murray Region contains six local government areas. These are Berrigan, Conargo, Deniliquin, Jerilderie, Murray and Wakool Councils. This report does not include Conargo, which has an area of 8738km² or Berrigan and Jerilderie who have chosen to develop other proposals. Wakool LGA is bounded by the Murray River to the south as well as Balranald, Hay, Conargo, and Murray. Murray LGA is also bounded by the Murray River to the south, alongside Wakool LGA, Conargo, Deniliquin and Berrigan. Deniliquin is bounded by the Conargo and Murray local government areas.

Deniliquin (1878), Murray (1906), and Wakool (1906) Councils all have a long history of local achievement and service. For many years, boundaries have been unaltered.

This report is concerned with two merger scenarios: a merger between Deniliquin, Murray and Wakool Councils and a merger between Deniliquin and Murray Councils. The area of the merger of the three local governments would have an area of 12,020km² with a population of 18,550, and a merger of Deniliquin and Murray Councils would have an area of 4,471km² and 14,500 residents.

Deniliquin is considered by the State Government to be of rural regional significance, with several Government departments having offices in the town. However, like many rural communities, it faces some challenges. The evidence is that there is population growth in the south of both merged area scenarios and a clear orientation to Victoria by virtue of the Murray River and the major regional communities of Echuca and Swan Hill.

The financial sustainability of the relevant Councils is dealt with in later sections of this report. Neither Deniliquin nor Murray Councils has sought special rate variations in the past, with Wakool Council having approved increases of 5.26% in 2000/01, 7.14% in 2006/07 and 4.7% in 2015/16.

A desktop review of the State Electoral Commission website in relation to the three Councils' electoral activities does not disclose much interest in residents presenting as candidates for election in 2012.

In the Deniliquin LGA, the election was uncontested in 2012. Fourteen candidates sought the nine positions in 2008, with a voter turnout of 80%.

There was more activity in Murray LGA, where, in 2012, thirteen candidates sought the nine positions. In 2008, there were twelve candidates. Voter turnout in 2008 was 81% and was 80% in 2012.

Only one of the three wards in Wakool was contested in 2012, with three candidates nominating for two positions and a voter turnout of 55%. In 2008, all wards were

contested, with three candidates standing for the two positions and an average voter turnout of 75%.

This report has not analysed whether the above is evidence of resident apathy or local representation contentment.

In reviewing material for this report, the existence of Conargo Council was consistently questioned.

It is understood that Conargo is the only surviving rural Council in NSW with its offices in the nearest larger town. Another apparent anomaly is the fact that Deniliquin is noted as the only rural local government area remaining in the state consisting only of the town. Prior to 2001, there were three local government administrations headquartered in Deniliquin. The financially troubled Windouran merged with Conargo Council in 2001 to create a new entity. However, the area still remains amongst the smallest local government entities in NSW in terms of population.

Using the State Electoral Commission and publically available information, it is noted that the area has four wards (the largest in 2012 having 295 electors). There have been no contested elections since the merger in 2001. Three of the eight Councillors are residents of Deniliquin and present for election as 'non-residential owners'.

While Conargo participated in the February workshops in accordance with the Office of Local Government options, it chose not to participate in the merger scenarios. It is the view of the authors of this report that this was an unfortunate and short-sighted decision, having regard to the geographical location of the area and apparent provision of services from Deniliquin. It is clear that local scale and capacity improvements and financial rationalisation of executive staff and back of office services would benefit Conargo residents and rate payers as well as the Mid Murray Region generally.

5. The Councils' Status Quo and Baseline Position

The Councils

In total, there are twenty-two elected members between the three Councils. Deniliquin has seven elected Councillors, Murray has nine, and Wakool has six across three Wards. The Mayors are all elected annually.

The Administrations

All three of the elected bodies are supported by an Administration headed by a General Manager who is appointed by the Council.

The structures follow a conventional local government model, structured largely on professional and technical lines and divided into back office support services and external technical services.

Aspirations for the Future

Many commonalities and some divergences are evident in the principles and strategic priorities put forward by the Councils. The following analysis draws on the Councils' respective Community Strategic Plans. All three Councils organise their aspirations for the future around the themes of community, economy, environment and leadership.

- *Community:* there is a common emphasis on facilitating diversity and inclusivity in the communities. Differences in demographics lead to differing approaches in reaching that goal. Wakool is keen to provide opportunities for and thereby retain its young people while building cultural, health, and aged care services. Deniliquin, meanwhile, is undertaking a place-shaping approach, seeking to position itself as a regional centre with services and opportunities for all residents. Murray's focus is on a strategic approach to good governance practices with the aim of achieving corporate goals and the best outcomes for customers.
- *Economy:* All three Councils aim to build their local communities through multi-pronged economic approaches, backed by sustainable infrastructure, in order to survive and thrive. Deniliquin wants to foster prosperity for a diverse population as a growing regional centre. Murray also wants to foster prosperity through such measures as sustainable transport and communication systems, prudential asset management, additional income stream development, and promotion of the area. Wakool has a dual focus on

developing tourism and enhancing infrastructure to diversify the local economy, primarily through a community hub.

- *Environment:* Environmental goals are closely aligned. Water management is a key issue facing all three Councils. The concern is for environmentally responsible development that also allows for sufficient economic development. Murray and Wakool both emphasise strong regional links and partnerships in environmental protection matters.
- *Leadership:* Community engagement, particularly in decision-making processes, and providing excellent civic leadership are emphasised by both Wakool and Deniliquin. Murray's approach is to lead the community towards good health and welfare outcomes through the provision of arts, culture, and recreation services; good cooperation with Aboriginal stakeholders; services for youth, aged, and disabled populations; and the maintenance of health services that are in great need due to medical professional shortages.

The Services

All Councils provide core services, including corporate support functions, emergency services, environmental services, capital works, infrastructure maintenance and renewal, integrated planning, town planning functions, tourism and economic development, waste disposal, and water and sewer services.

A number of functions are provided with grant support or by contract with neighbouring centres, such as community services, rural transaction centres, road safety and library services. Deniliquin Council, by virtue of its geography, provides a number of services that are utilised by Conargo Council rate payers. It is also the headquarters for the Central Murray Regional Library service, with another branch located in Mathoura (Murray Council).

Murray and Wakool Councils have a number of services both ways across the Victorian border with the centres of Echuca and Swan Hill. These include library, medical, sporting, education and community services. A significant number of staff, particularly from Murray Council, reside in Victoria.

Some Community Services are provided by Intereach a not-for-profit agency that works across the Riverina.

While some examples of standards of service delivery were provided, no Council has established comprehensive service standards for their service delivery.

Business Systems

A more detailed analysis of the business systems is included as Appendix 6.

Deniliquin Council has no IT staff and uses a number of contractors to manage its ICT infrastructure, while Murray and Wakool Councils have, respectively, two and one IT staff. In 2014-15, the cost per full time equivalent employee was \$2,723 at Deniliquin, \$4,519 at Murray, and \$4,278 at Wakool.

