



Holroyd City Council

Merger vs Stand-Alone Business Case

June 2015

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1. INTRODUCTION

1.1 Fit for the Future

In 2011 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. Subsequently the NSW Government commenced the Fit for the Future program which aims to bring 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 order to achieve long term sustainability and for councils to submit proposals to the Government indicating how they will achieve these objectives.

Holroyd Council has commissioned Morrison Low to report on the merger business case using a broad range of factors (financial, social, environmental) in order for the Council to understand the implications of the proposed merger of Holroyd, Parramatta, Auburn, the western one third of Ryde and the southern part of the Hills as proposed by the Independent Local Government Review Panel.

IPART has just recently been appointed by the Minister for Local Government as the Expert Advisory Panel to review all local council Fit for the Future proposals. South Australian local government expert John Comrie was appointed to support IPART in the process. IPART has now published a draft methodology for the assessment of proposals¹. Their approach and further explanation of the intended process and assessment methodology has been taken into consideration in this report.

1.2 Shared modelling

The modelling is largely prepared on the basis of the information publically available and augmented by information provided by Holroyd and Ryde Council. The financial information includes the recently confirmed SRV for Ryde and applies that to the relevant part of Ryde within the proposed merger.

In the case of the other councils which are part of the proposed merger but not part of the project, we have relied on publically available 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 Methodology for Assessment of Council Fit for the Future Proposals, Consultation Paper, April 2015

1.2.1 Providing information to enable councils to individually make their decisions

The modelling is intended to allow Holroyd to understand the benefits and dis-benefits of the proposed merger. 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 Holroyd of the best option for them (although it may naturally fall out of the modelling). The project provides the information that will enable the 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 Tight timeframes

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

Notwithstanding that we fully understand the need for the tight timeframes within which this modelling was required to be completed, the modelling is based on the standardisation of the data across the five councils and has been conducted on a best efforts basis under those particular timing constraints.

The data provided within the model has been sourced jointly by Morrison Low and Council. Council's data was based on research and evidence provided by Professor Brian Dollery. All data has been drawn primarily from publicly available information. Whilst it is acknowledged that the timeframe limited our capacity to refine both the available data and the model itself to a fine level of detail, the results of the analysis fairly represent the outcome of the comparison between the merger option against the stand-alone options and the subsequent merits of each option.

We have had great support from the staff of Holroyd, providing quick responses to our requests for information and active and knowledgeable participation in the workshops. We thank the executives and staff for their input and cooperation.

2. SCOPE

2.1 Scenarios

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

1. Status Quo (Stand-Alone)

The baseline for Holroyd as a stand-alone council is based on Council's published financial statements and long term financial plan augmented with updated information as appropriate.

2. Merged Council

This scenario models a merger as proposed by the Independent Review Panel 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, representation and the alignment between the council organisations.

The financial costs and benefits of the merger are assessed. The areas, activities and time period over which those can be expected to arise was examined and is reported.

2.2 Reporting

This report is intended to provide a collective body of information that Holroyd will then use to determine what is in the best interests of the people who make up the Holroyd community. As such it does not seek to recommend any one option over another.

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

3. EXECUTIVE SUMMARY

This executive summary provides the key outcomes from our analysis. However the full report and supporting addendum² needs to be read to provide the context to the analysis and assumptions that underpin the modelling.

3.1 Holroyd Stand Alone

The Government has made it clear that the starting point for every council is scale and capacity. This has been further reinforced with the release of the Fit for the Future Assessment Methodology by IPART.

The Independent Panel position was that scale and capacity for Holroyd arises through a merger of Holroyd, Parramatta, Auburn, part of the Hills Shire and the western one third of Ryde (the remaining portion of Ryde would be merged with Hunters Hill, Lane Cove, Mosman, Willoughby and North Sydney Councils).

While Holroyd, in our view, exhibits many of the characteristics that a council with scale and capacity has, this report concentrates on the analysis of the advantages and disadvantages of the merger proposed by the Independent Panel in comparison to Holroyd remaining a stand-alone Council and addresses Holroyd's ability to meet the strategic capacity and seven Fit for the Future benchmark criteria.

3.1.1 Fit for the Future benchmarks

Holroyd City Council was successful with an application for a Special Rate Variation in 2014 which has now been implemented for a year. The additional revenue from the SRV improves Council's projected financial performance with the funds largely directed into renewal of existing assets.

The table below provides a summary of the Council's performance against the benchmarks confirming that Council, as a stand-alone entity, meets all seven of the Fit for the Future benchmarks by 2020.

Table 1 Holroyd City Council performance against Fit for the Future benchmarks (2020)

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	Meets the benchmark
Real Operating Expenditure	Meets the benchmark

² Merger v Stand Alone Business Case Addendum – Scenarios Modelling, June 2015, prepared by Morrison Low for Holroyd City Council

3.2 Merged council

3.2.1 Scale and Capacity

Whilst the merger proposed by the Independent Panel has been deemed by the government (and IPART) to meet the Scale and Capacity criteria set, this is in the main an assumption as there has been no comprehensive research to support that the proposed merged entity achieves the ten Strategic Capacity objectives set out in IPART's Assessment Methodology.

Holroyd, Parramatta, Auburn, part of the Hills Shire and the western one third of Ryde will satisfy what appears to be the scale and capacity requirement, if such a requirement does exist, of a population of 250,000 (based on the average size of council's not proposed for merger) by 2031.

How the merged council would actually meet the key criteria for strategic capacity is difficult to predict with any degree of accuracy as the organisation does not exist and has not had the opportunity to demonstrate any of the elements of strategic capacity.

3.2.2 Fit for the Future benchmarks

The merger options are the sum of the 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. The modelling of the merger combines the projected expenditure of each council on assets (new capital, renewals and maintenance) as the basis for the merged councils projected expenditure on assets.

Three scenarios were modelled to represent potentially different outcomes from the proposed merger. Due to time constraints, the results of the scenario modelling is set out in the Addendum Report referred to earlier, with the results included in this Executive Summary.

- Scenario 1 (*'Efficiencies realised'*) was the base case and is set out in this report. It assumes the costs and savings of the merger based on research on recent, relevant mergers of councils. Detailed assumptions are set out in Appendix C
- Scenario 2 (*'Efficiencies not realised'*) uses the assumptions from the base case but modifies these to assume a scenario where some of the identified savings are not realised. Detailed assumptions are set out in the Merger v Stand Alone Business Case Addendum - Scenarios Modelling³. Key changes to the base case assumptions include:
 - no reduction in staff in management layers, the works units and back of office
 - no rationalisation of plant, fleet and buildings
- Scenario 3 (*'Holroyd assumptions'*) is based on assumptions provided by Holroyd City Council. Morrison Low has not verified the assumptions provided by Holroyd City Council and nor should this addendum be considered as Morrison Low endorsing or agreeing with the assumptions. Morrison Low has modelled the scenario solely for the purposes of demonstrating how these assumptions differ from the base case. The supporting research and evidence was provided by Professor Brian Dollery. Detailed assumptions are set out in the Merger v Stand Alone Business Case Addendum - Scenarios Modelling⁴

³ Refer to note 2

⁴ Refer to note 2

While the significant transitional costs identified throughout this report mean the operating performance of the merged council under all scenarios is negative from day one the different scenarios provide a range of outcomes over the longer term. Under the '*efficiencies realised*' scenario the merger performs better against the Fit for the Future benchmarks over the longer term than under either of the '*efficiencies not realised*' or the '*Holroyd assumptions*' scenarios. However, under all three scenarios the merged council would meet only three of the indicators at 2020 as shown in the table below.

Table 2 Merged council options performance against Fit for the Future benchmarks (2020)

Indicator	Merged Council ' <i>efficiencies realised</i> '	Merged Council ' <i>efficiencies not realised</i> '	Merged Council ' <i>Holroyd assumptions</i> '
Operating Performance	Does not meet the benchmark	Does not meet the benchmark	Does not meet the benchmark
Own Source Revenue	Meets the benchmark	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark	Meets the benchmark
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark	Does not meet the benchmark
Asset Renewal	Does not meet the benchmark	Does not meet the benchmark	Does not meet the benchmark
Infrastructure Backlog	Does not meet the benchmark	Does not meet the benchmark	Does not meet the benchmark
Real Operating Expenditure	Meets the benchmark	Meets the benchmark	Meets the benchmark

We note the following:

- Under the *efficiencies realised* scenario the Operating Performance ratio declines to a low of -7.1% in 2018 and meets the benchmark requirement of being greater than break-even from 2021. Under both other scenarios the Operating Performance ratio never reaches the benchmark of breakeven reaching a 'high' point of -8% and -10% respectively.
- The Asset Maintenance steadily declines from 94% in 2016 to a low of 88% in 2023, below the required benchmark of 100% averaged over three years
- The Asset Renewals Ratio remains above the benchmark until 2017 and then steadily declines from 88.4% in 2018 to a low of 82.4% in 2023, well below the required benchmark of 100% averaged over three years
- The Infrastructure Backlog Ratio steadily increases from 3.3% in 2017 to a high of 5.0% in 2023, remaining above the required 2% benchmark

3.2.3 Debt

Holroyd and the Hills currently have no debt. In contrast the debt levels range in the other councils from \$49.29 per capita (Ryde) to over \$500 per capita (Parramatta). Under a merged council scenario, Holroyd residents would move from a position of currently having no debt to debt per resident of \$257.

Often, taking on the debt of other communities can be a significant issue to manage in a transition to a merged council.

3.2.4 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 five councils which impact on the rates charged to an individual property. Instead the approach used has been to highlight the large differences across rating systems, structures and the current level of rates (business and residential) in each council area.

A merged council would need to align the rates over time across the communities that would now be contained with a single council area.

3.2.5 Environment and community aspirations

All five councils underpin their planning controls with a policy of “sustainable development”. However, given the developed nature of the bulk of the areas under review, significant natural assets represent minor components of the land use mix. While the areas under review contain significant numbers of heritage items and areas, protection of this heritage estate does not feature strongly in the aims of the LEPs.

Major economic activity centres in the areas under review are recognised by all councils with appropriate business zones and existing industrial areas are also recognised by all councils with appropriate General (IN1) Light (IN2) or Waterfront (IN4) Industrial Zones in the areas under review. However, Parramatta Council recognises and reinforces the importance of the Parramatta CBD and its immediate environs by using a specific LEP to guide the development of Sydney’s second CBD reflecting quite a different approach to the other councils.

3.2.6 Representation

With a population of almost 450,000, even if the merged council had the maximum allowable number of councillors of 15, the level of representation would fall significantly compared to the current levels in each council area, particularly so for the smaller councils like Holroyd and Auburn, but all communities would be affected.

Table 3 Comparison of representation

Council	Representation ⁵ (population / Councillor)
Holroyd	9,100
Parramatta	12,331
Auburn	8,614
The Hills	15,993
Ryde	9,493
Merged	29,973

⁵ OLG Comparative data

This is considered to be a significant change and unless the merged council can address the apparent loss of representation it could have a major negative affect on the community.

3.2.7 Community profile and communities of interest

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

- a high proportion of couples with children make up the household types for all council areas
- all council areas have strong Year 12 attainment levels, sitting above the average across New South Wales
- a large number of residents have ancestry other than Australian, with Chinese and English dominating
- there are strong cross over for most council areas and Parramatta in terms of labour supply and journey to work data
- all regions will experience population growth in the period 2011 – 2031.

However a number of differences can also be observed:

- Ryde has a larger proportion of people over 50 as compared to other regions
- Ryde has a larger proportion of people employed in financial and professional services than other councils' areas.
- There is a wide range of advantage across the councils as represented by the SEIFA index with Auburn featuring at 137 of 153 council areas, whereas the Hills Shire is at number six
- There is a variation in the number of people with degree qualifications, with Auburn and Holroyd falling below the Greater Sydney average as compared to other areas
- There are differences in the equalised income levels across the regions, most notably between Auburn and the Hills Shire – Auburn showing its largest group of residents in the lower quartile, with the Hills Shire in the highest
- Unemployment rates also show some variation, as low as 4.2 percent in The Hills, but up to 8.6 percent in Auburn
- The Hills Shire has no high density housing in the region

3.2.8 Risks arising from merger

There are a number of significant potential financial and non-financial risks arising from this particular 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 maybe 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 five (including two part councils) council organisations may not go well resulting in low morale, increased staff turnover rate etc, particularly when two of the constituent councils are being split. This would reduce business performance and prolonging the time it takes for the predicted efficiencies to be achieved

- With large size differences between the councils in the merger there is a danger it is seen not as a merger but as a takeover by the larger organisations
- Service levels rise across the merged council, standardising on the highest level of those services that are being integrated
- New services are introduced that are not currently delivered in one or more of the former council areas
- 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
- Splitting Ryde and the Hills Shire Councils may cause community dissatisfaction and confusion

3.2.9 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 infrastructure funding gap identified above and the overall financial performance of the merged council when making a decision.

Under the all three scenarios the transition costs are, in the context of the five councils, 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), harmonisation of wages, redundancy costs and the implementation of a single IT system. Longer term costs also arise as staff numbers increase, which has been shown to be typical of merged councils and considered to arise as a result of increased services and service levels.

The differences arise in the scenarios as to the extent to which benefits will arise from the merger. Under the *efficiencies realised scenario* savings initially arise in the short term through the reduction in the number of senior staff and Councillors. Natural attrition is used to reduce staff numbers in the short term with a focus on removing the duplication of roles across the five councils and creating greater efficiency in operation with reductions modelled in Tier 2 and 3 of the structure, the works units and back of office.

Savings are also projected to arise in relation to procurement and operational expenditure due to the size and increased capacity of the larger council. In the medium and longer term benefits arise through reducing staff numbers by removing the duplication of roles in areas such as finance, HR, IT and management. Savings also arise in creating greater efficiency in operations and some rationalisation of plant, fleet and buildings (one off).

Overall the modelling projects a financial benefit to the councils and their communities arising from the merger of an estimated \$41.8 million (NPV of projected costs and savings raising from the merger projected until 2023 with a discount rate of 7%). The projected benefits should be seen in context of the timeframe over which they arise and the overall financial performance of the merged council and in particular the need for the organisation to increase asset expenditure to meet the Fit for the Future benchmarks.

Under the two other scenarios set out in the Addendum Report the proposed merger creates a financial cost to the community as the transitional costs are never recovered through benefits.

Under the *efficiencies not realised* scenario limited savings arise through the reduction in the number of senior staff, reduced cost of councillors and reduction in procurement and operational expenditure due to the size and increased capacity of the larger council. Under the *Holroyd assumptions* scenario costs increase through the introduction of a new layer in governance (community boards), increased costs of IT consolidation and longer term materials and contract costs increase rather than decrease. Financial savings arise from minor reduction in staff numbers of 5% - 6%,

The modelling projects an overall cost to the community under the *efficiencies not realised* scenario of \$122.9 million, and under the *Holroyd assumptions* scenario an overall cost to the community of \$125.7 million (NPV of projected costs and savings arising from the merger projected until 2023 with a discount rate of 7%).

4. HOLROYD STAND ALONE

TCorp has rated Holroyd with a Moderate rating for financial sustainability with a Positive outlook⁶. The Office of Local Government considers its infrastructure management to be Strong.

Scale

Scale has not been defined by either the Independent Review Panel or the Office of Local Government. The government has referred each council to the recommendation proposed by the Independent Review Panel as that is considered, albeit not comprehensively supported by related research, to be the appropriate scale and capacity for the council.

In Sydney, based on the councils which have not been proposed for a merger, it could be said that a population threshold of approximately 250,000 is considered scale. However, neither the Independent Panel, Office of Local Government nor IPART have set out any population threshold and therefore none should be applied.

On the basis that the Independent Panel recommendation proposed that the five councils merge, for the purpose of this review it is assumed that a merged council would achieve the scale and capacity requirements. However, this section reviews the extent to which Holroyd alone can also satisfy the requirements of scale and capacity

The panel report articulated the Key Elements of Strategic Capacity as follows.⁷

Figure 1 Strategic capacity

Box 8: Key Elements of Strategic Capacity	
	<ul style="list-style-type: none"> • 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 report considers the things Holroyd does, their actions, plans and strategies both in the past (demonstrated) or in the future (planned) such as high levels of population growth, delivery of services that meet community needs, demonstration of improved service efficiency and focus on outcomes based on the IPR framework, working in a regional environment promoting, leading and providing a strong voice for the community. While there is a need to take and establish an holistic approach in determining the elements of scale and capacity of councils it is useful to firstly identify the types of things that councils can do which demonstrate strategic capacity.

⁶ 2015 Assessment of Holroyd's Financial Sustainability

⁷ Box 8, Page 32 of Revitalising Local Government

The table below sets out a series of actions, strategies and ways in which we believe individual councils and/or groups of councils can exhibit strategic capacity.

Table 4 What is capacity?

Criteria	Ways in which councils demonstrate or exhibit these qualities
More robust revenue base and increased discretionary spending	Special Rate Variations, investment and property income, high levels of population growth
Scope to undertake new functions and major projects	Expenditure on capital works, track record of delivering significant (community or regional) projects, community satisfaction
Ability to employ wider range of skilled staff	Wide range of services delivered, reduction in real operating cost per capita
Knowledge, creativity and innovation	Delivery of projects, actions and initiatives, organisational culture, use of alternative business models
Advanced skills in strategic planning and policy development	Planning for regional outcomes, outcome focussed IP&R which is measured , LEP/ DEP/ S94 Plans that meet State objectives
Effective regional collaboration	Contribution and involvement in regional procurement, service delivery to other councils, provision of regional services
Credibility for more effective advocacy	Demonstrated results, regional routes, asbestos program
Capable partner for state and federal agencies	Delivery of regionally significant projects, meeting state growth targets
Resources to cope with complex and unexpected change	Positive operating performance result, track record
High quality political and managerial leadership	Taking on hard decisions, Mayors seen as community leaders. Qualifications, experience and knowledge of Mayor, councillors and senior staff

The introduction of a Special Rate in 2014/15 which focussed on asset renewal demonstrates Holroyd City Council's capacity for strategic decision making and the ability for the council to engage with its community on key issues and follow through to make prudent decisions. It also provides sufficient funding for the council to maintain a positive operating performance throughout the period being modelled while increasing asset expenditure to meet all asset related benchmarks. Council was concerned through the SRV process to only increase rates to the level necessary to maintain and renew assets.

The planned population growth under the Holroyd LEP 2013 is for an additional 47,000 residents by 2032, a 43% population increase; however, based on current trends, that could be as high as 54% (59,000 residents) to 2032. This increase will provide additional revenue to council however it is also a demonstration of Council's ability to plan for and manage the challenges of growth.

Holroyd City Council is currently participating in wide range of shared service and collaborative arrangements delivering benefits to the Holroyd community and more widely the region e.g. the WestConnex and Parramatta Road Revitalisation programs. Council's alliance with Hay Shire Council provides benefits to both parties and demonstrates innovation and collaboration. A dedicated Business Process Improvement Coordinator drives initiatives and recommended cost savings and efficiencies across Council.

A Micromex survey of the Holroyd community indicating “a strong result for Council, with 92% of residents at least ‘somewhat satisfied’ with Council’s performance demonstrates high levels of customer satisfaction.

Strategic Capacity Elements	Characteristics	Holroyd
More robust revenue base and increased discretionary spending	<i>A diversified revenue base e.g. SRV, property and investment income</i>	SRV from 2014/15 LTFP expects revenue from property investments of \$4.5M
	<i>Cost containment</i>	Freezing of Council’s non-wage and non-statutory components of its operations of the last 15 years
	<i>Significant population growth</i>	43% through to 2032 based on LEP or 54% based on current trends
Scope to undertake new functions and major projects	<i>Delivering on community satisfaction (Iris LG Database-Sydney Metro Ave 13/14 70%*)</i>	92% significantly exceeds the benchmark
Ability to employ wide range of skilled staff	<i>Wide range of services delivered</i>	207 services across five directorates Growth challenges have seen 55% increase in number of planners and 30% increase in engineers Commitment to staff development programs
Knowledge, creativity and innovation	<i>Demonstration of innovative culture/outcomes</i>	Holroyd Way Dedicated business process improvement role Alliance with Hay Shire Council
Advanced skills in strategic planning and policy development	<i>Ability to plan for regional outcomes</i>	Delivery of LEP, DCP, S94 Plan Developing Asbestos Policy and Model Code which was then adopted by Local Government Industry Economic Development Strategy
	<i>IP&R Outcome Focused - Performance Achievements key performance indicators established and measured</i>	Clear reporting with KPIs Transparency around use of SRV funds
Effective regional collaboration	<i>Extent of involvement in regional activities</i>	Alliance with Hay Shire Council Westconnex Parramatta Road Revitalisation

Strategic Capacity Elements	Characteristics	Holroyd
Credibility for more effective advocacy	<i>Demonstration of effective advocacy</i>	Western Sydney Freight Line and terminal Mitigating the likely negative impacts on Merrylands from changes to Metro Sydney bus route
Capable partner for the state and federal agencies	<i>Delivery of regional services and/or infrastructure</i>	Growth targets WestConnex Offer planning staff to Urban Growth NSW to support Granville precinct project
Resources to cope with complex and unexpected change	<i>Positive operating result excl Capital Grants/contributions</i>	Yes, Operating Performance ratio meets the benchmark from 2019/20
High quality political and managerial leadership	<i>Strategic decision making and engagement</i>	SRV decision including analysis and engagement process
	<i>Mayors recognised as leaders in the community and council</i>	Spokesman for Council Mayor and Deputy Mayor have over 30 years' experience between them

4.1 Fit for the Future benchmarks

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 and IPART⁸. 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.

Of the Fit for the Future benchmarks, Holroyd currently meets five of the seven benchmarks and over the modelling period that increases to seven as the asset maintenance ratio and operating performance ratio and are met from 2018 and 2020 respectively.

It is a requirement of Fit for the Future to forecast each council's performance into the future and IPART has now ranked the benchmarks from those which a council "must meet" through "must demonstrate improvement in" and "informs assessment"

Metropolitan councils must meet the following ratios by 2019/2020

- Operating Performance
- Own Source Revenue
- Debt Service

⁸ Where contradictions exist between IPART and the OLG we have used the IPART methodology as reflected in the IPART draft methodology statement issued in April 2015

Metropolitan councils are required to, at a minimum, show improvement against the following ratios by 2019/2020

- Building and Infrastructure Renewal
- Asset Maintenance
- Infrastructure Backlog

Table 5 Holroyd City Council performance against Fit for the Future benchmarks (2020)

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	Meets the benchmark
Real Operating Expenditure	Meets the benchmark

Council's trend against the benchmarks is shown in the figures below.

Figure 2 Holroyd operating performance ratio

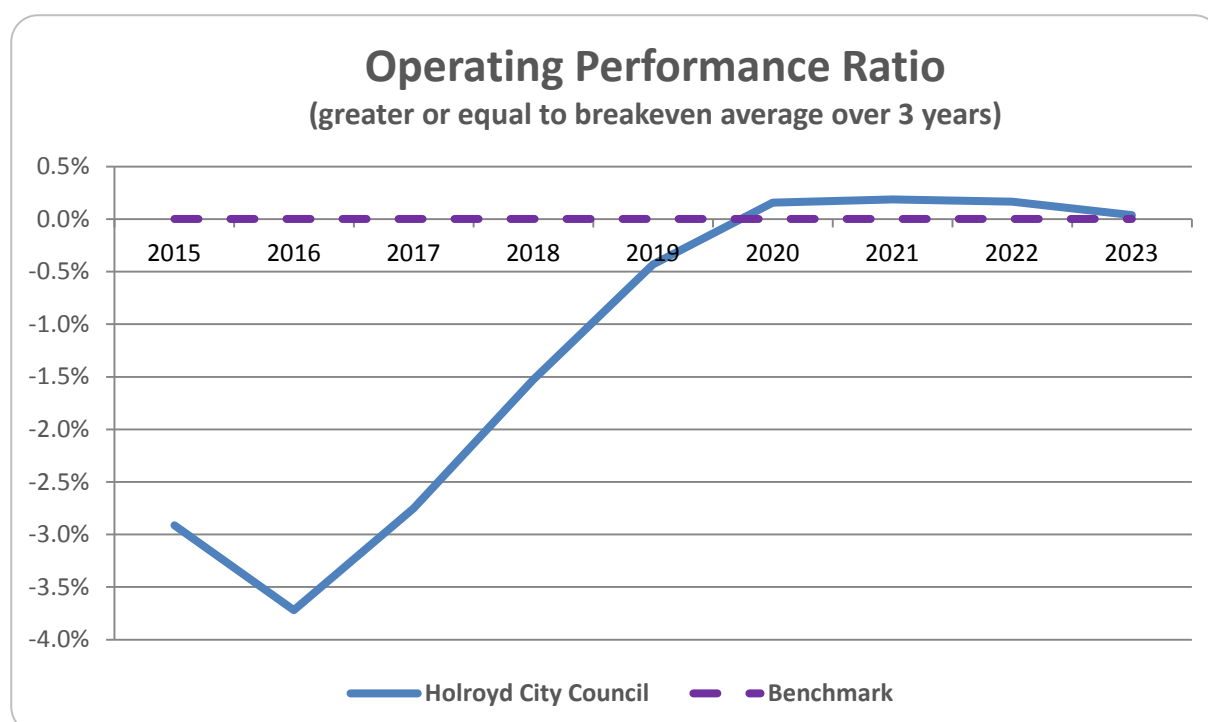


Figure 3 Holroyd own source revenue

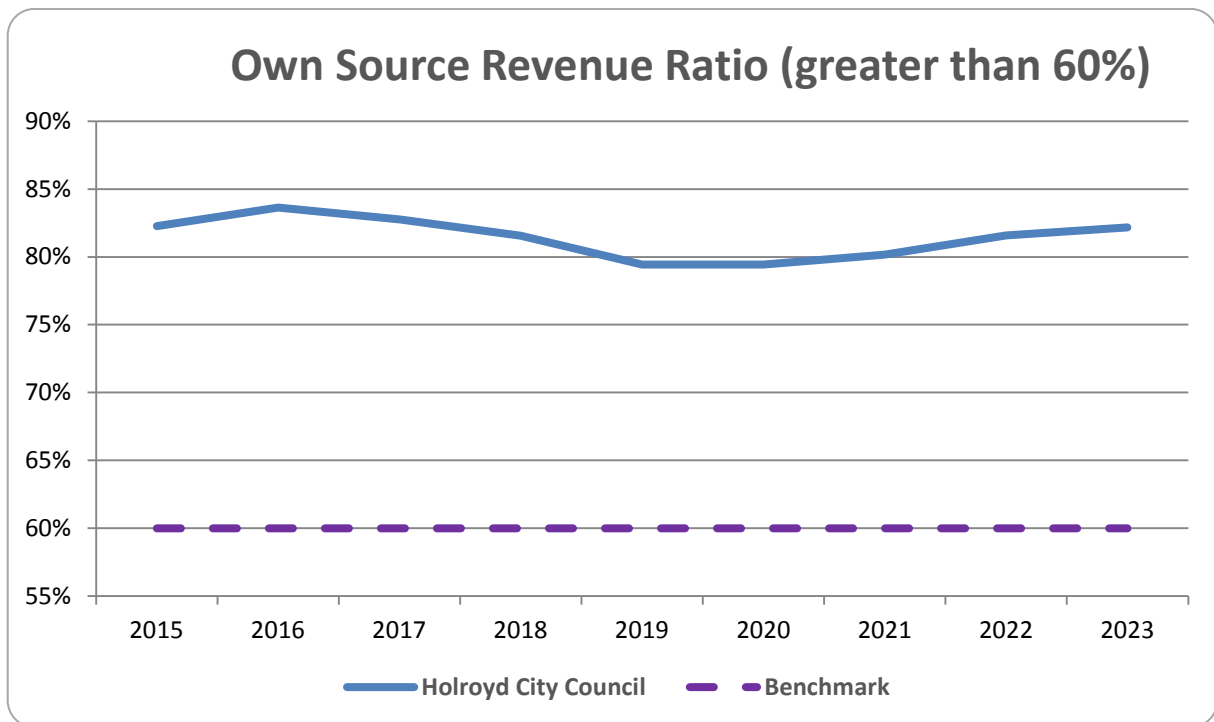
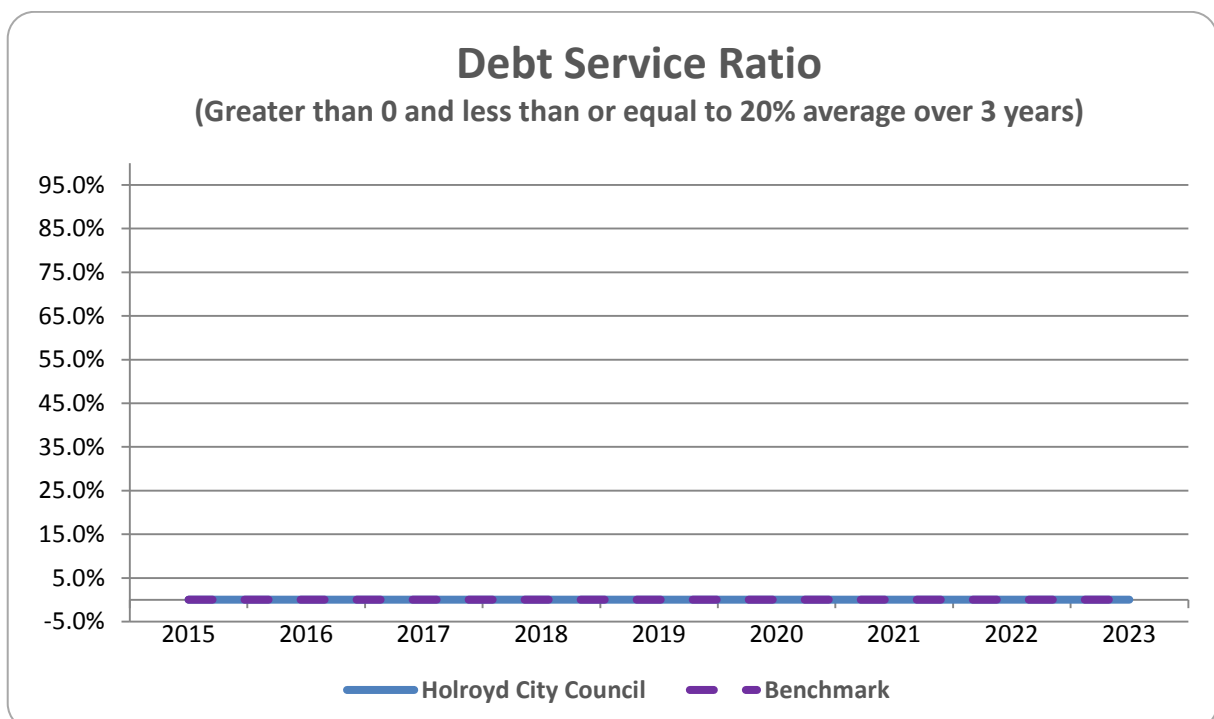


Figure 4 Holroyd debt service ratio⁹



⁹ Holroyd has no debt and therefore the graph does not show a result. Our understanding is that the purpose of the ratio is not for councils to take on debt for the sake of meeting the ratio and that if other ratios are satisfied then discretion will be exercised and the Debt Service Ratio met.