The Councils do not all use the same brands of hardware for servers, PCs, and communication routers/switches, making integration of ICT infrastructure more expensive and difficult. Murray and Wakool Councils use Authority for their local government application software, while, in 2014, Deniliquin Council commenced a project to install CouncilOne. Due to the use of two major application systems, the data migration of property, central name and addresses, rating, water, and sewerage records will be more complex and costly. All the Councils are using their application software in a basic manner, with very few online real-time customer business transactions and internal electronic business processes. The PABX IP based

systems are different and therefore moving towards the one telephone system will also be more expensive.

The communication connections between main computer sites and remote sites are achieved through a combination of Telstra ADSL2+, radio wave, and fibre optic links, with Deniliquin LGA being more compact, while Murray and Wakool LGA's both have two service centres and multiple other remote sites. The distance between Deniliquin and Mathoura (Murray LGA) is about 37km, while the distance between Deniliquin and Moulamein (Wakool LGA) is 104km. All three Councils have no ICT disaster sites available and do not have ICT Business Continuity Plans.

The Financial Position

Background

In order to assess the financial impact of the proposed merger, a long term financial position model was developed to map the potential performance of the three Councils, both as they currently operate and how they may operate as a merged entity.

This model used a combination of the published financial reports of the three Councils and the latest available budget and long term financial projections as its foundation. The 2015/16 draft budget or long term financial plan figures were used as the basis to project forward the data using consistent assumptions and replicating any significant adjustments identified in the long term financial plans of the respective Councils. The long term financial plan was cast in real terms (i.e. money retains a constant value) and extended over a 20 year timeframe. The figures shown in this report are for either 10 years or less, as specified.

As far as could be observed, the long term financial plan of each Council showed a continuation of the current level of activity without any significant change in financial direction. This was reflected in the financial model.

Since Councils are responsible for such a large number of assets, the development of appropriate asset valuation methodologies is a major issue for all Councils.

As the report was being prepared, Wakool Council was in the midst of a revaluation of its assets. The indications are that this revaluation will result in a significant reduction in the value of annual depreciation expense, in the order of \$600,000 per annum. This would result in a reduction of the Council's operating deficit. Additionally, the Council is reviewing the methodology for the calculation of the asset and infrastructure backlog and believe that once the review is complete their infrastructure and asset backlog value will be significantly less than its current value, perhaps close to nil.

Deniliquin Council is in the midst of a review of its methodology for the review of its infrastructure backlog, which they believe may result in a reduction in its estimated backlog.

Whilst these estimates are still in the process of being finalised and yet to adopted by either Council, the existing asset values and depreciation have been used in the calculations in this report.

The key assumptions made in the baseline long term financial plan were:

- Due to stagnant or decreasing projected populations, the rates income for Deniliquin and Wakool Councils was kept at the current level. The exception was a 4.6% (i.e. 7 less 2.4% CPI) rate increase for Wakool Council, recently approved by IPART for 2015/16. Rates income and user charges have been increased by 1.0% per year for Murray Council as Planning NSW has predicted that the population of this Council area will grow at approximately this rate over the next 10 years
- Consistent with its long term financial plan, the rates and charges for the Murray Council water fund have been increased at 2.5% for 3 years
- Grants as anticipated by respective Councils
- Employee benefits to rise at 0.5% above CPI
- Materials and contractors and other expenses to increase at that same rate as inflation
- Borrowings based upon borrowings in the long term financial plans of each Council
- Capital expenditure based upon data in the long term financial plans of each Council

These assumptions were discussed with senior staff from each Council.

The outputs of the baseline long term financial plan are:

- The statutory financial statements of
 - each Council
 - the General, Water, and Sewer funds
- Fit for the Future financial criteria

The focus of the financial analysis has been on the General fund, which is where the State Government has focused its attention in the Fit for the Future benchmarks it has promulgated. The Water and Sewer funds are subject to fewer controls over the level of fees they charge and it is the General fund that is responsible for the funding of most of the core municipal services.

The very nature of long term financial projections is that the results only provide an indication of a likely outcome in the future. In particular, these projections have used high level assumptions that may or may not be reflected in the future.

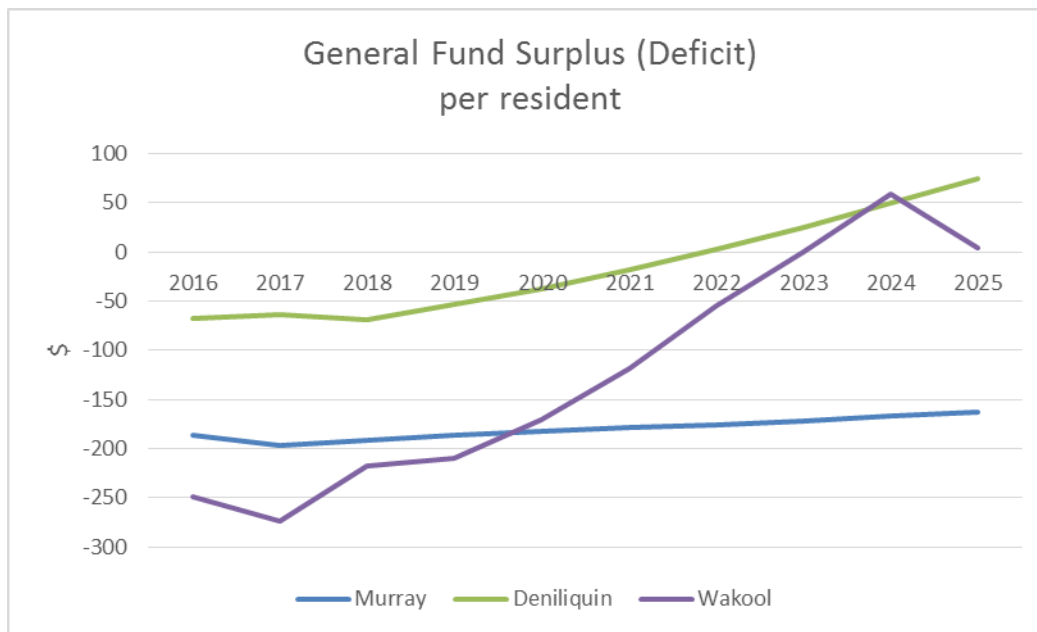
The 10 Year View

	Deniliquin	Murray	Wakool
Underlying result¹	Small deficit, moving to a small surplus	Deficits of approximately \$1.5m, reducing slightly	Deficit of approximately \$1m, reducing to breakeven
Total cash	Increasing	Static	Slight increase
Financial sustainability risk²	Medium	Medium	Medium to low
Fit for the Future criteria achieved	No	No	No
Predicted asset renewal backlog in 2025	If available cash were applied to asset renewal, asset backlog would be similar to current estimated level of \$9m, otherwise it could be as high as \$21m	Nil	Slight reduction on current level to \$39m

The graph below illustrates the predicted Operating Result (before capital income) per resident for a 10 year period.

¹ Net Operating Result before grants and contributions provided for capital purposes.

² As calculated using the methodology of the Victorian Auditor-General's Office.



Conclusion

Each Council has undertaken its own review of its ability to meet the State Government's Fit for the Future benchmarks and each Council has found that it is not able to fully meet the criteria. The financial modelling performed indicates that, on their own, this situation is unlikely to change in the future.