Figure 5 Holroyd asset renewal ratio

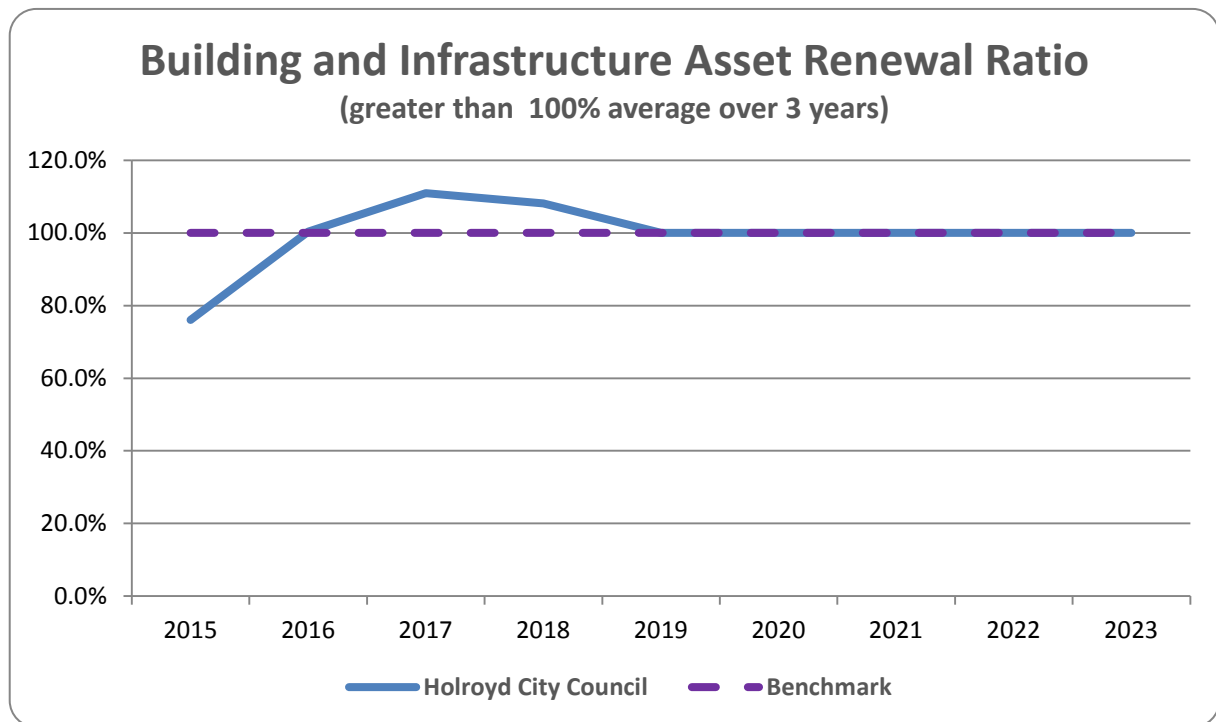


Figure 6 Holroyd infrastructure backlog ratio

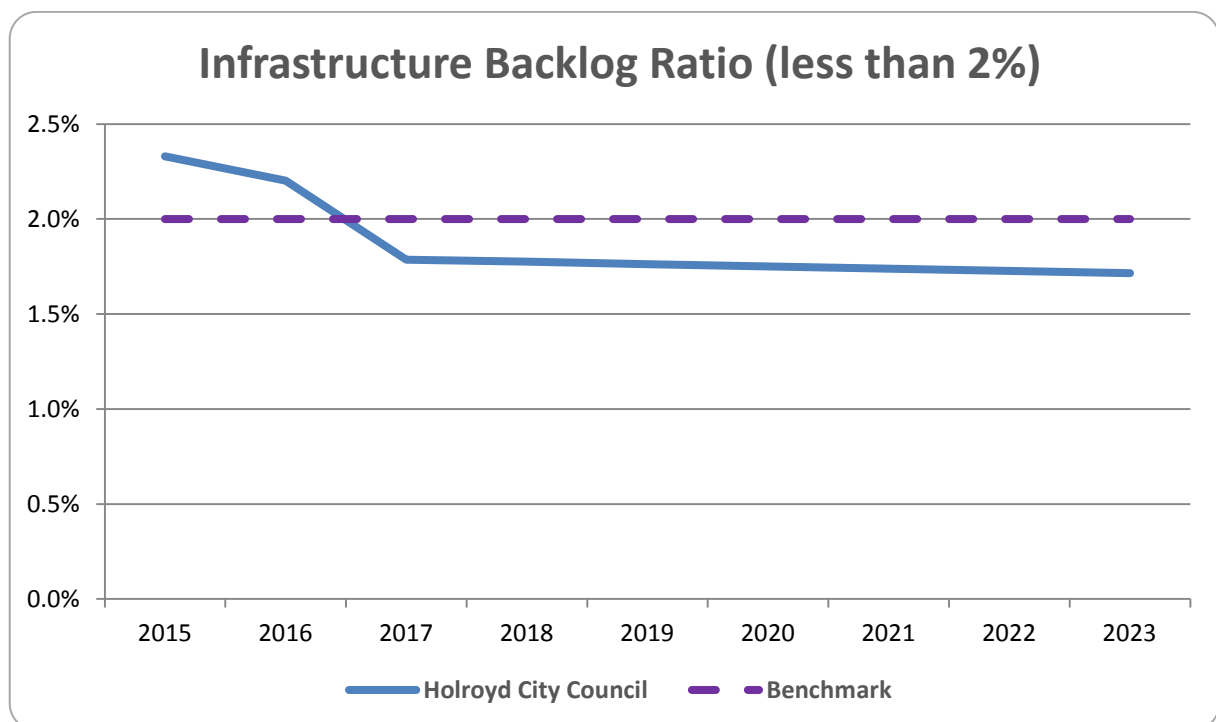


Figure 7 Holroyd asset maintenance ratio

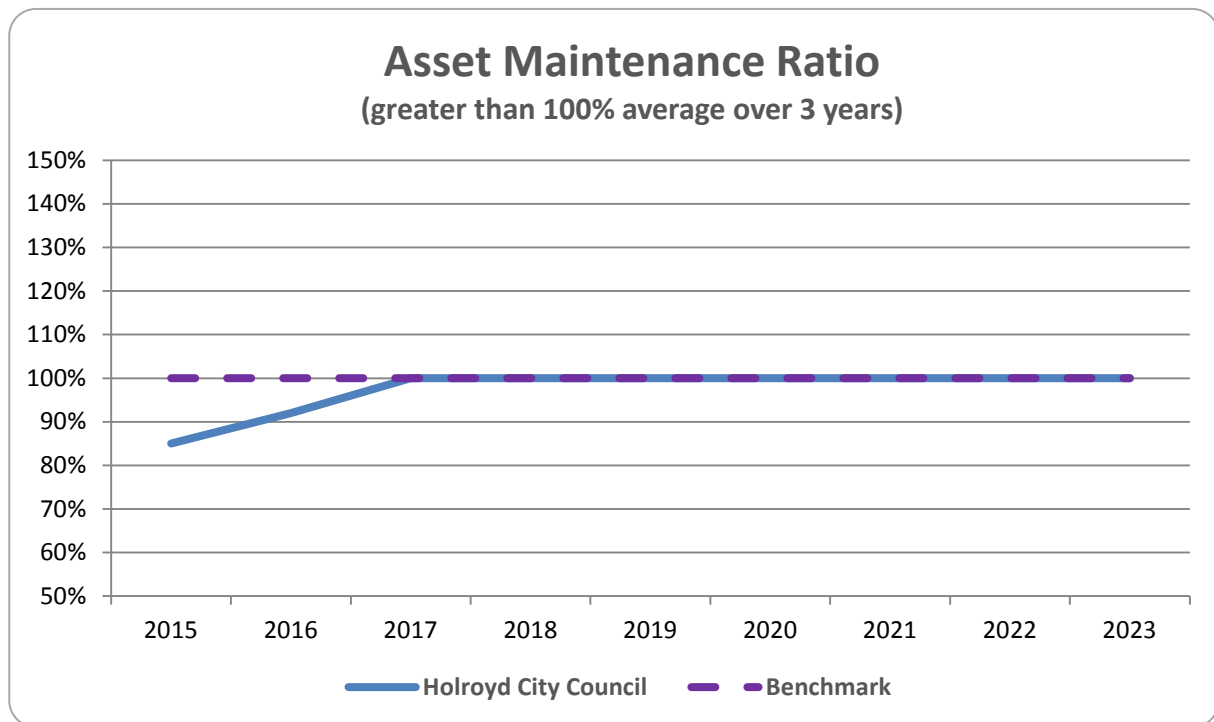
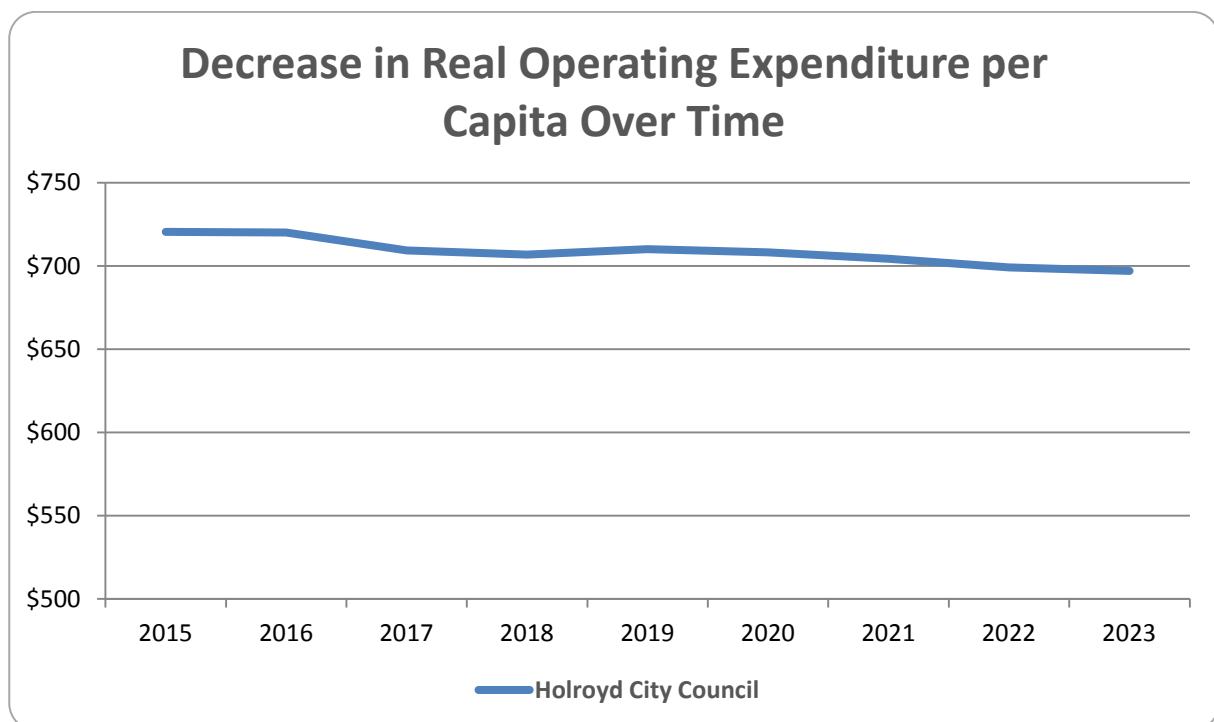


Figure 8 Holroyd real operating expenditure



5. ANALYSIS OF THE PROPOSED MERGED COUNCIL

5.1 Background

Together the five councils cover the area to the west of Sydney Harbour. They stretch over a combined area of 575 km², with the exact area that would be included in a merged city uncertain with the boundaries for the splitting of southern part of The Hills and the western part of Ryde being uncertain at this time. A map of the area is set out below and shows each council area with some key information about each council in the table below.

Figure 9 Map of the Sydney councils affected by the proposed merger

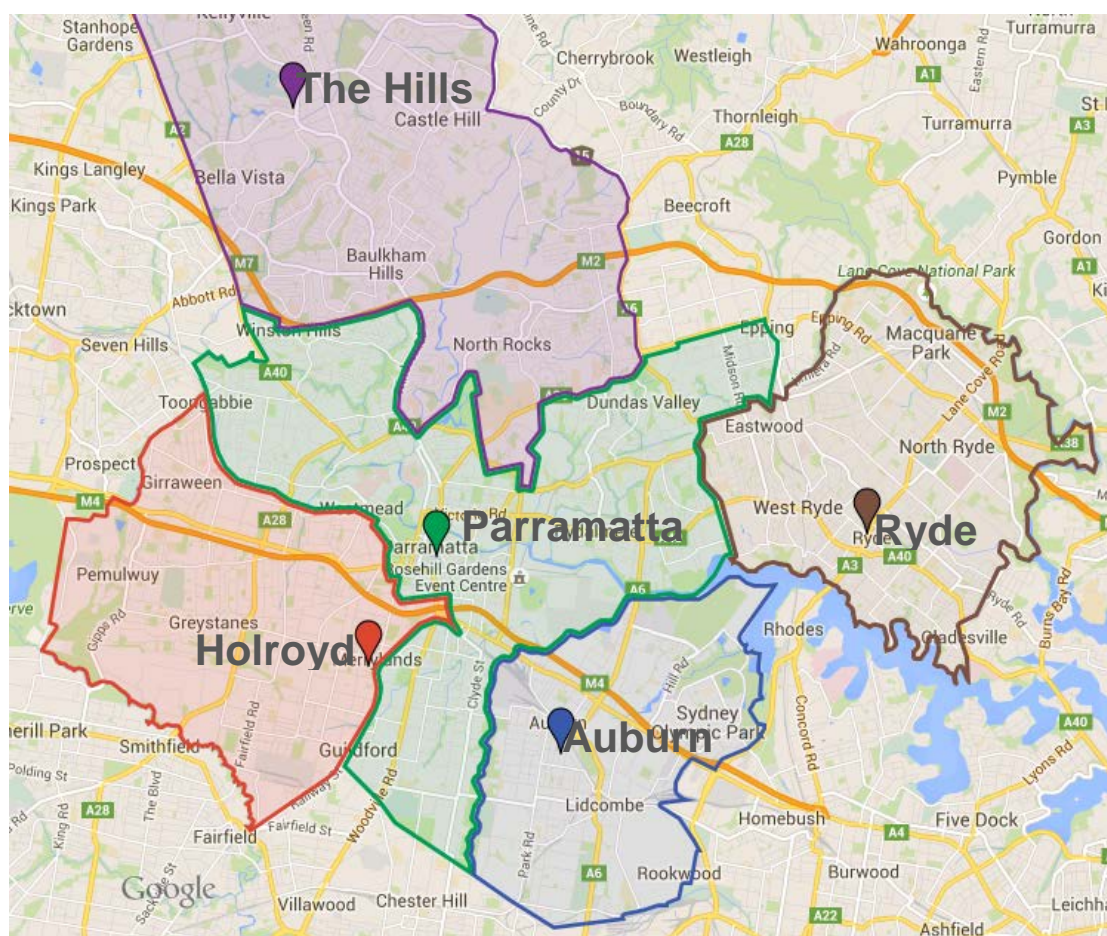


Table 6 Comparison of councils

	Holroyd City Council	Parramatta City Council	Auburn City Council	The Hills City Council	Ryde City Council
Full time equivalent staff	466	742	287	580	510
Geographic area	40.2 km ²	61.4 km ²	32.5 km ²	Part of 400 km ²	Part of 40.5 km ²
Population ¹⁰	109,200	184,970	86,140	Portion of 191,910	Portion of 113,920
Population projection 2031 ¹¹	136,000	253,900	130,600	280,900	153,000
Annual expenditure (\$ million)	\$86,470	\$181,021	\$60,103	\$130,106	\$94,781
Number of councillors	12	15	10	12	12

5.2 Description

The merging of the five councils into one council would create a very large council by NSW standards with a population of just under 450,000. It would be the largest by population with Blacktown being the next largest at 318,000, which represents a very large change for all the councils, but particularly for the smallest councils of Auburn and Holroyd.

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 to Blacktown Council¹², the largest existing council in NSW.

Table 7 Comparison of proposed merged council

	Merged Council	Blacktown
Full time equivalent staff	1,738	1,352
Population	449,596	318,000
Annual expenditure	\$381 million	\$400 million

5.3 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.

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. Figures 9 and 10 highlight the locations of some key council services including council offices, libraries, swimming pools and Council depot sites.

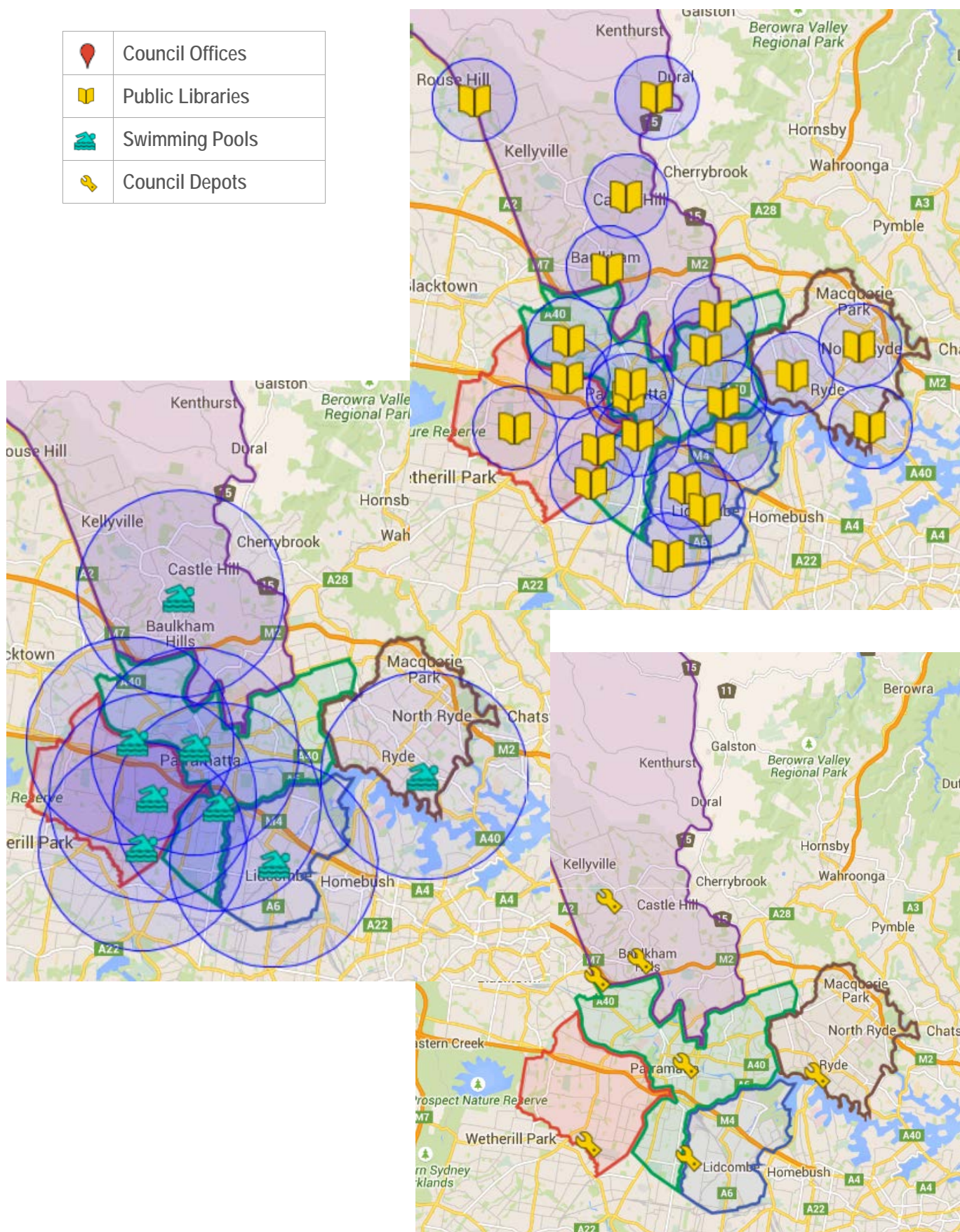
¹⁰ Australian Bureau of Statistics, Estimated Resident Population 2013

¹¹ NSW Department of Planning and Environment, New South Wales State and Local Government Area Population Projections: 2014 Final

¹² OLG Comparative Performance Data 2012-13

Figure 10 Key services and facilities of the councils

	Council Offices
	Public Libraries
	Swimming Pools
	Council Depots



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 five 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.