All Councils currently have operating deficits (before capital income) in their General funds and all are highly reliant on operating grants to fund their operations. Deniliquin and Wakool Council's are able to move to a surplus position over the coming 10 years, indicating that they are able to adequately fund all their activities at their current level. Based on the assumptions outlined above, Murray Council will continue to incur operating deficits unless it changes its policy settings.

All Councils are able to maintain adequate cash reserves over the coming 10 years.

The challenge of providing adequate funds to maintain the condition of infrastructure assets such as buildings and roads is shown in the table above. Deniliquin and Wakool Councils will have substantial infrastructure renewal backlogs in 2025.

As each Council is unable to fully meet the Fit for the Future benchmarks, none of them would be considered Fit for the Future by the criteria set by the State Government.

6. Merger of Deniliquin, Murray and Wakool Councils

The Merged Council

There are several considerations involved in merging the three Councils. These include being true to the principle of “place shaping,” while also gaining the advantages of a regional voice and financial benefits. It is also necessary to meet the requirements of Sections 218 and 354 of the Local Government Act. To achieve this will require a new entity, not a bolt together of the three organisations. Therefore, it is important to redesign both the governance and organisational structures. A simple combination would likely result in the current challenges and disadvantages being imported into a single merged entity.

Governance

The Local Government Act states that a Council must have at least 5 and not more than 15 Councillors including a Mayor.

Deniliquin has seven councillors, with the Mayor elected annually.

Murray has nine councillors, with the Mayor elected annually.

Wakool has six councillors in three wards, with the Mayor elected annually.

The current ratio of Councillors to population/elector is as follows:

	Population (30/06/11)	Electors (8/9/12)
Deniliquin	1043	740
Murray	800	543
Wakool	675	467

When considering any matter referred to it that is related to boundaries of areas, the Local Government Boundaries Commission must have regard to:

- The requirements of the area in relation to elected representation for residents and ratepayers at the local level, the desirable and appropriate relationship between elected representatives, ratepayers and residents, and other matters it considers relevant to the past and future patterns of elected representation for that area
- In the case of a proposal for the amalgamation of two or more areas, the desirability (or otherwise) of dividing the resulting area or areas into two wards
- In the case of a proposal for the amalgamation of two or more areas, the need to ensure that the opinions of each of the diverse communities of the resulting area or areas are effectively represented

It is the stated view of the Commission that the number of Councillors in a new Council area should be based on the levels of representation and on the effectiveness of the Council as a policy and decision making body. In relation to its Tamworth Regional Council report in 2003, the Commission stated 'generally the larger the number of people on a board or committee, the less effective is the body in making decisions'.

It is the stated view of Government that its Fit for the Future program, amongst other things, is to strengthen Council political leadership. Popularly elected Mayors appear to be the favoured option. However, Government has indicated that two year Mayoral terms are also being seriously considered. The latter, if statutorily available, would appear to be the best initial option for both merger scenarios. It would be reviewed, together with Councillor numbers, during the first Council term.

There are three options for the election of Councillors in local government areas:

- An area can be divided into areas, with an equal number of Councillors elected from each ward
- All Councillors are elected from the area as a whole
- Some Councillors elected from equal wards and some elected from the whole area

The Local Government Act requires that, where an area is divided into wards, there must not be a variation of more than 10% between the electors in each ward. There is a requirement to consult with the Electoral Commission and the Australian Statistician to generally ensure the above compliance with census collection districts.

There is a growth of population in Murray and Wakool Council areas towards the Murray River in the south. Additionally, the largest towns are Deniliquin and Moama. This situation challenges the more rurally dispersed populations of the northern areas of Murray and Wakool LGA's. This is evidenced in a micro-manner in Wakool LGA, where wards are now being questioned. The option most likely to deliver a representative result for the election of Councillors is on an undivided area basis. To do otherwise may have the effect of defaulting democratic representation to the growth areas along the Murray River.

The same conclusion is drawn for either of the merged area scenarios.

The role of a Councillor under the Act is clear in its intentions that elected representatives are on the Council to exercise community leadership for the whole local government area, not just for particular parts or special interests.

Based on the latest estimated information, the merged areas would have populations of:

	Population 2011	Population 2031
Deniliquin Murray Wakool	18,550	17,650
Deniliquin Murray	14,500	14,450

The latest published Local Government Office comparative information (2012/13) notes that the average persons per Councillor in respective Council categories is 1043 for Deniliquin, 800 for Murray, and 675 for Wakool. There is no precedent for the number of Councillors in newly merged areas. Assuming the merger of the three Councils with eleven elected members, the residents per Councillor would be 1686. Assuming the merger of Deniliquin and Murray with nine elected members, the residents per Councillor would be 1611.

Based on 2008 electoral information and 2012 electoral roles, for the two scenarios, electoral quotas are estimated to be 786 and 974 respectively.

Loss of identity and local representation were significant issues raised at the Workshop. In order to maintain and enhance the ability of the residents to participate in shaping the place in which they live, play, and work, Area Committees could be established. This is discussed further below.

For elections, Deniliquin has three polling places, Murray has four, and Wakool has seven. Reported views of independent and unaligned candidates generally indicate that their more limited resources are disadvantaged by having to manage polling places. A merged and undivided local government area could also have the unintended consequence of disadvantaging genuine independent and unaligned candidates who have few resources.

In late 2013, the Local Government Acts Taskforce reported to Government and, among other recommendations, recommended that the Councils have the option of using universal postal voting at elections. This could be of assistance to such candidates. Based on evidence from both Victoria and Western Australia, voter participation could increase and costs could be reduced by 15-20%. In relation to participation, it is reported that in the other states there was a voter take up rate of 90%.

The Taskforce also recommended that, where universal postal voting is used, a candidate information booklet be included in ballot packs as a way of increasing voter knowledge of the candidates.

In its response to the Taskforce recommendations, the Government has indicated its broad support.

Should either of the mergers occur and universal postal voting be adopted on an undivided area basis, there is also potentially an argument for public funding for the distribution of all election material.

Governance and Administrative Structures

A schematic of the redesigned governance and administrative structure is attached as Appendix 3. It is important to note that the structure was designed for modelling purposes only. Ultimately, this decision will be made under the transition arrangements, such as the steering committee and finally the new Council. They are structures that have been implemented elsewhere and can be demonstrated as capable of delivering on local government services and representation, while also accounting for the legislative requirements detailed further on in this report.

A conservative approach has been taken in the design of the potential administrative structure. Economies available by removing duplicated roles and functions at management levels comprise the majority of identified savings. There is confidence that a full review of services, delivery mechanisms, and processes against desired volumetrics and service standards required by the new Council will result in significantly greater savings being achieved.

Deniliquin, Murray and Wakool Merged Council

The new Council will comprise representatives elected in accordance with the Local Government Act 1993. The Council will be the peak decision making body for the region. The Mayor will be elected by the Councillors.