The purpose of the maps above (Figures 9 and 10) is 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. Representative catchments around libraries (3km) and swimming pools (5km) have been used. Having responsibility for a larger area without the existing internal boundaries will require a different approach and likely lead to changes in services and service delivery.

Establishing a uniform, 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.

In assessing the advantages and disadvantages of a merger of the five councils the assumption has been made that current service levels will continue until such time as the merged council makes a decision otherwise. We have set out in Appendix B a high level comparison across services, service levels and service delivery models in order to demonstrate the differences and therefore the challenges that a merged council would face.

5.4 Financials

The estimated costs and savings of a merger of the five councils have been modelled with the results of the *efficiencies realised* scenario set out in this section. Projected results under the *efficiencies not realised* and *Holroyd assumptions* scenarios are set out in the Addendum report and highlighted in the Executive Summary. It should be noted that the financial performance of the merged council differs under the scenario with the *efficiencies not realised* and *Holroyd assumptions* scenarios projecting a much worse financial performance.

The tables below provide a summary, narrative and financials of the costs and savings of the merger with the detailed assumptions set out in Appendix C. 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 all 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.

Table 8 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 combined IT system across entire council					Benefits arise from single IT system and decrease in staff
Assets				Rationalisation of buildings, plant and fleet		
Transitional Body	Establish council and structure, policies, procedures Branding and signage	Government grant				

Table 9 Summary of financial costs and savings ¹³¹⁴

			2016	2017	2018	2019	2020	2021	2022	2023
			(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)
Governance			- 1,043	- 1,080	- 1,118	- 1,157	- 1,198	- 1,240	- 1,284	- 1,329
Staff										
	Redundancies		3,442	-	-	3,003	-	-	-	-
	Staff Changes		- 1,567	- 1,622	- 1,679	- 13,692	- 14,175	- 14,675	- 15,192	- 15,727
	Harmonisation		8,706	9,013	9,330	9,659	10,000	10,352	10,717	11,095
	Natural Attrition		- 7,793	- 15,634	- 22,901	- 19,845	- 16,717	- 13,394	- 9,802	- 5,924
	Staff level changes		- 9,360	- 17,256	- 24,580	- 33,537	- 30,892	- 28,069	- 24,994	- 21,652
IT										
	Transtion costs		47,000	24,000	9,000	-	-	-	-	-
	Long term Benefits		-	-	-	-	-	8,921	9,235	9,561
Materials and Contracts			- 1,004	- 1,040	- 1,076	- 2,050	- 2,122	- 3,200	- 3,313	- 3,430
Assets										
	Plant and fleet		-	-	-	-	-	-	-	-
	Buildings		-	-	-	-	-	-	-	-
Grants and Government Contributions			- 22,500	-	-	-	-	-	-	-
Transitional Costs										
	Transitional body		10,000	-	-	-	-	-	-	-
	Rebranding		6,000	-	-	-	-	-	-	-
	Total	0	41,241	13,638	- 8,443	- 24,082	- 24,212	- 31,078	- 28,109	- 24,877

¹³ The table provides a simple representation of costs and benefits which in the modelling are subject to appropriate inflationary adjustments

¹⁴ Costs are shown as positive figures, savings as negative

The NPV of the costs and benefits over the period being modelled (2023¹⁵) has been calculated at \$41.8 million indicating that there would be a financial benefit to the five councils and their communities from the merger.


The NPV has been calculated consistent with the Treasury Guidelines for Economic Appraisal using a discount rate of 7%, at a lower discount rate of 4% the benefits accrued are estimated \$57.5 million and at a higher discount rate of 10% the benefits are estimated at \$29.7 million.

The benefit should be seen in the context of the time over which they arise (2016 -2023), the operating performance of the merged council and the need for the merged entity to spend more on infrastructure in order to meet all the asset related benchmarks.

While the merged council has a number efficiencies modelled over the short, medium and longer term the significant short term costs arising from the merger and the redundancy costs that arise in the medium term mean that the financial performance over the initial period is not positive. In the medium and longer term however the financial performance of the council improves but the impact of rising costs from staff increases associated with services and service levels begins to also take effect.

¹⁵ 2023 is the period being modelled to match the time covered by all council LTFPs

Table 10 Summary of financial impacts of merger

Morrison Low Fit For Future Analysis	HOME											
	Actual	Actual	LTFP									
Merged Council Combined LTFP - 2014/15 Extrapolated	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	
Operating Results												
Income Statement	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Source: Council Financial Statements and Long Term Financial Plan	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	
Rates & Annual Charges	202,825	256,684	267,977	276,016	284,296	292,825	301,610	310,658	319,978	329,577	339,465	
User Fees & Charges	43,839	54,396	55,012	56,594	58,221	59,894	61,616	63,388	65,210	67,085	69,014	
Grants & Contributions - Operations	36,984	35,423	40,249	62,970	41,093	42,169	43,269	44,399	45,559	46,749	48,371	
Grants & Contributions for Capital	33,166	45,152	27,823	23,942	31,396	34,735	41,991	48,156	39,916	35,946	36,454	
Interest and Investment Income	12,481	14,934	12,656	5,733	5,733	5,733	5,733	5,733	5,733	5,733	5,733	
Gains from disposal assets	991	5,803	657	672	688	704	720	736	753	771	788	
Other Income	17,866	23,924	20,018	20,478	20,949	21,431	21,924	22,428	22,944	23,472	24,012	
Total Income	348,151	436,315	424,392	446,405	442,377	457,492	476,863	495,500	500,094	509,333	523,837	
Income excl Gains/losses	347,160	430,512	423,734	445,733	441,689	456,788	476,144	494,763	499,341	508,562	523,049	
Income excl Gains/losses & Capital Grants	313,995	385,360	395,912	421,791	410,293	422,053	434,153	446,607	459,425	472,617	486,594	
Expenses												
Borrowing Costs	3,324	5,434	5,982	5,178	4,552	4,061	3,665	3,163	2,764	2,243	1,695	
Employee Benefits	132,559	163,756	173,178	182,027	177,123	175,686	176,246	182,852	192,991	203,691	214,982	
Gains & losses on disposal	3,648	3	-	-	-	-	-	-	-	-	-	
Depreciation & Amortisation	51,385	63,610	66,332	70,862	72,904	75,140	77,475	79,934	82,972	85,652	88,063	
All other Expenses	120,848	148,262	157,000	222,663	188,442	178,364	173,497	178,686	174,105	179,258	184,563	
Total Expenses	311,765	381,066	402,492	480,730	443,021	433,250	430,883	444,635	452,831	470,844	489,303	
Operating Result	36,386	55,250	21,899	- 34,325	- 644	24,242	45,980	50,865	47,263	38,489	34,534	
Operating Result before grants & contributions for capital purposes	3,221	10,097	- 5,923	- 58,267	- 32,040	- 10,494	3,989	2,709	7,347	2,543	- 1,920	

5.5 Scale and capacity

The Independent Panel recommendation was a proposed merger. On that basis it is assumed that the merged council has scale and capacity as the government position has been very clear that scale and capacity is met by following the recommendations of the Independent Review Panel, albeit this conclusion is not comprehensively supported by evidence or research.

Holroyd, Parramatta, Auburn, part of the Hills Shire and the western one third of Ryde will satisfy what appears to be the scale and capacity requirement, if such a requirement does exist, of a population of 250,000 (based on the average size of council's not proposed for merger) by 2031.

How the merged council would actually meet the key criteria for strategic capacity is difficult to predict with any degree of accuracy as the organisation does not exist and has not had the opportunity to demonstrate any of the elements of strategic capacity.

Holroyd will need to demonstrate itself that it has sufficient scale and capacity to meet the Government's test, if the merger does not proceed.

5.6 Fit for the Future benchmarks

The performance of the merged council under the *efficiencies realised* scenario against the Fit for the Future benchmarks has been undertaken and is set out below. Projected results under the *efficiencies not realised* and *Holroyd assumptions* scenarios are set out in the Addendum report and highlighted in the Executive Summary. It should be noted that the financial performance of the merged council differs under the scenario with the *efficiencies not realised* and *Holroyd assumptions* scenarios projecting a much worse financial performance.

We have considered the performance of the merged council at the time of merger and then over the same period as the individual councils. A merged council would meet only three of the indicators during the whole modelled period and of the measures not met:

- the Operating Performance ratio declines to a low of -8.2% in 2018 and meets the benchmark requirement of being greater than break-even from 2021
- the Asset Maintenance steadily declines from 94% in 2016 to a low of 88% in 2023, below the required benchmark of 100% averaged over three years
- the Asset Renewals ratio remains above the benchmark until 2017 and then steadily declines from 88.4% in 2018 to a low of 82.4% in 2023, well below the required benchmark of 100% averaged over three years
- the Infrastructure Backlog ratio steadily increases from 3.3% in 2017 to a high of 5.0% in 2023, remaining above the required 2% benchmark.

Table 11 Summary of merged council using Fit for the Future indicators

Indicator	At Day One	Merged Council (2020)
Operating Performance	<i>Does not meet the benchmark</i>	<i>Does not meet the benchmark</i>
Own Source Revenue	<i>Meets the benchmark</i>	<i>Meets the benchmark</i>
Debt Service Cover	<i>Meets the benchmark</i>	<i>Meets the benchmark</i>
Asset Maintenance	<i>Does not meet the benchmark</i>	<i>Does not meet the benchmark</i>
Asset Renewal	<i>Meets the benchmark</i>	<i>Does not meet the benchmark</i>
Infrastructure Backlog	<i>Does not meet the benchmark</i>	<i>Does not meet the benchmark</i>
Real Operating Expenditure	<i>Meets the benchmark</i>	<i>Meets the benchmark</i>

The performance of the merged council under the *efficiencies realised* scenario over time is set out in the figures below and in each case compared to the projected performance of Holroyd.