In line with the legislation, the new Council will, among other roles:

- Appoint the General Manager
- Approve strategic plans and policies for the new Council area, such as Community Strategy, Development Plans, Delivery Plans, Asset Management Plans and Workforce Plans
- Ensure the services required by the Region and in the local communities are properly commissioned to meet community needs
- Establish and appoint to such committees as it requires to oversight and conduct the business of Council
- Approve the Delivery and Operational Plans and annual budgets
- Advocate for the area when negotiating and dealing with State and Commonwealth Governments
- Elect and appoint from the Council chairs of the Local Area Committees
- Receive and consider commissions and input on local issues from the Local Area Committees
- Monitor and hold to account the organisation's performance and execution of the Delivery Plans, the Operational Plans and Budgets

Local Level – Area Committees

Deniliquin, Murray and Wakool Councils have existing S355A Committees that undertake a myriad of services, activities, and responsibilities. In some cases, the committees manage town/village facilities, receive grants from Council, and raise their own funds. They are serviced by volunteers and are very well supported by isolated communities who want to determine their own local issues and needs.

Local Boards are a well established vehicle to ensure that local communities, in areas the size of those areas proposed in this report, represent and advocate for their interests. An extract from the Thames-Coromandel District Council Local Government Statement 2014 (New Zealand), outlining its proposal for community boards, is presented in Appendix 7 as a successful working example.

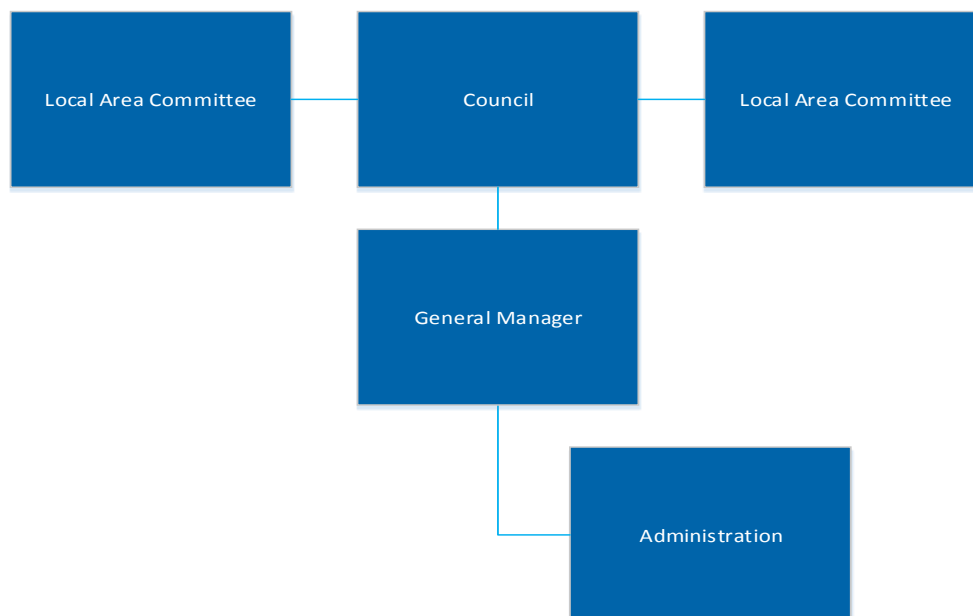
An Area Committee (Board) could be chaired by an Elected Member of the Council. Membership of the Area Committee would be by nomination (including self-nomination). Members might comprise people from Residents Associations, Neighbourhood Watch groups, S355 Committees, or simply people in the community interested in making a contribution to general and specific local issues.

While the Committees would have their own standing orders, they would not make decisions binding on the Council. Their role would be advisory and recommendatory in nature unless otherwise determined or delegated by the elected Council. However, chairmanship of the Committees by an Elected Councillor provides the Committees with a direct voice for the region with decision-making authority in the Council. In this manner, they could be more than a local resident or interest group and will have a formal role in providing input into the plans and priorities of the Council. To ensure retention of these Committees, they would need to be included in the Minister's determination to establish a merged entity.

The key roles of the Area Committees could be:

- Monitoring the performance of the local services contracts and service level agreements
- Providing the Council with advice on local needs and issues for consideration when developing the regional plans, including financial plans and budgets
- Commenting and making recommendations on development applications
- Providing advice and input with respect to the local area for local projects commissioned by the Council, such as playground development
- Dealing with local resident requests with respect to local service delivery or monitoring them through the Council regional office

The number and composition of area committees would be at the new Council's discretion. An illustrative diagram follows:



The Supporting Organisational Structure

A schematic of the organisation structure is attached as Appendix 3.

It has been designed to enable financial modelling of a merged Council scenario and further detailed design will be necessary to enable the structure to be implemented. A “top down” approach has been taken and volumetric data that is currently not available from the individual Councils will need to be collected to inform the final size of the full organisation. Further, assumptions were made about the operating model of the new Council based on greater use of technology devolved working practices, economies of scale, and redesigned service delivery models.

This model does not assume a radical end-to-end re-engineering of the organisation, which could include removal of rework, transforming service delivery, and testing internal services against the market. The model assumes modest improvement in efficiency and reflects the size and configuration of a Council delivering the current range of services. It does not assume any changes to outdoor direct service delivery employee numbers.

To address the legislative provisions to retain staff in rural centres, as discussed in the following section, it is proposed that the activities of Council be grouped to take advantage of:

- A wider workforce pool in the Moama region to maintain staff numbers in Mathoura, potentially Knowledge Base workers
- Town planning functions to be located along the Murray River at Barham and Moama where development is concentrated

- Other professional disciplines such as building, engineering and health to be located in Barham and, after the quota is achieved, the balance to be dispersed across the Council area to optimise access for supervision and inspection
- Governance services to be located in Deniliquin as the identified sub-regional centre for the area'
- Chamber location to be determined by the transition process having regard to accessibility, asset condition and fit for purpose
- Administration and Back Office services such as records to be located in Moulamein to achieve employee quotas
- No loss of existing facilities such as depots, offices, or business centres

The following image outlines this proposal for future determination by the Transition Committee and ultimately the future Council. The outcome of this proposal will result in some indoor positions being relocated from Deniliquin to Mathoura, Moulamein, and Barham.