Figure 11 Merged council operating performance ratio

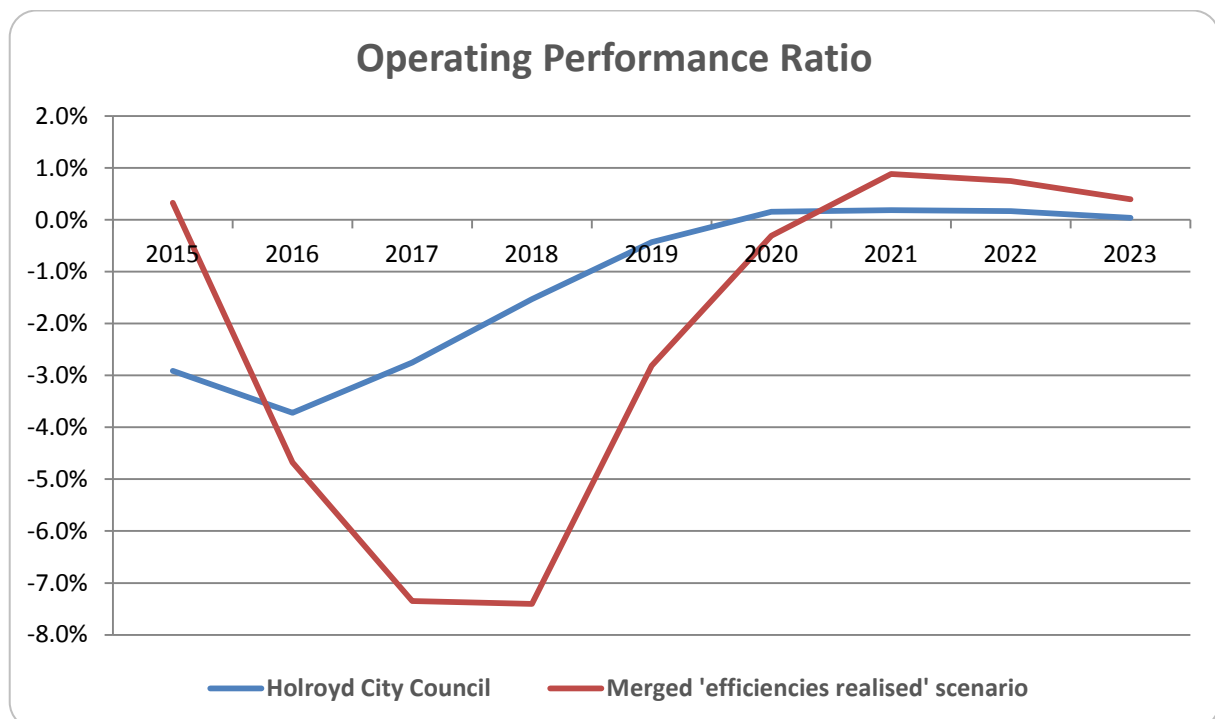


Figure 12 Merged council own source revenue

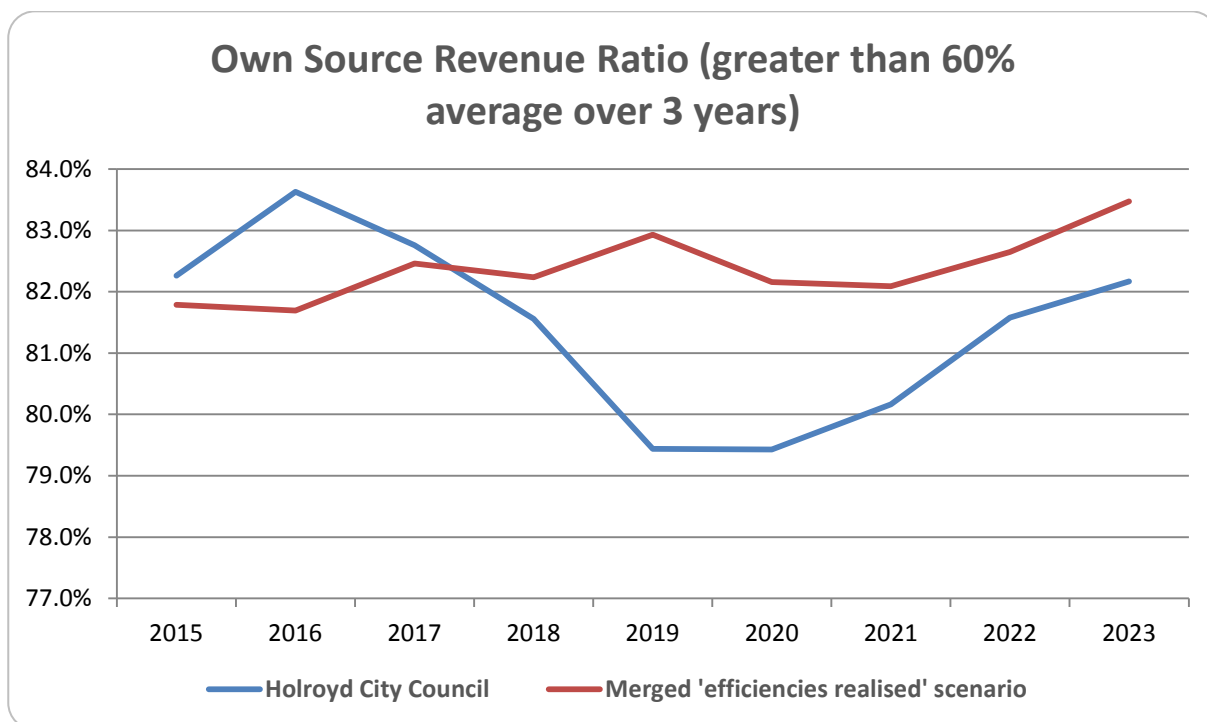


Figure 13 Merged council debt service ratio

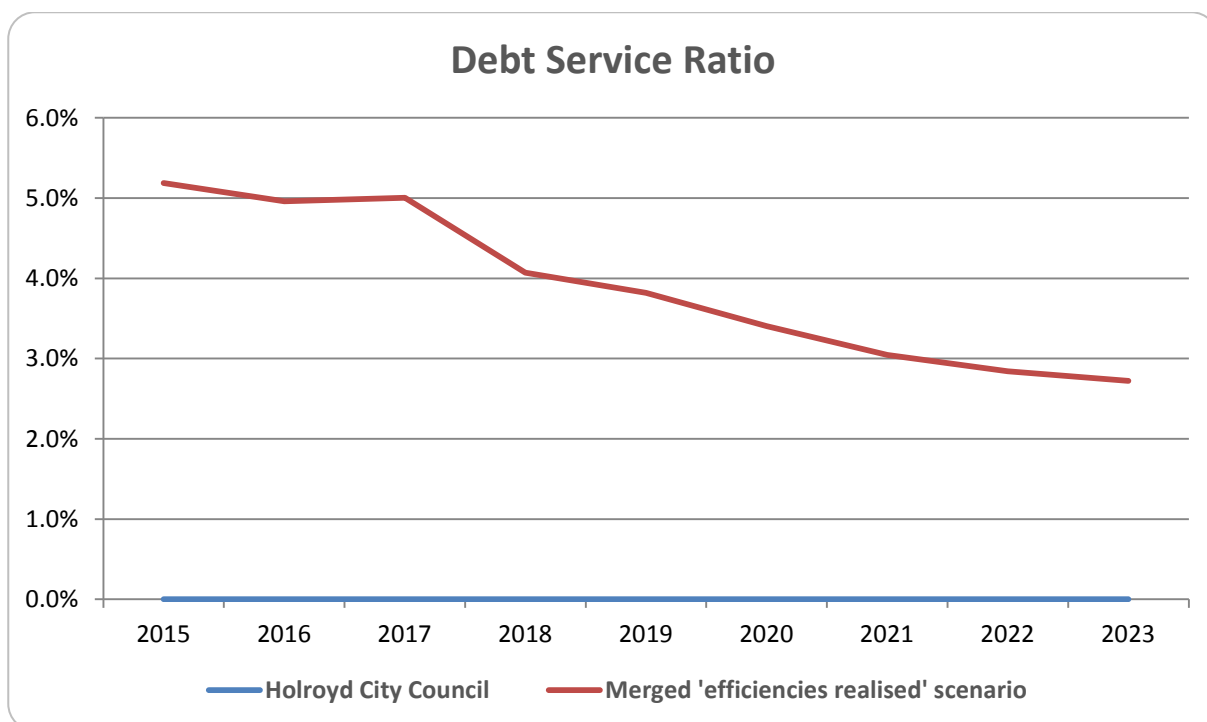


Figure 14 Merged council asset renewal ratio

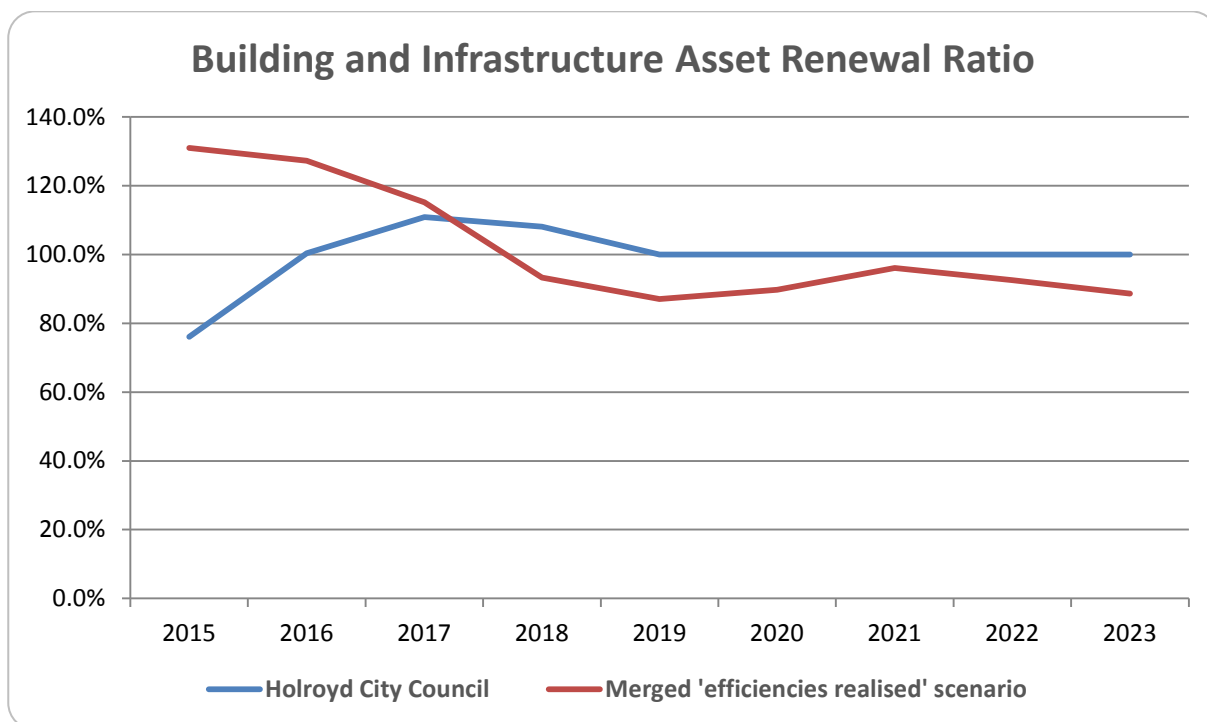


Figure 15 Merged council infrastructure backlog ratio

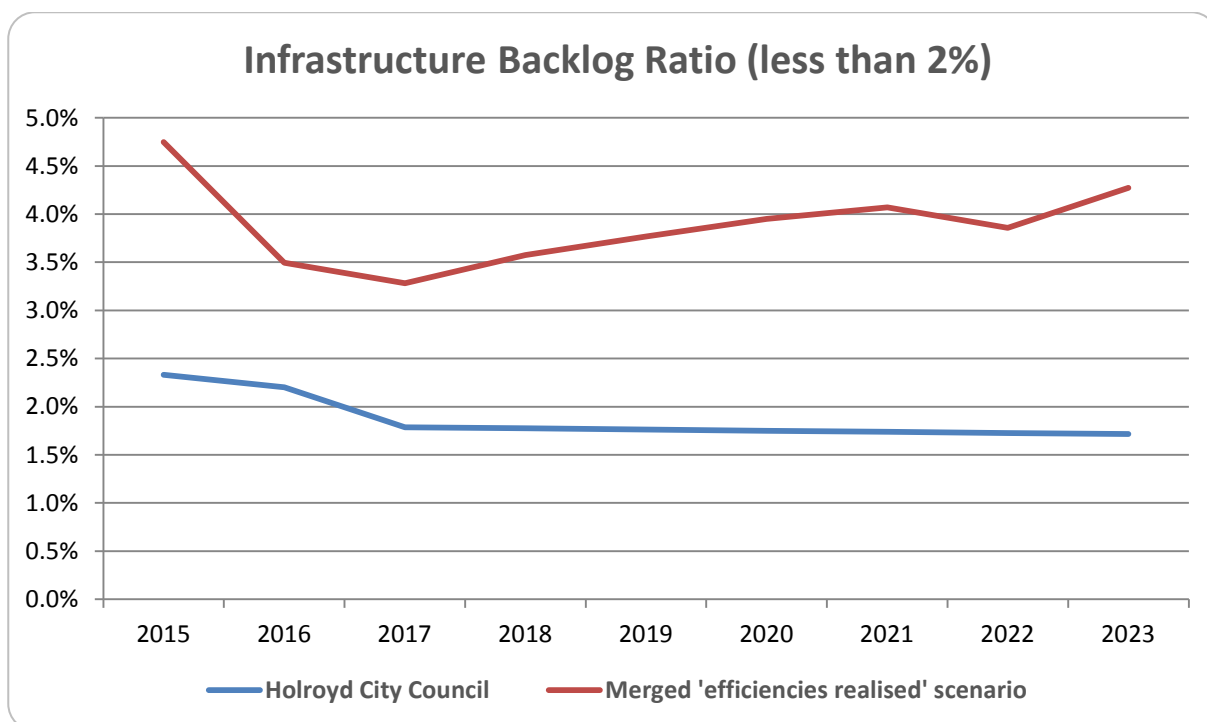


Figure 16 Merged council asset maintenance ratio

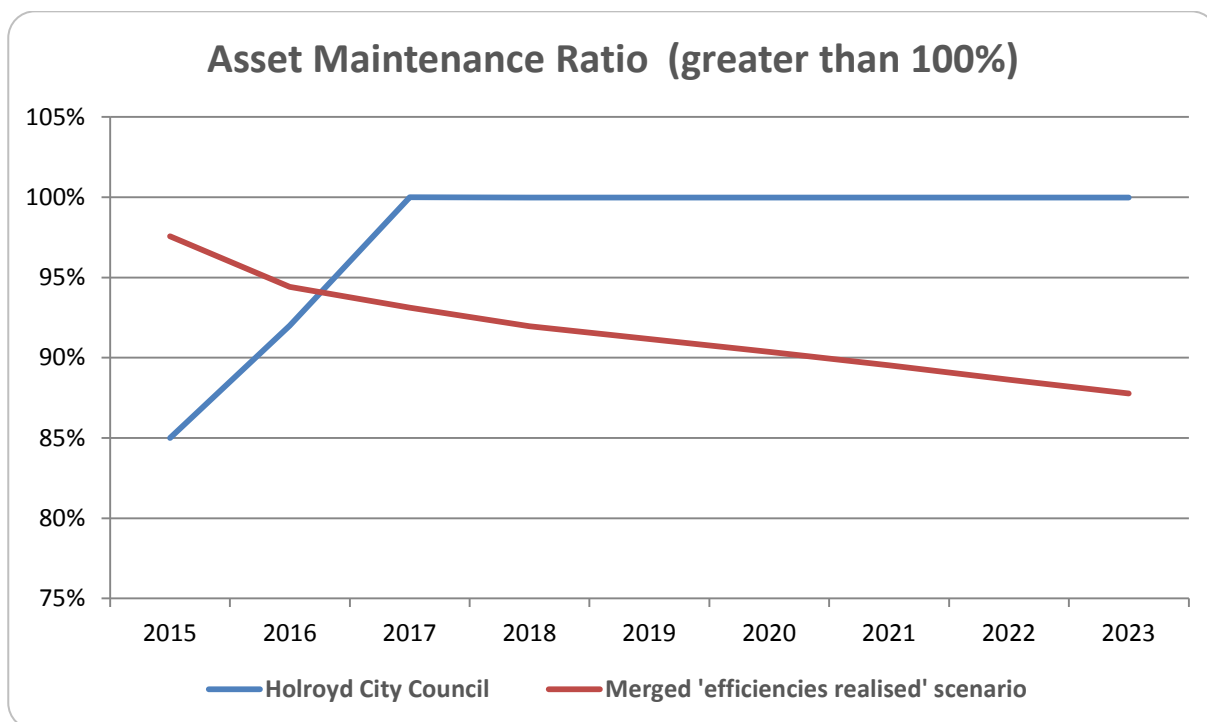
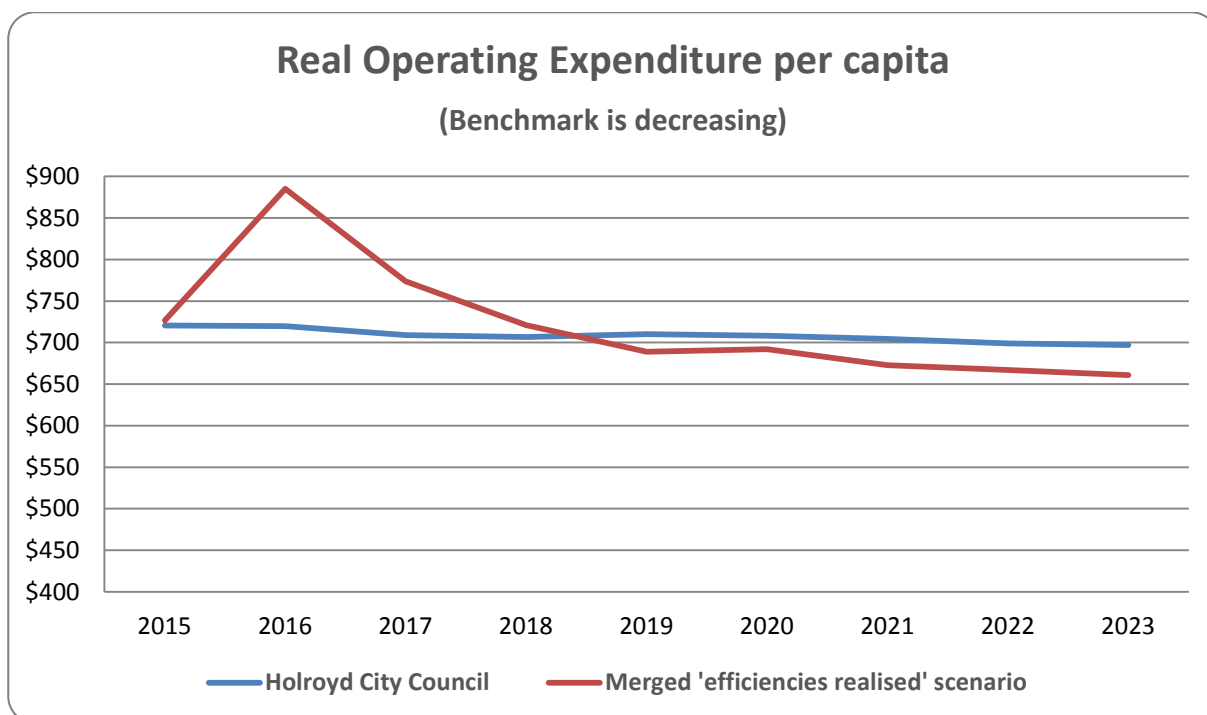


Figure 17 Merged council real operating expenditure



5.7 Meeting the benchmarks

An analysis of what would need to be done in order for a merged council to satisfy the Fit for the Future benchmarks has been undertaken. 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 exists that if satisfied would enable a merged council to meet the Fit for the Future benchmarks.

5.7.1 Asset maintenance

The asset maintenance ratio is based in part on the number reported as 'required maintenance'. There are no guidelines on how 'required maintenance' is to be calculated and for the purposes of this report the figure reported by Council is assumed to be the correct figure to maintain each council's assets in the condition required by the community. 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 drawn from each council.

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 12 Merged council asset maintenance funding gap

Council	Actual Annual Maintenance (\$000)	Estimated Required Maintenance (\$000)	Gap (\$000)
Merged Council	30,151	33,603	-3,452

5.7.2 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 13 Merged council asset renewal funding gap

Council	Average predicted annual renewals (\$000)	Average required annual renewals (\$000)	Gap (\$000)
Merged Council	45,861	53,978	-8,117

Given that three of the five councils did not meet this benchmark, the resultant merged council similarly would need to address a funding gap.

5.7.3 Infrastructure backlog

The infrastructure backlog ratio in each case has been based on each council's assessment of the 'estimated cost to satisfactory' set out in Special Schedule 7. Like 'required maintenance' there are no established guidelines for the calculation of this cost and there are significant variations across NSW Councils. We have then calculated what the merged council would need to spend on additional renewals (i.e. over and above maintaining a 100% asset renewal ratio) to reduce the backlog ratio to the benchmark within five years and set that out in the table below.

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 14 Merged council infrastructure funding gap

Council	Cost to satisfactory (\$000)	Target Backlog (\$000)	Reduction Required (\$000)	Per year (5 years) (\$000)
Merged Council	84,581	48,966	-35,615	-7,123

5.7.4 Asset funding gap

When the asset maintenance, asset renewals and infrastructure backlog funding gaps are combined, there is an overall asset funding gap that a merged council would need to address in order to be able to meet those benchmark measures, as shown in the table below.

Table 15 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	-3,452	-8,117	-7,123	-18,691	-11,568

5.7.5 Operating Performance

The operating result of the merged council under the *efficiencies realised* scenario (calculated on the same basis as the operating performance ratio and so excluding capital grants and contributions) has been reviewed and the merged council has a deficit of operating revenue over operating expenses, as identified below which would need to be addressed by the merged council. For simplicity, this is presented as an average of the years projected in each council's LTFP.

Table 16 Operating performance funding gap

Council	Gap (\$000)
Merged Council	-9,142

5.8 Rates

There are significant differences across the councils including the level of current rates, proportion of rates paid by each sector and approach (minimum or base rate). Given the differing rating structures among the councils it is difficult to model the impact of a merger on rate revenue and in particular the impacts on individual land owners.

The approach instead has been to highlight the differences in the current approaches of the five councils leaving the design of a single rating structure to the merged council whose role would be to align the rates over time.