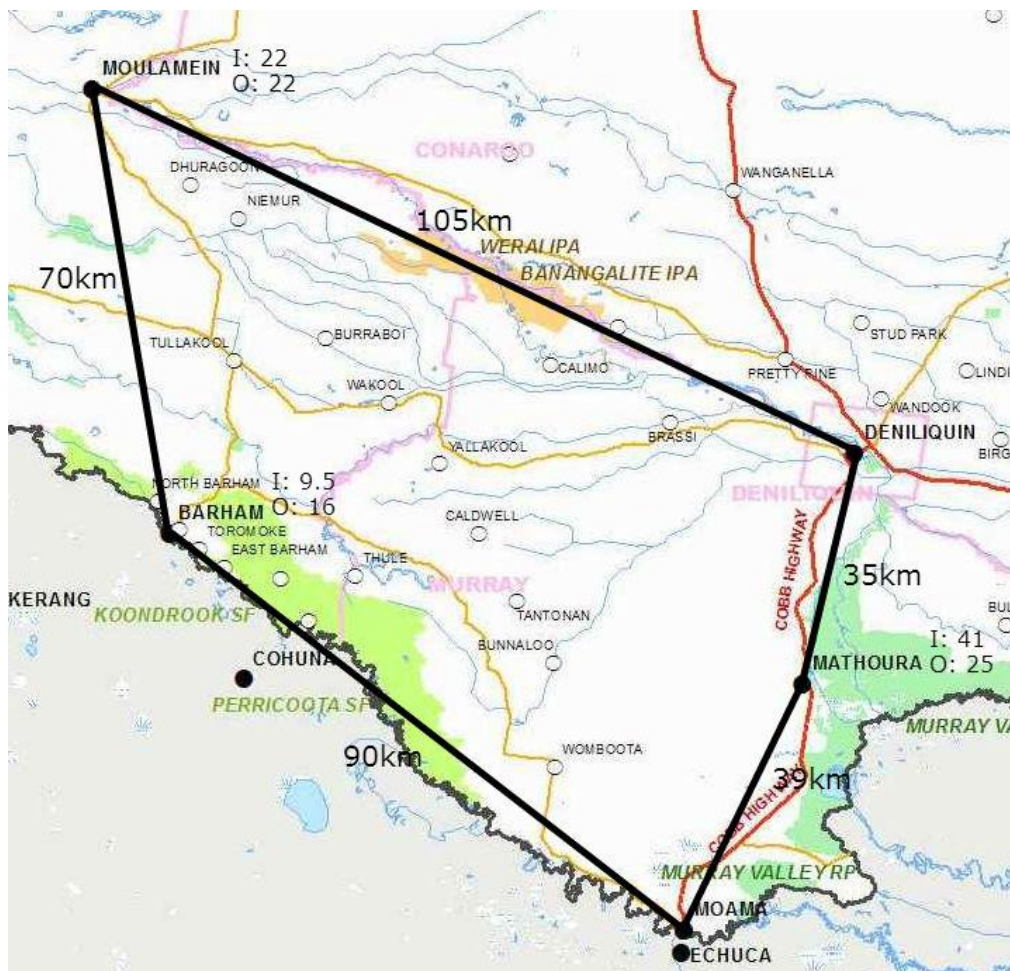


Figure 1: Proposal for future Council activities. Image adapted from Local Land Services (<http://murray.lls.nsw.gov.au/>) map.

Legislative Requirements

Opportunities to reduce staffing levels when consolidating administrations of the Councils have been identified, principally in the office-bound workforce.

The reduction in staffing levels releases a number of employees from their existing roles, presenting a number of considerations that include:

- Reducing overall staffing levels and re-allocating the cost savings into increased asset maintenance/replacement and/or improvement to other service levels
- Securing staffing levels that increase current levels of service and or increase the number of services provided

In addition to the obligations existing Councils have towards their employees under the Award, there is a significant obligation placed upon Councils in rural centres under the NSW Local Government Act 1993.

The Act places certain obligations on the transferee Council (a Council that is constituted as a result of the amalgamation of two or more areas). This obligation is required under Ss218 and 354 of the Act and covers the maintenance of staff numbers in rural centres. Rural centres are defined under S354 of the Act as ‘a centre of population of 5,000 people or fewer’. It requires the transferee to:

‘ensure that the number of regular staff of the Council employed at the rural centre is, as far as is reasonably practicable, maintained at not less than the same level of regular staff as were employed by the previous council at the centre immediately before the amalgamation’.

The definition for “regular staff” includes permanent and part-time staff employed immediately prior to any amalgamation and casual staff engaged on a regular and systematic basis. Senior staff and temporary staff positions would be exempt.

The provisions within the Act, while seeking to ensure the maintenance of staff numbers in rural areas, are not absolute and recognise that this should be achieved ‘as far as is reasonably practicable’. It is therefore possible that, if it is impractical to maintain a particular position in a rural centre, then the transferee may properly decide to not maintain that position. If the overall number of regular staff employed in a rural centre falls below the number applying at the time immediately prior to an amalgamation, the transferee would need to investigate what other regular staff positions could reasonably and practically be transferred to the rural centre workplace.

The staffing establishment of the merged business cases acknowledges the statutory obligation of the new entity at the following locations.

Barham Depot	16
Barham HACC	1.9
Barham Office	9.5
Barham Library	0.7
Moulamein Depot	22
Moulamein Office	21.9
Moulamein HACC	0.5
Moulamein Library	0.3
Moulamein Business Centre	1.2
Tooleybuc Depot	1
Tooleybuc HACC	.50
Murray Downs Depot	1
Mathoura Indoor	41
Mathoura Depot	25

It will be necessary to transfer positions from indoor to outdoor at some of the above locations as the models that have been prepared do not dilute service provision. In the context of the clear message of the maintenance of existing service levels and improvement of infrastructure at the Facilitation Workshop in February, any rationalisation has only occurred in the executive staff and back office areas.

In taking any merger proposal forward, it is open for the Councils to argue the 'reasonably practicable' position in relation to staffing.

ICT Transition Issues and Costs

It is important to examine the maturity of the Information and Communications Technology of Deniliquin, Murray and Wakool Councils. It is essential to ensure adequate reliable technology communication links are created between the central site and the remote sites as various core business processes will still take place at all the sites. It is important to note that a detailed systems assessment across the

three Councils needs to be performed in order to identify the best transition process and provide more detailed cost estimates.

Application software in common includes the Libero library system (Deniliquin and Murray), the Microsoft Windows 7 operating system, Mapinfo Exponare for mapping, and Microsoft Office 2010. The issues to be considered in reducing transition costs are:

- The application software is somewhat different, with all three Councils minimising their software costs by using one major supplier. Strong leadership is required to adopt a common application platform and the best available business processes for the merged Council
- The existing data should be checked to ensure they are in a good state e.g. property data and name/address so that it can easily be extracted, converted, and uploaded to the common application
- It is important to ensure customer contact systems have been tested properly and are available from the beginning, including the website, property and rating, customer request, and phone systems as well as some back office systems such as payroll, procurement, accounts payable, the debtors systems (including property and water rates), and one finance account structure
- For the merged ICT operations to be successful, it is important to have the same technical infrastructure in place, such as a standard operating environment for desktops, with switches having been installed and tested
- A vital consideration is the installation of one VOIP system, relying on a stable communication network, connecting all remote sites to the central site as much as possible
- A realistic training programme needs to be established, with staff time and costs resources allocated
- Room availability within Council is needed to support the project team activities, training activities in particular
- Considering that all three Councils are purchasing their hardware outright, it is expected that the combined budget for ICT hardware replacement and existing server and disk hardware are sufficient to build a new central computer room. In this expectation, no cost is included for the availability of a suitable computer room
- There will be additional communication costs to cater for reliable connections between the current three main computer sites, assuming these will be still major customer centres for the merged Council. The eventual provision of NBN broadband services will assist in the medium to long term.

It is expected the transition for this option will take place over a period of 18 months. It is estimated, based on the external and internal project staff resources that the transition costs will be:

External contracted staff	\$369K
Internal contracted staff	\$346K
Additional licenses, bandwidth, and hardware	\$230K
Contingency	\$94K
Estimated ICT merged costs	\$1,039K

Scale and Capacity

In October 2013, in its final report, *Revitalising Local Government*, the NSW Independent Local Government Review Panel outlined its criteria for determining future Local Government boundaries across the state. The State Government is placing reliance on the scale and capacity criteria as the threshold for any Council looking to determine its fitness for the future. These are included in full in Appendix 2 of this report.