Figure 18 Current average rate (2014 - 15)

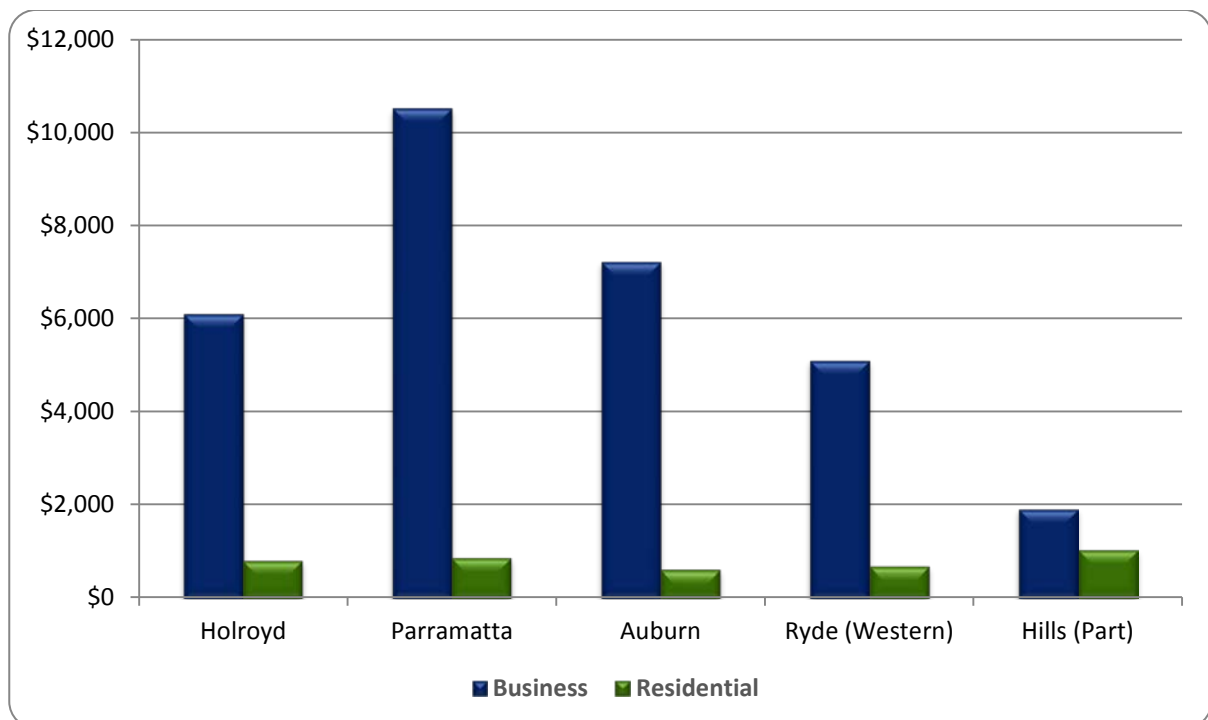


Table 17 Comparison of minimum/base rates

	Holroyd	Parramatta	Auburn	Ryde	Hills
Residential	\$787	\$849	\$601	\$670	\$1,018
Business	\$6,107	\$10,509	\$7,225	\$5,107	\$1,922

Although there are some marked apparent differences in the minimum/base rates between the councils, particularly with respect to the business rates, further analysis would be required before any conclusions could be drawn.

Figure 19 Percent Revenue by Rate Category (2014 - 15)

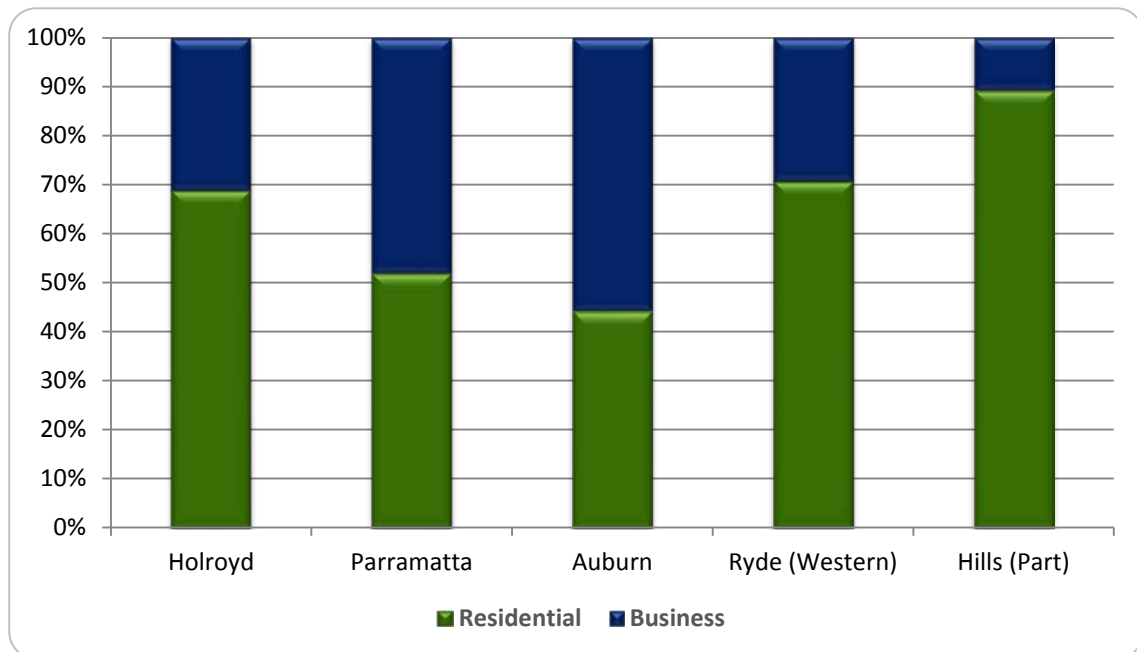


Table 18 Comparison of proportion of rates

Proportion of rate yield	Holroyd	Parramatta	Auburn	Ryde	Hills
Residential	69%	52.1%	44.4%	70.8%	89.2%
Business	31%	47.9%	55.6%	29.2%	10.8%
Proportion of rateable assessments	Holroyd	Parramatta	Auburn	Ryde	Hills
Residential	94.5%	93.1%	90.6%	94.9%	94%
Business	5.5%	6.9%	9.4%	5.1%	6.0%

While the proportion of residential assessments across the five councils is relatively consistent, with all being between 90% and 95% of total rateable assessments, the yield that the councils get from the residential sector has a much large variation, ranging from a low of 44.4% in Auburn up to a high of 89.2% in the Hills Shire.

All of these differences mean that under a merged council there are likely to be significant changes in rates for individual properties and sectors across the area in transitioning to a single rating structure over time. It would be a difficult and time consuming process to align the rating structures across the communities now within a single council area.

5.9 Debt

Three of the councils carry no debt, with Ryde having low debt levels of \$49.29 per capita, Auburn having modest debt levels of \$175.18 per capita and Parramatta the highest at a little over \$500 per capita. Under a merged council scenario, Holroyd residents would move from a zero debt situation to approximately \$257 per capita.

Often taking on the debt of other communities can be a significant issue to manage in a transition to a merged council.

Table 19 Debt levels

Council	Debt (\$000)	Debt per Capita (\$)
Holroyd	\$0	\$0
Parramatta	\$93,162	\$503
Auburn	\$15,090	\$175
Ryde	\$5,615	\$49
The Hills	\$0	\$0
Merged Council	\$115,724	\$257

We note that Holroyd Council's current position of no debt is not a reflection of a no debt policy. Council has recently resolved to take out a \$40 million loan to forward fund S94 infrastructure works which are seen as "essential to the rapid redevelopment the Holroyd LGA, as a result of Council's new 2013 LEP/DCP/S94 Plans". We are further advised that the loan is fully funded from S94 developer contributions and ratepayer funds (council rates) are not going to be used to fund the repayments for this loan.

5.10 Community profile and communities of interest

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

A desktop review of the communities of Holroyd, Auburn, Parramatta, Ryde and the Hills Shire 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

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

- A high proportion of couples with children make up the household types for all Council areas.
- All Council areas have strong Year 12 attainment levels, sitting above the average across New South Wales.
- A large number of residents have ancestry other than Australian, with Chinese and English dominating.
- There are strong cross over for most council areas and Parramatta in terms of labour supply and journey to work data.
- All regions will experience population growth in the period 2011 – 2031.

However a number of differences can also be observed:

- Ryde has a larger proportion of people over 50 as compared to other regions.
- Ryde has a larger proportion of people employed in Financial and Professional services than other Councils areas.
- There is a wide range of disadvantage across the Councils as represented by the SEIFA index with Auburn featuring at 137 of 153 Council areas, whereas the Hills Shire is at number six.
- There is a variation in the number of people with degree qualifications, with Auburn and Holroyd falling below the Greater Sydney average as compared to other areas.
- There are differences in the equalised income levels across the regions, most notably between Auburn and the Hills Shire – Auburn showing its largest group of residents in the lower quartile, with the Hills Shire in the highest.
- Unemployment rates also show some variation, as low as 4.2 percent in The Hills, but up to 8.6 percent in Auburn.
- The Hills Shire has no high density housing in the region.

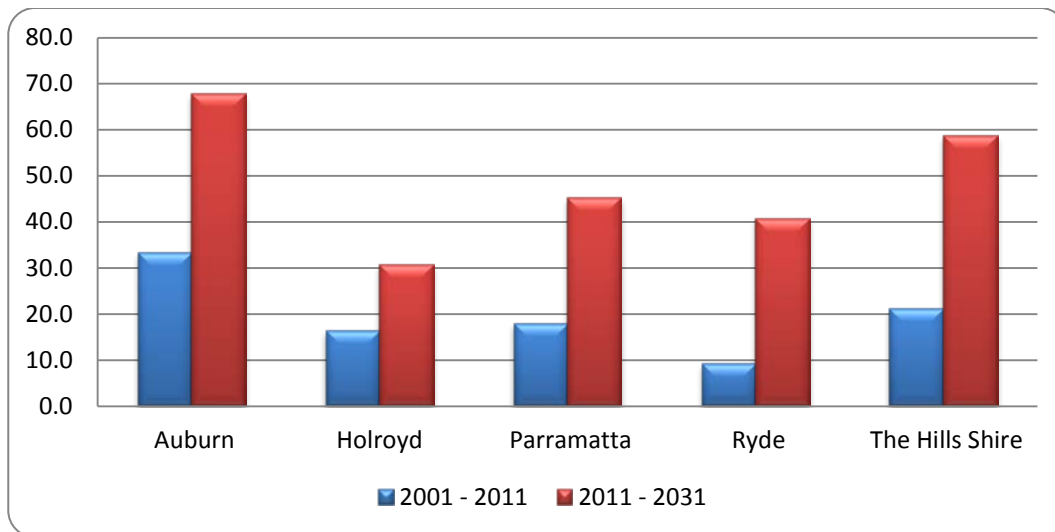
Population Growth and Forecasts

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 *Similarities and Differences* Report groups all the Councils with the exception of the Hills Shire in a cluster with population growth rate above state average, with a balance between overseas arrivals and new births. Cluster members experienced a moderate rate of population loss due to internal migration, in some cases because residents were moving out to accommodate new immigrants. The Hills Shire is in a cluster with high growth, though not as high as the other areas.

All areas continue to see positive population growth in the out-years, with Auburn and The Hills seeing the largest parentage growth in future years.

Figure 20 Population Growth by area (%)



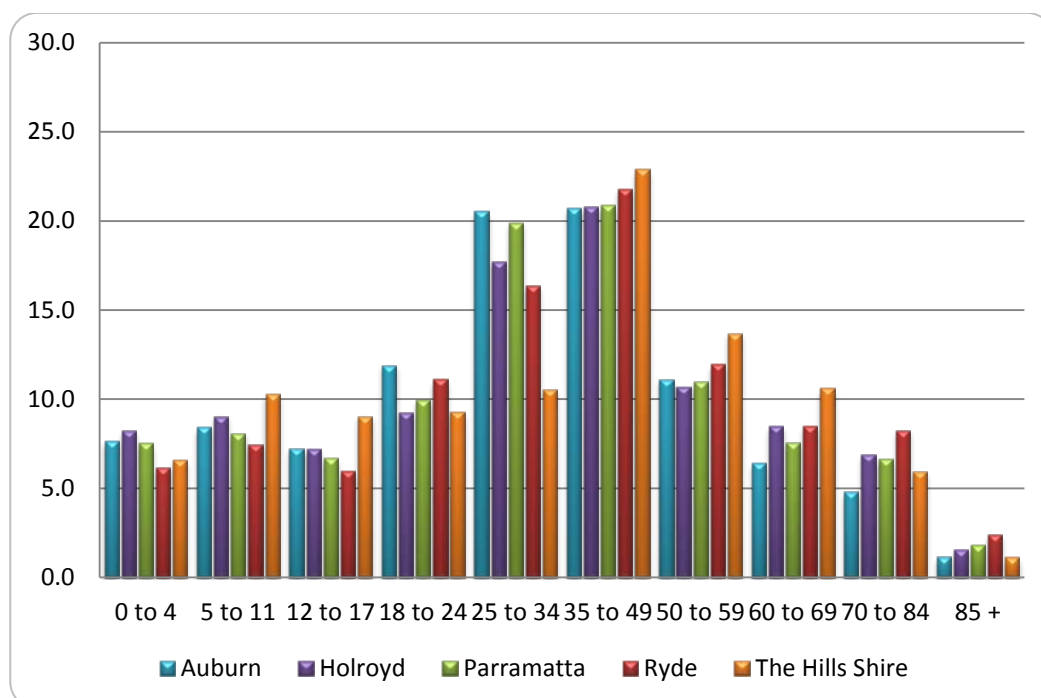
The Age Structure

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.

It is useful to note:

- the 35-49 year age group represents the largest age group clustering for the five areas
- Ryde and the Hills Shire show the areas with the greatest number of people over 50 years of age
- additionally, Ryde proportional has lower numbers of children in its current age profile.

Figure 21 Population Age Groups by area (%)



Industries of Employment

There is a spread of industries across the five council areas.

- Health and Social Services is prominent in all council areas, and is consistent with this being a growth area across the country. Auburn and Holroyd both show high levels of manufacturing
- Retail is a strong employer across the five councils
- Ryde shows a larger number of people being employed in professional services and in the financial and insurance sector
- Auburn also shows a greater number of people employed in the accommodation and food sectors
- There is some variation in the number of people employed in construction and transport and postal services across the five councils

Journey to Work Connections

The *Similarities and Differences Report* notes that there is a strong connection between the five councils, and makes the following observations with regards to connections:

- In the outer western suburbs Parramatta receives significant inbound flows from Blacktown and to a lesser extent the Hills
- The Hills is part of this system in that it has strong connections with Parramatta
- Holroyd also fits into the Parramatta-based cluster in that Parramatta provides jobs for 18% of its resident workers and 15% of jobs in Holroyd are taken by Blacktown residents
- Auburn is unusual in that it draws its workforce from all over the western half of the metropolitan area. Likewise its residents go all over

A review of census data shows the following patterns for workers in the council areas and their place of residence, and residents of each council's place of work. The top three council regions under each category show cross over between all councils but Ryde, who show patterns with councils in other areas. It should be noted however that Parramatta and Auburn do feature within the top five for Ryde.

Table 20 Places of residence and work

Council	Workers place of residence	Residents place of work
Holroyd	1. Holroyd 2. Fairfield 3. Blacktown	1. Holroyd 2. Parramatta 3. Sydney
Parramatta	1. Holroyd 2. Parramatta 3. Blacktown	1. Parramatta 2. Sydney 3. Ryde
Auburn	1. Auburn 2. Holroyd 3. Blacktown	1. Auburn 2. Sydney 3. Parramatta
Ryde	1. Ryde 2. Hornsby 3. Ku-ring-gai	1. Ryde 2. Sydney 3. Willoughby
Hills	1. The Hills Shire 2. Blacktown 3. Hornsby	1. The Hills Shire 2. Sydney 3. Parramatta
Merged Council	1. Holroyd 2. Fairfield 3. Blacktown	1. Holroyd 2. Parramatta 3. Sydney

5.11 Natural and built environment

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.

All five councils underpin their planning controls with a policy of “sustainable development”. This is, however, expressed in differing fashions in the various LEPs and given the developed nature of the bulk of the areas under review, significant natural assets represent minor components of the land use mix.

While the areas under review contain significant numbers of heritage items and areas, protection of this heritage estate does not feature strongly in the aims of the LEPs.

The bulk of residential zonings are R2 (Low Density). Higher density residential zones tend to be focussed around commercial and activity centres (including areas such as Macquarie University) however the Hills Shire Council also pursues a policy of promoting higher residential density along major road routes.

Major economic activity centres in the areas under review are recognised by all Councils with appropriate Business Zones. In the case of Ryde Council, the LEP seeks to capitalise on the importance of Macquarie University (planning for which is controlled under the Major Development SEPP) by locating a range of Business Zones adjacent to the University (B3 Commercial Core, B4 Mixed Use and B7 Business Park). Auburn Council pursues a similar approach in capitalising on the benefits presented by the Olympic Park precinct, using high density residential (R4) and Business Park (B7) zonings adjacent to the precinct.

Existing industrial areas are also recognised by all councils with appropriate General (IN1) Light (IN2) or Waterfront (IN4) Industrial Zones in the areas under review.

Parramatta Council recognises and reinforces the importance of the Parramatta CBD and its immediate environs by using a specific LEP to guide the development of Sydney's second CBD. In all other areas under review, councils deal with their major centres as elements of their overall LEPs.

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

5.12 Representation

With a population of almost 450,000, even if the merged council had the maximum allowable number of councillors of 15, the level of representation would fall significantly compared to the current levels in each council area, particularly so for the smaller councils like Holroyd and Auburn, but all communities would be affected.

Table 21 Comparison of representation

Council	Representation (population / Councillor)
Holroyd	9,100
Parramatta	12,331
Auburn	8,614
Hills	15,993
Ryde	9,493
Merged	29,973

This is considered to be a significant change and unless the merged council can address the apparent loss of representation could have a major negative affect on the community.

5.13 Organisation alignment

5.13.1 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 H).

Whilst there are clear threads of commonality between the community strategic plans of these five councils, there are also significant individualities. A unifying feature of all these plans is their optimistic themes and positive language.

Holroyd Council's vision statement provides a detailed description of the preferred vision for the council area, nearing a page in length. By contrast the other councils have encapsulated their visions for the future in a single statement or series of brief dot points. Parramatta's vision denotes the council area as a significant economic centre with a pivotal role in regional growth.

The broader themes expressed in the plans also share commonality in such areas as environment, economy, cultural diversity and leadership. However here again, they are more individual in how the themes are expressed. Whilst some are neutral statements that act as headings within the document, others are expressed as value statements.