There has been no guidance given as to how the scale and capacity of a Council will be assessed, yet it is considered to be a threshold issue. This position has recently been re-stated by the Chair of IPART. The Government acknowledges that the Independent Panel did not take a 'one size fits all' approach to scale and capacity and did not set a minimum geographic or population size. It is said to have looked at the unique characteristics of each area: geography, economic and transport flows, communities of interest, and local identity. The hard work, commitment, goodwill, and ownership of existing stand-alone Councils does not appear inherent within the guidance considerations.

Scale and capacity thresholds do need to be specifically addressed as part of the merger proposals that are the subject of this Report as they do not comply with the Panel's recommendations. Accordingly, the impact of the mergers against the general principles provided by the State Government is assessed below in a local context. It is considered that this assessment is relevant to both scenarios.

Criteria	Comments
Sustainability and Strategic Capacity	The new Council will improve the population decline predicted by State and National Governments' forward projections. While the population is not large, it will provide flexibility in the allocation of improved resources and is of a size to be able to attract skilled staff.
Efficiency and Effectiveness	While the largest population centres are on the south-eastern edges of the boundary of the Council, its facilities in existing locations will be maintained. The size of the proposed Council will enhance the ability of the organisation to achieve economies of scale and rationalisation of duplicated functions and resources.

Integrated Planning	Broader spatial and infrastructure planning will be possible, allowing the Council to build upon and take advantage of its location on the Victorian border and resultant Murray River-driven growth. The Council will be a regional voice and partner in the integration of its infrastructure and development plans on a State and National basis as well as, importantly, with its cross-border neighbours.
Local Identity and Sense of Place	The Council will combine similar community visions. The challenge to establish and maintain a sense of identity and place in the diverse and possibly divergent communities that will form the entity is acknowledged. The area distinguishes itself from its southern neighbours by providing events and festivals that attract significant support and build on the proximity of several interstate regional cities/towns.
Population Growth	The Council will build on the population growth along the Murray River, allowing the expansion of its financial base.
Accessibility	The NSW Government has chosen Deniliquin as the location for a number of its departmental offices to serve the region. An administrative and service presence is maintained at all existing centres of activity and all are within a 90 minute drive for all residents. Council will have the resources, capability and ability to do its business and facilitate better use of available digital technology.
Strong Centre	In a rural context, Deniliquin and Moama provide substantial population centres, servicing the general needs of the residents of the Council area.
Key Infrastructure	The Council will comprise a large and diverse land mass and, in that context, residents will have access to schooling, health, recreation, cultural, and sporting facilities. A united regional voice will provide unity and consistency in lobbying for improvements to social and physical infrastructure and less reliance on the major cities and towns south of the Murray. Transport corridors, both private and public, will be a priority.
Combining Existing Municipalities	No boundary adjustments are envisaged in this report.

Financial Sustainability over Ten Years

The key assumptions made in the baseline long term financial plan are:

- Due to stagnant or decreasing projected populations, the rates income for Deniliquin and Wakool Councils was kept at the current level. The exception

was a 4.6% (i.e. 7 less 2.4% CPI) rate increase for Wakool Council, which has applied for a Special Rate Variation of 7% in 2015/16. Rates income and user charges have been increased by 1.0% per year for Murray Council as Planning NSW has predicted that the population of this Council area will grow at approximately this rate over the next 10 years

- Consistent with its long term financial plan, the rates and charges for the Murray Council water fund have been increased at 2.5% for 3 years
- Grants as anticipated by respective Councils
- Employee benefits to rise at 0.5% above CPI
- Materials and contractors and other expenses to increase at that same rate as inflation
- Borrowings based upon borrowings in the long term financial plans of each Council
- Capital expenditure based upon data in the long term financial plans of each Council
- Asset maintenance ratio based upon the combined rates for the Councils in 2013/14, plus an additional expenditure of \$360k per year on asset maintenance in order to enable the merged Council to meet benchmark expenditure on asset maintenance
- 2.5% efficiency in materials and contracts and other expenses achieved over two years

In addition, the following adjustments were made to the financial model to represent the merger of the three Councils:

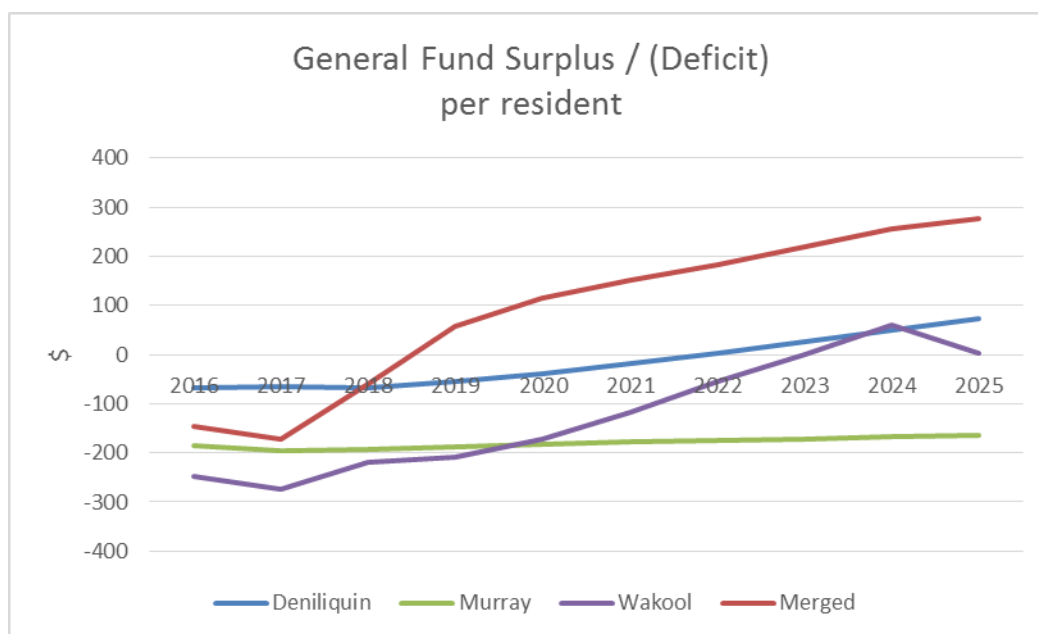
Ongoing Savings	
Corporate and governance costs	\$443k
Information technology (excluding staff savings)	\$86k
Employee costs	\$1,776k
Once Off Income	
State Government grant	\$11,000k
Once Off Costs	
Transition board	\$660k
Council rebranding	\$400k
Policy alignment	\$200k
Information technology	\$919k
Employee costs	\$1,101k
Ongoing Costs	
Local Area Committees	\$100k
ICT	\$120k

No additional State Government grants have been included in the analysis. Each of the costs above has their own unique timing and this has been reflected in the financial model.

The financial outcome is summarised in the table below:

Deniliquin, Murray, and Wakool merger	
Underlying result	Deficit of \$2.7m changes to a \$5.0m surplus
Total cash	Significant cash surpluses achieved
Financial sustainability risk³	Medium
Fit for the Future criteria achieved	No
Predicted asset renewal backlog	If available cash was applied to asset renewal, the backlog could be extinguished by 2024

The table below shows the expected deficit (before capital income) per resident after the merger compared to a similar ratio before the merger.



³ As calculated using the methodology of the Victorian Auditor-General's Office.

The State Government does not require a merged Council to meet the Fit for the Future financial criteria. For reference, the table below shows how the merged Council would fare based on the assumptions outlined.

	2016/17	2017/18	2018/19	2019/20
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	X	X	X	✓
Own Source Revenue Ratio (Greater than 60% average over 3 years)	X	X	X	X
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	X	X	X	X
Infrastructure Backlog Ratio (Less than 2%)	X	X	X	X
Asset Maintenance Ratio (Greater than 100% average over 3 years)	✓	✓	✓	✓
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	✓	✓	✓	✓
Real Operating Expenditure per capita (A decrease in real operating expenditure per capita over time)	X	✓	✓	✓

If the merged Council chose to apply its available cash to asset renewal expenditure, it would be able to meet the Building and Infrastructure Asset Renewal benchmark. However, it would not be able to meet the Infrastructure Backlog Ratio benchmark until 2024.

The financial assumptions made in this model are deliberately conservative. There would be opportunity for a merged body to achieve a higher level of savings should it take a more transformative approach when creating the new organisation.

Conclusion

The merged Council would be able to operate with a reasonable degree of financial soundness, especially considering the conservative nature of the financial modelling assumptions. The merged Council would be able to generate sufficient cash to be in a position to consider making adjustments to its current policy settings to improve services. If it desired, the merged Council could significantly improve the condition of its assets while maintaining, at the very least, the current level of services.

From the communities' perspective, once the savings from the merger are realised, a merged Council is likely to be able to provide the same level of services, with the real prospect of the Council achieving operating surpluses into the future.

The merged Council would be able to advocate for and provide the civic leadership for a wider geographic area. Greater coherence when planning for growth, infrastructure, and development will be possible.

A merger is not without risks, and the key risks are summarised below.

Other Merger Considerations

A merger of three organisations is a complex undertaking. The following lists summarise the benefits, costs, and potential risks associated with a merger. However, for the purposes of completing Fit for the Future templates, a full risk assessment will need to be undertaken.

Potential Benefits of a Merger

- Best practices from each Council could be used in the new organisation, overseen by a Transition Committee of equal representation
- \$11m one off grant from State Government
- Despite the large cost of the amalgamation, a net financial benefit is expected to be achieved
- Outdoor staffing structure and numbers are maintained under the merged option in order to acknowledge the desire of both Councils to maintain existing levels of service. In preparing this report, it was not possible to clearly identify standards of service in this regard
- Merging allows for better planning and regional coordination with the State Government

- Improved long term financial sustainability
- Access to loan funds at favourable interest rates

Costs Associated with Merger

- Loss of degree of representation in smaller Council area, which may be able to be mediated in part by the establishment of local area bodies or committees
- Significant disruption to administrative focus for a number of years
- Potential loss of local jobs

Risks Associated with Merger

- Weak support for amalgamation amongst legacy Councils
- Unable to achieve identified savings
- Unable to successfully merge different organisational cultures
- Unable to come to agreed understanding of strategic priorities
- Multiple office locations
- Impacts of Sections s218 and 354 of the Local Government Act

Other Matters

While not a part of the consultants' brief, it is our view that it would be remiss not to comment upon an obvious anomaly. This is an anomaly that was raised with us on a number of occasions by staff, elected members and management of the three Councils. We were briefed to consider the business case for the merger of the three Councils and the merger of Murray and Deniliquin Councils. The potential mergers did not include Conargo Council, which is not just geographically adjacent to these Councils, but has its Council Offices in fact located within the town of Deniliquin. Further, its residents would naturally gravitate to the services provided by Deniliquin Council: the library, swimming pool, and other facilities. Just as the State borders are transcended by service practicalities, so too are local government boundaries in the eyes of residents.

Should either of the merger options proceed, Conargo would become isolated, but its citizens would continue to use, but not contribute to, the facilities provided by their merged neighbour. It is our view that Conargo could be included in either proposal without any increase in elected councillors or indoor staff. Outdoor staff would not be affected. This would result in surplus facilities of a Chambers and a Depot in Deniliquin. Realisation of this addition would have a positive impact on either proposal releasing further funds for asset rehabilitation or other priorities.

7. Merger of Deniliquin and Murray Councils

The Merged Council

There are several considerations involved in merging two Councils. These include being true to the principle of “place shaping,” while also gaining the advantages of a wider voice and financial benefits, as well as meeting the requirements of Sections 218 and 354 of the Local Government Act. This will require a new entity, not a bolting together of the two organisations. Therefore, it is important to redesign both the governance and organisational structures. A simple combination would likely result in the current challenges and disadvantages being imported into a single merged entity.

Governance, Governance and Administrative Structures, The Supporting Organisational Structure, and Legislative Requirements

The arguments for the three Council merger are similar to the arguments for this option. They result in slightly modified elected representation and the Section 218 considerations are simpler. For ease of reading, this information has not been duplicated in this report and can be read on page 17 and thereafter.

A schematic of the organisation structure is attached as Appendix **x**.

It has been designed to enable financial modelling of a merged Council scenario and further detailed design will be necessary to enable the structure to be implemented. A “top down” approach has been taken and volumetric data that is currently not available from the individual Councils will need to be collected to inform the final size of the full organisation. Further, assumptions were made about the operating model of the new Council based on greater use of technology devolved working practices, economies of scale, and redesigned service delivery models.

This model does not assume a radical end-to-end re-engineering of the organisation, which could include removal of rework, transforming service delivery, and testing internal services against the market. The model assumes modest improvement in efficiency and reflects the size and configuration of a Council delivering the current range of services. It does not assume any changes to outdoor direct service delivery employee numbers.

Further, the obligations to meet the requirements of Ss218 and 354 of the Local government Act only apply to Mathoura are simpler and along with Chambers are an issue for the transition process

ICT Transition Issues and Costs

It is important to examine the maturity of the Information and Communications Technology of Deniliquin and Murray Councils. It is essential to ensure adequate reliable technology communication links are created between the central site and the remote sites as various core business processes will still take place at all the sites. It is important to note that a detailed systems assessment across the Councils needs to be performed in order to identify the best transition process and provide more detailed cost estimates.

Application software in common includes the Libero library system, the Microsoft Windows 7 operating system, Mapinfo Exponare for mapping, and Microsoft Office 2010. The issues to be considered in reducing transition costs are:

- The application software is somewhat different, with the Councils minimising their software costs by using one major supplier. Strong leadership is required to adopt a common application platform and the best available business processes for the merged Council
- It is important to ensure customer contact systems have been tested properly and are available from the beginning, including the website, property and rating, customer request, and phone systems as well as some back office systems such as payroll, procurement, accounts payable, the debtors systems (including property and water rates), and one finance account structure
- For the merged ICT operations to be successful, it is important to have the same technical infrastructure in place, such as a standard operating environment for desktops, with switches having been installed and tested
- A vital consideration is the installation of one VOIP system, relying on a stable communication network, connecting all remote sites to the central site as much as possible
- A realistic training programme needs to be established, with staff time and costs resources allocated
- Room availability within Council is needed to support the project team activities, training activities in particular
- Considering that both Councils are purchasing their hardware outright, it is expected that the combined budget for ICT hardware replacement and existing server and disk hardware are sufficient to build a new central computer room. In this expectation, no cost is included for the availability of a suitable computer room
- There will be additional communication costs to cater for reliable connections between the current main computer sites, assuming these will be still major customer centres for the merged Council