5.13.2 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 and insight into how aligned or misaligned the organisations cultures are.

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 the council.

As highlighted above, there are clear threads of commonality between the community strategic plans of the five councils.

The plans also share commonality in such areas as environment, economy, cultural diversity and leadership. However here again, they are more individual in how the themes are expressed. Whilst some are neutral statements that act as headings within the document, others are expressed as value statements

All of these elements of community vision are expressed differently however there is an underlying commonality.

Feedback provided in community surveys provides a useful way to consider the relationship between councils and their community.

- Holroyd's 2012 Survey indicates that 79% of residents were at least moderately satisfied with the Council's performance overall. It also provides detailed measures against key areas of Council's service delivery
- In the Hills Shire Community Survey 2012-13 residents expressed a 'moderately high' level of satisfaction with the performance of Council, with 64% of the respondents giving a rating of 'satisfied'-'very satisfied'
- Parramatta Council conduct an annual survey, with the 2014 results showing Council performed well on overall satisfaction with 75% of online respondents saying that they are either satisfied or very satisfied
- Auburn Council undertook analysis of community satisfaction during the development of its community strategic plan, though an overall level of satisfaction with Council could not be identified
- A recent Community Survey for Ryde noted 72% of residents were satisfied with Council operations

Corporate Organisations

By measuring training and development expenditure against both total expenditure and full time equivalent staff numbers we can assume that each of the councils has a similar approach to staff development, tempered by some variation in the actual numbers.

	Holroyd	Parramatta	Auburn	Ryde	Hills
FTE	520	759	278	440	577
% employee costs allocated to training	1.23%	1.18%	0.40%	0.54%	0.98%
Total employee cost (\$000) per FTE	\$77	\$105	\$82	\$88	\$84
Total annual expense (\$000) per FTE	\$166	\$238	\$216	\$215	\$225

There is considerable variation across the councils with regards to the amount spent on training, all falling under the industry benchmark of 2%. Holroyd shows the largest level of investment per employee, which is considerably higher than Auburn.

A crude indicator of staff productivity can be the portion of the operating costs spend per staff member and when comparing this, Parramatta has the highest spend per FTE though all councils fall within a similar range. Alternatively a lower operating cost spend per staff member can be a measure of a council's staff efficiency. We add a note of caution when using these figures 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.

All the councils publish workforce plans and while each council's plan is different they identify common strategic issues; ageing workforces and recruitment, particular into skills gaps and retention as major challenges for which they are developing strategies.

All the councils report turnover rates in their published workforce strategies of around the industry average of between 9 – 11%.

Organisational size can 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. There is a moderate to high range of variation of residents per FTE across the councils, from 325 residents per FTE at Holroyd to 213 residents per FTE at the Hills Shire.

Corporate values

Each council will take a different approach to developing their own corporate culture but each is underpinned by a set of organisational values. They are outlined for each council below:

- Auburn note values centred on Good Governance, Transparency and accountability, Economic, Environmental, Social Sustainability, Excellence, Respect and Integrity and Making a Difference
- Holroyd focus on similar areas including Quality Customer Service, Contestability Community Leadership, Technical Excellence, Continuous Improvement and Innovation Open Government, Environmental Stewardship, Best Practice and Sound Financial Management
- Parramatta reflects their values as a series of guiding principles covering Teamwork, Service, Sustainability, Accountability, Leadership, Innovation and respect
- Ryde capture their corporate values succinctly highly safety, teamwork, ethics and professionalism as characteristics that underpin their work

- The Hills Shire aligns the Councils' Values and activities with the broader community vision including Proactive Leadership, Vibrant Communities, Balanced Urban Growth and a Modern Local Economy

The councils have reflected their values in various levels of detail, however there are common themes of leadership, transparency, customer service, teamwork, prioritising the environment and community. The values reflect those common across areas of public service, and particularly local government.

Corporate Policies

A desktop review of the policy registers of the councils highlights some interesting philosophical differences and issues that have been given priorities (at some point in time) by the different councils.

Holroyd has by far the most extensive policy register indicating a very prescriptive albeit very transparent operational approach. It has developed a comprehensive range of policies that appear to cover all services and key functions to guide how council does businesses.

Both Holroyd and the Hills Shire have specific low kill policies included in their registers.

Both Parramatta and Ryde policies are generally focused on councils more traditional functions and responsibilities. Auburn has a similar register, however is very high level.

While we recognise policies change and reflect a position at a particular time they also reflect the organisational culture which is tasked with implementing them.

5.14 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.

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.

The assessment of each council's infrastructure backlog and the asset maintenance ratio has been accepted for the purposes of this project and by the other councils at face value. There is therefore a risk to each council of not fully understanding the condition of each other's networks or the financial costs of maintaining these over the long term.

A range of scenarios has been modelled to represent different potential outcomes from the proposed merger. Those results vary considerably highlighting the financial risk to the merged council and its community should the expected financial benefits of the merger not be realised.

6. SHARED SERVICES

The shared services scenario uses a theoretical design for shared services based on a concept originally put forward in the SSROC submission on Revitalising Local Government in March 2014. Based on our experience and taking into account the geography and nature of the councils the greatest opportunities for shared services exist in the following areas:

- Technical services
- Works
- Support services – HR, IT, Finance

The scale and capacity created in relation to each of these service areas can, under the right circumstances, produce similar levels of efficiency as are available under the merged council scenario.

A number of assumptions have been made in order to model the likely impact of shared services:

- All councils will participate and the manner in which the service is established will provide for certainty and longevity of the arrangements. If there is any uncertainty over the continued operation of the shared service this will hamper investment of resources (people, time and funds) in the processes and systems that will generate the efficiencies
- Similar employment protection provisions apply as apply to the merged council
- A shared services provider would be separate from the individual councils and be a service provider to all councils
- The introduction of the shared services is likely to be staged
- Each council retains a 'smart buyer capacity' to ensure that the services purchased from the shared services provider are appropriate and are analysed / tested. This is assumed to include some contract managers as well as technical capability but does not increase the overall staff numbers across the councils and the shared services entity
- It is acknowledged that more detailed work to review the skills and capability of existing staff (particularly in works and technical services) is required to determine the type and range of services and activities that could actually be delivered
- In order to achieve similar levels of cost efficiency in the support services, like the merger option, a transition to a single IT platform and systems would be required
- The shared services provider would be able to provide services beyond the five 'parent' councils
- All costs and benefits arising from the establishment and operation of a shared services model would be borne by the five councils collectively, regardless of the mode chosen for implementation

The governance and management of the shared services unit will be critical to success. As a service provider to the councils it will need both the technical and managerial capability to provide a high quality service to five different clients.

While our view is that the benefits are of a similar scale to that which could be achieved under a merger (within the relevant service areas) achieving the efficiencies is likely to be much more difficult as instead of a single organisation having a shared focus there will be seven entities within the arrangement.

There is also a mixed track record with implementing shared services in particular in NSW and Australia where well known examples at state level have failed to deliver the expected savings (e.g. Business Link). In contrast there are shared services models in other jurisdictions such as New Zealand where shared infrastructure services models operate (e.g. Capacity Infrastructure Services, Nelson/Tasman Regional Sewerage Business Unit and Manawatu/Rangitikei Shared infrastructure Services).

The table below sets out the likely estimated costs and benefits arising from shared services¹⁶. We have grouped the technical services and works together and dealt with support services separately. This highlights that there are significant establishment costs associated with a shared support service that impact on the overall savings over time.

The costs of establishing a shared service for works and technical services is quickly recovered. In contrast the costs of a support shared service take a much longer period to be recovered and the risk of non-recovery is much higher when the track record in this regard is taken into account.

Table 22 Estimated costs and benefits from shared services (2023)

	NPV at 4%	NPV at 7%	NPV at 10%
Works and Technical Services	\$47.6M	\$38.5M	\$31.2M
Back of house	-\$12.9	-\$20.5M	-\$26.1M

¹⁶ Refer to Appendix C for assumptions regarding costs and benefits of the merger scenario. Appropriate costs and benefits have been scaled as appropriate to the shared services model.

7. 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 was their view that scale and capacity for each of the councils arises through a merger with each other.

7.1 Holroyd Stand Alone

7.1.1 Scale and capacity

Holroyd City Council will need to demonstrate that, as a stand-alone entity, it has Scale and Capacity and meets the outcomes sought by its community, the State Government and other key stakeholders. With no guidance on what constitutes scale, other than the Independent Review Panel recommendation for the councils, this report concentrates on the strategic capacity criteria. It is noted that the scale or size of a council is only one of a number of mechanisms that can be utilised to achieve the organisational outcome sought by the community and other stakeholders. It considers, from a practical sense, what councils can do that exhibits the key aspects of strategic capacity. The report identifies a range of actions, plans and strategies that council can take and then identifies what Holroyd Council does in this regard.

The introduction of a Special Rate in 2014/15 which focussed on asset renewal demonstrates Holroyd City Council's capacity for strategic decision making and the ability for the council to engage with its community on key issues and follow through to make prudent decisions. It also provides sufficient funding for the council to maintain a positive operating performance throughout the period being modelled while increasing asset expenditure to meet all asset related benchmarks. Council showed financial prudence through the SRV process to only increase rates to the level necessary to maintain and renew assets.

The planned population growth under the Holroyd LEP 2013 is for an additional 47,000 residents by 2032, a 43% population increase; however, based on current trends, that could be as high as 54% (59,000 residents) by 2032 based on the current influx of development applications. This increase will provide additional revenue to council however it is also a demonstration of Council's ability to plan for and manage the challenges of growth and to work with the State Government in providing for the rapid growth of the Sydney metropolitan area.

Holroyd City Council is currently participating in wide range of shared service and collaborative arrangements delivering benefits to the Holroyd community and more widely the region e.g. the WestConnex and Parramatta Road Revitalisation programs. Council's alliance with Hay Shire Council provides benefits to both parties and demonstrates innovation and collaboration. A dedicated Business Process Improvement Coordinator drives improvement initiatives and recommended cost savings and efficiencies across Council.

A Micromex survey indicating a strong result for Council, with 92% of residents saying they are 'somewhat satisfied' to 'very satisfied' with Council's performance, demonstrates high levels of customer satisfaction.

7.1.2 Fit for the Future benchmarks

Holroyd is projected to meet all seven of the Fit for the Future benchmarks by 2020. Currently five of the seven are met with asset maintenance being met in 2018 and the operating performance ratio in 2020.

7.2 Proposed merged council

7.2.1 Fit for the Future benchmarks

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.

Three scenarios were modelled to represent potentially different outcomes from the proposed merger. Due to time constraints the results of the scenario modelling is set out in the Addendum Report referred to earlier with the results included in this Executive Summary.

While the significant transitional costs identified throughout this report mean the operating performance of the merged council under all scenarios is negative from day one the different scenarios provide a range of outcomes over the longer term. Under the '*efficiencies realised*' scenario the merger performs better against the Fit for the Future benchmarks over the longer term than under either of the '*efficiencies not realised*' or the '*Holroyd assumptions*' scenarios. However, under all three scenarios the merged council would meet only three of the indicators at 2020 as shown in the table below.

Table 23 Merged council options performance against Fit for the Future benchmarks (2020)

Indicator	Merged Council ' <i>efficiencies realised</i> '	Merged Council ' <i>efficiencies not realised</i> '	Merged Council ' <i>Holroyd assumptions</i> '
Operating Performance	Does not meet the benchmark	Does not meet the benchmark	Does not meet the benchmark
Own Source Revenue	Meets the benchmark	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark	Meets the benchmark
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark	Does not meet the benchmark
Asset Renewal	Does not meet the benchmark	Does not meet the benchmark	Does not meet the benchmark
Infrastructure Backlog	Does not meet the benchmark	Does not meet the benchmark	Does not meet the benchmark
Real Operating Expenditure	Meets the benchmark	Meets the benchmark	Meets the benchmark

The asset focus of the Fit for the Future benchmarks means that like some of the individual councils, the merged council meets none of the asset related benchmarks for the majority of the period modelled. While a merged council would meet the asset renewal ratio requirements until 2017, a funding gap starts to develop for asset maintenance, and the infrastructure backlog ratio worsens, which is set out in the table below.

Table 24 Merged council asset funding gap

Council	Average funding required per annum (5 years) (\$000)	Average funding required per annum (5 years+) (\$000)
Merged Council	-18,691	-11,568

7.2.2 Financial costs and savings of the merger

Under the all three scenarios the transition costs are, in the context of the five councils, 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), harmonisation of wages, redundancy costs and the implementation of a single IT system. Longer term costs also arise as staff numbers increase, which has been shown to be typical of merged councils and considered to arise as a result of increased services and service levels.

The differences arise in the scenarios as to the extent to which benefits will arise from the merger. Under the *efficiencies realised scenario* savings initially arise in the short term through the reduction in the number of senior staff and Councillors. Natural attrition is used to reduce staff numbers in the short term with a focus on removing the duplication of roles across the five councils and creating greater efficiency in operation with reductions modelled in Tier 2 and 3 of the structure, the works units and back of office.

Savings are also projected to arise in relation to procurement and operational expenditure due to the size and increased capacity of the larger council. In the medium and longer term benefits arise through reducing staff numbers by removing the duplication of roles in areas such as finance, HR, IT and management. Savings also arise in creating greater efficiency in operations and some rationalisation of plant, fleet and buildings (one off).

Under the *efficiencies not realised scenario* limited savings arise through the reduction in the number of senior staff, reduced cost of councillors and reduction in procurement and operational expenditure due to the size and increased capacity of the larger council. Under the *Holroyd assumptions scenario* costs increase through the introduction of a new layer in governance (community boards), increased costs of IT consolidation and longer term materials and contract costs increase rather than decrease. Financial savings arise from minor reduction in staff numbers of 5% - 6%,

The comparison of the different scenarios highlights the significantly different outcomes that may be realised from the merger of Holroyd, Parramatta, Auburn, part Ryde and part The Hills Shire as proposed by the Independent Review Panel.

If the assumed efficiencies are realised then over the longer term the merged council meets the operating performance ratio, although the ratio is not met by 2019/20 as required by IPART, and the entity delivers estimated financial savings of \$41.8 million over the period to 2023. Under either the *efficiencies not realised* or *Holroyd assumptions* scenarios then the operating performance ratio is never met, staying well below the benchmark with a 'high' point of between -8 and -9% respectively, and the entity costs the communities \$122.9 and \$125.7 million respectively over the period to 2023.

What the scenario modelling clearly shows is that, leaving aside social and community impacts, the financial viability of the merged council would depend on the organisations ability to make significant efficiency gains through either reducing expenditure or increasing revenue or a combination of both.

7.2.3 Rates

The significant differences in the current rating structures and the differences in the current levels of rates mean that under a merged council there are likely to be significant changes in rates for individual properties and sectors across the area in transitioning to a single rating structure over time.

It would be a difficult and time consuming process to align the rating structures across the communities now within a single council area.

7.2.4 Debt

Holroyd has no debt. Ryde, Auburn and Parramatta councils all have varying levels of debt and under a merged council scenario, Holroyd residents would move from a position of no debt to approximately \$257 per capita. Often taking on the debt of other communities can be a significant issue to those residents who inherit the debt as a result of the amalgamation.

7.2.5 Environment and Community Aspirations

All five councils underpin their planning controls with a policy of “sustainable development”. However, given the developed nature of the bulk of the areas under review, significant natural assets represent minor components of the land use mix. While the areas under review contain significant numbers of heritage items and areas, protection of this heritage estate does not feature strongly in the aims of the LEPs.

The bulk of residential zonings are R2 (Low Density) with higher density residential zones being focussed around commercial and activity centres (including areas such as Macquarie University), although the Hills Shire Council also pursues a policy of promoting higher residential density along major road routes.

Parramatta Council recognises and reinforces the importance of the Parramatta CBD and its immediate environs by using a specific LEP to guide the development of Sydney’s second CBD. In all other areas under review, councils deal with their major centres as elements of their overall LEPs.

7.2.6 Representation

Even assuming a merged council had the maximum of fifteen councillors the number of people represented by each councillor would significantly increase for all council areas. With a population of almost 450,000 the changes would be most dramatic for the smaller councils where representation is currently around 8,500 to 9,500 residents per councillor. In the merged council each councillor would represent approximately 30,000 residents. This is considered to be a significant change and unless the merged council can address the apparent loss of representation could have a major negative affect on the community.

7.2.7 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.

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. The scenarios modelled in the Addendum Report provide a description of potential outcomes and their impact on the financial performance of the merged council both in terms of performance against the Fit for the Future benchmarks and the likely costs and benefits that flow from the merger.