It is expected the transition for this option will be completed over a period of 15 months. It is estimated, based on the external and internal project staff resources that the transition costs will be:

External contracted staff	\$289,500
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Internal contracted staff	\$273,000
Additional licenses, bandwidth, and hardware	\$105,000
Contingency	\$66,720
Estimated ICT merged costs	\$733,920

Financial Sustainability over Ten Years

The key assumptions made in the baseline long term financial plan are:

- Due to stagnant or decreasing projected populations, the rates income for Deniliquin Council was kept at the current level. Rates income and user charges have been increased by 1.0% per year for Murray Council as Planning NSW has predicted that the population of this Council area will grow at approximately this rate over the next 10 years
- Consistent with its long term financial plan, the rates and charges for the Murray Council water fund have been increased at 2.5% for 3 years
- Grants as anticipated by respective Councils
- Employee benefits to rise at 0.5% above CPI
- Materials and contractors and other expenses to increase at that same rate as inflation
- Borrowings based upon borrowings in the long term financial plans of each Council
- Capital expenditure based upon data in the long term financial plans of each Council
- Asset maintenance ratio based upon the combined rates for the Councils in 2013/14, plus an additional expenditure of \$360k per year on asset maintenance in order to enable the merged Council to meet benchmark expenditure on asset maintenance
- 2% efficiency in materials and contracts and other expenses achieved over two years

In addition the following adjustments were made to the financial model to represent the merger of the two Councils:

Ongoing Savings	
Corporate and governance costs	\$334k
Information technology (excluding staff savings)	\$68k
Employee costs	\$1,141k
Once Off Income	
State Government grant	\$5,000k
Once Off Costs	
Transition board	\$660k

Council rebranding	\$300k
Policy alignment	\$200k
Information technology	\$694k
Employee costs	\$604k
Ongoing Costs	
Local Area Committees	\$50k
ICT	\$40k

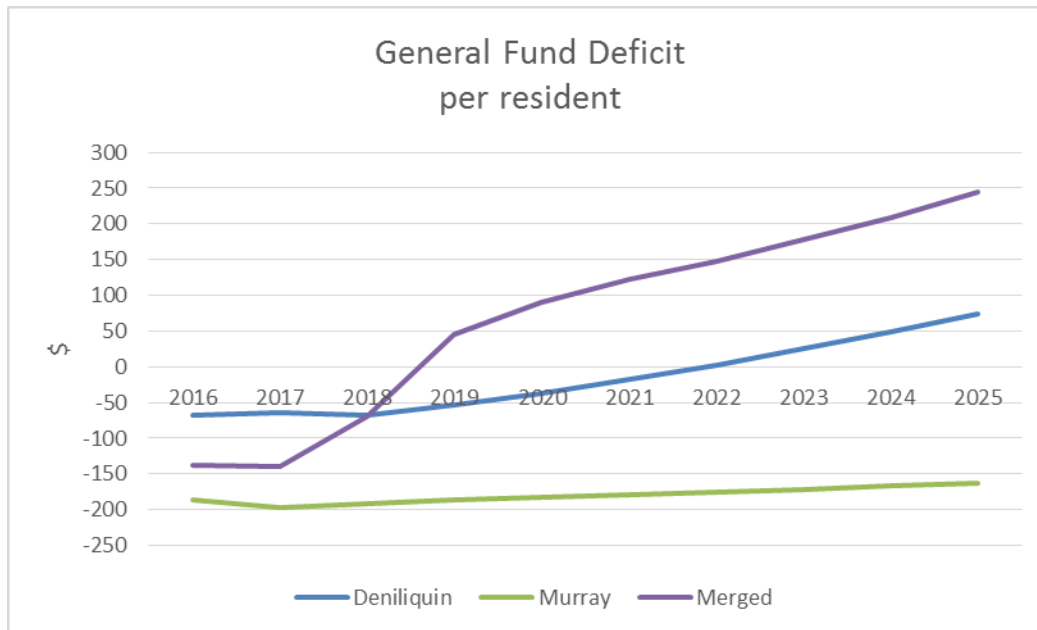
No additional State Government grants have been included in the analysis. Each of the costs above has its own unique timing and this has been reflected in the financial model.

The financial outcome is summarised in the table below:

Deniliquin and Murray merger	
Underlying result	Deficit of \$2.0m changes to a \$3.6m surplus
Total cash	Large cash surpluses achieved
Financial sustainability risk⁴	Low
Fit for the Future criteria achieved	If available cash were applied to asset backlog, all criteria could be achieved by 2020
Predicted asset renewal backlog	There is sufficient cash to apply to reduce asset renewal backlog to zero by 2020

The table below shows the expected deficit (before capital income) per resident after the merger compared to a similar ratio before the merger.

⁴ As calculated using the methodology of the Victorian Auditor-General's Office.



The State Government does not require a merged Council to meet the Fit for the Future financial criteria. For reference, the table below shows how the merged Council would fare based on the assumptions outlined.

	2016/17	2017/18	2018/19	2019/20
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	✗	✗	✗	✓
Own Source Revenue Ratio (Greater than 60% average over 3 years)	✗	✗	✓	✓
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	✓	✓	✓	✓
Infrastructure Backlog Ratio (Less than 2%)	✓	✗	✗	✗
Asset Maintenance Ratio (Greater than 100% average over 3 years)	✓	✓	✓	✓

Debt Service Ratio

(Greater than 0% and less than or equal to 20% average over 3 years)

✓	✓	✓	✓
✗	✓	✓	✓

Real Operating Expenditure per capita

(A decrease in real operating expenditure per capita over time)

As mentioned in the table above, if all available cash were applied to reducing the asset renewal backlog, the backlog could be reduced to zero in approximately 2020. With loan funds, this could be accelerated. These decisions would be up to the new Council.

The financial assumptions made in this model are deliberately conservative. There would be opportunity for a merged body to achieve a higher level of savings should it take a more transformative approach when creating the new organisation.

Conclusion

The merged Council would be able to operate with a high degree of financial soundness, especially considering the conservative nature of the financial modelling assumptions. The merged Council would be able to generate sufficient cash to be in a position to be able to consider making adjustments to its current policy settings to improve services. If it desired, the merged Council could significantly improve the condition of its assets while maintaining, at the very least, the current level of services.

From the communities' perspective, the merger of the two Councils would provide significant financial benefits once the savings from the merger are realised. The merged Council is likely to be able to provide an increased quality of service (i.e. better maintained assets) or expanded services in the future.

The merged Council would be able to advocate for and provide the civic leadership for a wider geographic area. Greater coherence when planning for growth, infrastructure, and development would be possible.

Appendices

Appendix 1: Consultancy Briefing – Terms of Reference

Appendix 2: Fit for the Future Scale and Capacity

Appendix 3: Potential Organisational Structure

Appendix 4: Victorian Auditor General Financial Sustainability Risk Assessment

Appendix 5: Financial Reports for Merger

Appendix 6: Status Quo Business Systems

Appendix 7: Extract from the Thames-Coromandel District Council Local Government Statement 2014

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