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 BENCHMARKS¹⁷

Operating Performance Ratio

*Total continuing operating revenue (exc. capital grants and contributions)
less operating expenses*

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

Total continuing operating revenue less all grants and contributions

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 Future 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 their 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

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

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

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

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

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

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

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

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 HIGH LEVEL SERVICES COMPARISON

	Holroyd City Council	Parramatta City Council	Auburn City Council	The Hills Shire Council	Ryde City Council
Number of Councillors	12	15	10	12	12
Population per Councillor	9,100	12,331	8,614	15,993	9233
Number of Equivalent Full Time Employees	466	742	287	580	440
Population per staff member	234	249	300	331	252
Administration					
Response to customer requests	<ul style="list-style-type: none"> Customer service requests actioned within 10 working days (written) or 1 day (email) 				<ul style="list-style-type: none"> Customer service requests actioned within 10 working days
Health					
Solid Waste Management	<ul style="list-style-type: none"> General waste weekly Co-mingled recycling fortnightly No Green waste collection Annual kerbside household clean-up collection On-call household clean-up service at householders cost E-waste drop off four times a year Annual household chemical collection at Council depot 	<ul style="list-style-type: none"> General waste weekly Co-mingled recycling fortnightly Green waste fortnightly collection Quarterly kerbside household clean-up collection E-waste drop off once or twice a year 	<ul style="list-style-type: none"> General waste weekly Co-mingled recycling fortnightly Green waste fortnightly collection Four pre-booked bulky waste collections per year E-waste drop off twice a year 	<ul style="list-style-type: none"> General waste weekly Co-mingled recycling fortnightly Green waste fortnightly collection 	<ul style="list-style-type: none"> General waste weekly Co-mingled recycling fortnightly Green waste fortnightly On-call household clean-up service (5 calls per year) E-waste council offers on-call service (five calls per year)

	Holroyd City Council	Parramatta City Council	Auburn City Council	The Hills Shire Council	Ryde City Council
Street Cleaning/Graffiti removal					<ul style="list-style-type: none"> Council has a program to remove all graffiti on public and private land within 24 - 72 hours of it being reported
Public Libraries	3 Libraries <ul style="list-style-type: none"> Internet and email free of charge Children's activities Events and activities programme Home delivery (mobility) 	7 Libraries <ul style="list-style-type: none"> Internet and email free of charge Children and Youth Services Newspapers eBooks Events and activities programme JP services Home library and Outreach service delivery (mobility) 	3 Libraries <ul style="list-style-type: none"> Internet and email free of charge Children and Youth Services Newspapers Events and activities programme JP services Home library and Outreach service delivery (mobility) 	5 Libraries <ul style="list-style-type: none"> Internet and email free of charge Children and Youth Services Newspapers Events and activities programme JP services Home library and Outreach service delivery (mobility) 	5 Libraries <ul style="list-style-type: none"> Internet and email free of charge Children's activities Events and activities programme JP services Council Kiosk Home delivery (mobility) Accessible by free community bus
Swimming Pools (number)	3 swimming pools	2 swimming pools	3 swimming pools	1 swimming pool	1 swimming pool
Public Halls	12 Public Halls	6 Public Halls	12 Public Halls	5 Public Halls	14 Public Halls
Open Public Space	342 ha	844 ha	342 ha (214 ha excluding Sydney Olympic Parklands)	202 ha	698 ha
Parks and Reserves	252 parks and reserves	Around 300 parks and reserves	Greater than 70 parks	329 parks and reserves	34 parks and reserves

	Holroyd City Council	Parramatta City Council	Auburn City Council	The Hills Shire Council	Ryde City Council
Transport and communication					
- Road length (kms)	• 345.2 km	• 519 km	• 345.2 km	• 225 km	• 321 km
- Road sweeping					
- Cycleways		• 24 km Greenspace • 50 km on road or footpath			
- Bridges	• 23 Road • 14 Pedestrians		• 2 + 4 half bridges		
- Footpaths	• 426 km	• 600 km (approx)			• 448km
- Marine facilities					• Seawalls

APPENDIX C COSTS AND BENEFITS ARISING FROM A MERGER OF HOLROYD, PARRAMATTA, AUBURN, RYDE (WESTERN) AND HILLS (PART) 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 professional opinion of Morrison Low staff based on experience including with the Auckland Transition Authority.

Queensland Treasury Corporation August 2009 Report

In an August 2009 report¹⁸ 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 (ie, 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 (ie, 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 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

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

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 has modelled for a possible merger of the five 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 (\$970K)

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 the Mayor and Councillor fees and expenses of the Councils as reported in the Annual Reports 2014. The Independent Review Panel has envisaged a full time Mayor and there will be higher costs associated with such a role than the current Mayor and Councillors receive. It is assumed that there would be 15 Councillors and a Mayor.

1.2 Executive management (\$1.5 million)

The formation of a single entity is likely to result in efficiencies due to an overall rationalisation in the total number of executive managers required at the Tier 1 (General Managers) and Tier 2 (Directors). Revised remuneration packages for the new General Manager and Directors for the new entity have been informed and assumed to be similar to that of the City of Sydney executive remuneration packages given the size and scale to that of the proposed new entity.

The General Managers total remuneration for the Councils was based on the councils' respective Annual Reports 2013/14, and the amalgamation to a single entity with a single General Manager has the potential saving of approximately \$1.1 million.

In addition there would be a rationalisation of the existing director positions, based on the Annual Reports there are 13 such positions across the councils with the combined remuneration based on the Annual Reports 2013/14. Assuming that the new entity has four director positions, the estimated savings are in the order of \$360K.

It is important to note that while ongoing efficiencies of \$1.5 million have been identified effective from the short term, there is the one off cost of redundancies of approximately \$3.4 million 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.

Based on our previous experience one would expect resource efficiencies of between 40 and 60%. The reduction in resources is only likely to occur in the medium term due to the form of employment contracts, however having said that there is the potential not to replace positions vacated in the short term if they are considered to be duplicate positions under the new entity (natural attrition policy). 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. The 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.

	Staff	Duplicated Services	Contract/ Procurement	Information Technology	On Costs
Transition Period	Natural attrition (voluntary)				
Short Term (1 to 3 years)	Natural attrition (voluntary)	Finance ICT Communications Human Resources Records Customer Services Risk Management			Staff Associated Costs e.g. HR, Accommodation Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management (Tier 3) Natural attrition (voluntary)				Staff Associated Costs e.g. HR, Accommodation Computers, Vehicles
Long Term (6 years plus)					

2.1 Rationalisation of duplicate services (\$9.3M)

Consistent with the dis-establishment of five 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. 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 five 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 assumption underpinning the efficiency for corporate services is a 35%¹⁹ reduction in corporate support personnel that has an estimated saving of \$9.3 million. 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 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 based on an average of 26 weeks²⁰

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)					

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 10years. An average of 26 weeks has therefore been used throughout.

3.1 Management (\$4.5M)

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.

The Auckland amalgamation resulted in an FTE reduction of almost 60%² across the total Tier 1 through to Tier 4 positions. While Section 1 addresses the Tier 1 and Tier 2 efficiencies, there is further opportunity for efficiencies in regard to the Tier 3 and Tier 4 managerial positions although these would only be realised in the medium term.

On the basis that five councils are being disestablished and a single entity created, the assumption is that there will be at least a 30% reduction across the existing Tier 3 and Tier 4 positions achieving an ongoing efficiency of \$4.5 million on remuneration and on costs.

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

3.2 Staff Turnover (\$7.7M)

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 based on applying a modest 4.5% natural attrition.

3.3 ICT Benefits (\$7M)

Without a full investigation into the current state of the five 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 five 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%¹ over time in line with reduced IT applications and systems. Without the ICT FTE remuneration for the five 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 5 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 \$7M per annum.

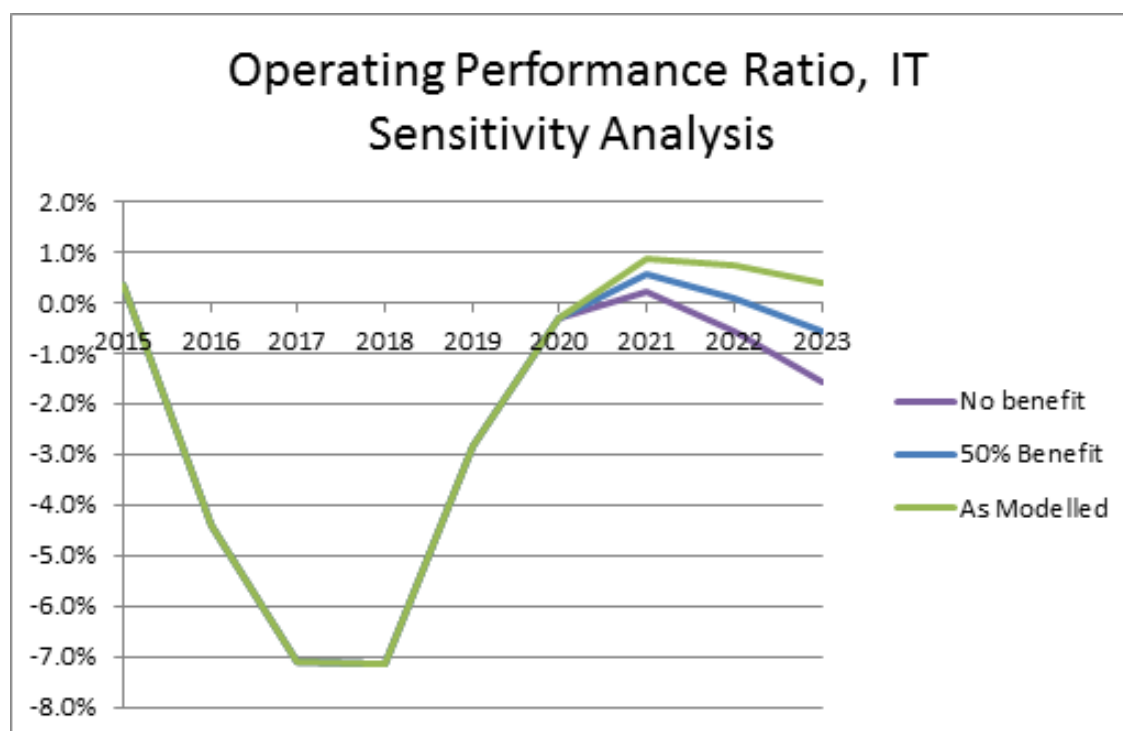
Sensitivity Analysis

Due to the high level of uncertain associated with the realisation of IT benefits one additional scenario has been modelled to demonstrate the overall impact on the financial sustainability of the IT benefits being realised.

The impact on the merged council is set out by reference to the Operating Performance Ratio.

Benefits at 50%

Realising only 50% of the IT benefits affects the merged council's operating performance by approximately \$3.5 million per annum from 2021.



3.4 Materials and contracts (\$790K - \$2.4M)

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 five councils to one. An estimate needs to take into account that the councils currently engage in some collective procurement including through NSROC and SHOROC shared and panel contracts but that the process also identified a large number of services contracted out by the councils which are not aligned or co-ordinated.

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

Based on the analysis during the project and our experience the combined savings have been modelled in the short term at 2% and rising to 3% and then 4% over the medium and longer term.

3.5 Properties (\$6 - \$8M)

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. The rationalisation of buildings in the first instance is likely to be corporate accommodation associated with the reduction in staff, other obvious areas would include the work depots (refer to Section 3.7).

The councils have a combined buildings portfolio of over \$730M and for the purposes of modelling the merged council it is assumed that the council would dispose of 5% of the building assets in the medium term. In the longer term savings in properties are achievable but should be carried out in a more strategic manner across the combined entity.

3.6 Works units

Staff (\$12.2M)

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 20% 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 (\$2.8M – 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 20% would be achievable should there be an amalgamation of 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 together²¹ 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 the five 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.²² for the proposed Wellington reorganisation.

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:

²¹ Assessing processes and outcomes of the 2004 Local Government Boundary Changes in NSW, Jeff Tate Consulting

²² Report to Local Government Commission on Wellington Reorganisation Transition Costs, Stimpson & Co., 28 November 2014

Governance	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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
Finance and Treasury	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> 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 Day 1 and beyond
Customer Services	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 (\$10M)

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 million⁴ and on the assumption of FTEs to transition body costs for Wellington, the estimated cost of the transition body for the merger is \$11 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.

In this case there will be additional costs associated with ‘splitting’ Ryde and The Hills including the staff, assets, finances (including investments, debt, liabilities). An allowance of \$2M has been made for additional costs over and above the typical transitional costs expects in a merger.

5.2 ICT (\$80M)

The costs associated with ICT for the new entity relate to rationalising the five existing councils ICT infrastructure, business applications, security and end user support for the single entity. 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. With the limited time to undertake this report the ICT costs have thus been based on the proposed Wellington reorganisation. A number of ICT scenarios were explored by Deloitte²³ for Wellington and the WNTA scenario most closely resembles the North Sydney situation has an estimated ICT cost of between \$50 million and \$80 million.

Given the complexity of splitting Ryde and The Hills, the IT costs have been assumed to be at the higher end of the scale and at \$80 million.

5.3 Business Process (existing Council budget)

As 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 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 (\$6M)

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 some existing signage of the five councils for Day 1 of the new entity on buildings, facilities and vehicles. In addition it will be necessary to replace the existing website, staff uniforms, letterheads, brochures, forms and other items. The estimated cost for branding is \$6M based on other amalgamation experience.

5.5 Redundancy Costs (\$3M)

This is based on a reduction in from five General Managers to one for a merged council and reduction of senior contracted Staff 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 (\$8.1M)

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 five 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 combined councils combined as well as between the five councils.

5.7 Elections

There is a possibility of proportional savings in existing council budgets as instead of five 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 five councils.

²³ Wellington Local Government Reorganisation Options – Transition Costs and Benefits for Technology Changes, Deloitte, September 2014

APPENDIX D FURTHER ASSUMPTIONS

Services and service levels remain the same in the merger unless specifically stated otherwise.

Any costs and benefits (financial, social or otherwise) from an extended governance framework e.g. Community Boards have not been allowed for.

Both the City of Ryde and the Hills Shire Council have been split based on the recommendation of the Independent Review Panel recommendation. No detail was provided by the Panel other than the 'western one third of Ryde' and for The Hills, the suburbs south of the M2.

A split has been made using logical boundaries conforming to this with the apportionment of assets, finances and population being made based on the assumed boundary.

For the City of Ryde, the assumptions used are that the merger includes approximately 32% of the population of the existing Ryde Council and 35% of the properties.

For the Hills, the assumptions used are that the merger includes approximately 17% of the population of the existing Hills Shire and 17% of the properties.

The cost of borrowing is based on existing council forecasts and as such no allowance has been made for access to lower interest rate loans that may be available to councils that are deemed 'Fit for the Future'.

APPENDIX E PERFORMANCE OF THE OTHER COUNCILS AGAINST THE BENCHMARKS

Councils performance against Fit for the Future benchmarks (2020)

	Holroyd City Council	Parramatta City Council	Auburn City Council	Ryde City Council	Hills Shire Council
Operating Performance	Meets	Does not meet	Does not meet	Meets	Meets
Own Source Revenue	Meets	Meets	Meets	Meets	Meets
Debt Service Cover	Meets	Meets	Meets	Meets	Meets
Asset Maintenance	Meets	Does not meet	Does not meet	Meets	Meets
Asset Renewal	Meets	Does not meet	Does not meet	Meets	Meets
Infrastructure Backlog	Meets	Does not meet	Does not meet	Meets	Meets
Real Operating Expenditure	Meets	Meets	Meets	Meets	Does not meet

Asset Maintenance Ratio

The calculation of the maintenance ratio is based in part on the number each council reports as 'required maintenance'. There are no clear guidelines as to how required maintenance is to be calculated and as such the approach varies significantly across NSW.

In the case of Holroyd, our calculations have been based on the projected expenditure set out in their LTFP (adopted 16 December 2014).

Each council's assessment of required maintenance is assumed to represent the actual amount required to maintain their assets in an appropriate condition as no process to standardise the calculation of required maintenance has been undertaken.

Infrastructure Backlog Ratio

The calculation of a council's estimated cost to satisfactory is a key input into the infrastructure backlog ratio. 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.

Each council's assessment of their cost to satisfactory is assumed to represent the actual amount required to bring their assets to a satisfactory condition as no process to standardise the calculation of the estimated cost to satisfactory has been undertaken.

APPENDIX F DETAILED COMMUNITY PROFILE

1 INTRODUCTION

A desktop review of the communities of Holroyd, Auburn, Parramatta, Ryde and the Hills Shire 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.

2 SUMMARY OF KEY SIMILARITIES AND DIFFERENCES

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

- A high proportion of couples with children make up the household types for all council areas
- All council areas have strong Year 12 attainment levels, sitting above the average across New South Wales
- A large number of residents have ancestry other than Australian, with Chinese and English dominating
- There are strong cross over for most council areas and Parramatta in terms of labour supply and journey to work data
- All regions will experience population growth in the period 2011 – 2031

However a number of differences can also be observed:

- Ryde has a larger proportion of people over 50 as compared to other regions
- Ryde has a larger proportion of people employed in Financial and Professional services than other councils areas
- There is a wide range of advantage across the councils as represented by the SEIFA index with Auburn featuring at 137 of 153 council areas, whereas the Hills Shire is at number six
- There is a variation in the number of people with degree qualifications, with Auburn and Holroyd falling below the Greater Sydney average as compared to other areas
- There are differences in the equalised income levels across the regions, most notably between Auburn and the Hills Shire – Auburn showing its largest group of residents in the lower quartile, with the Hills Shire in the highest
- Unemployment rates also show some variation, as low as 4.2 percent in The Hills, but up to 8.6 percent in Auburn
- The Hills Shire has no high density housing in the region

3 POPULATION SUMMARY

Current Base Information

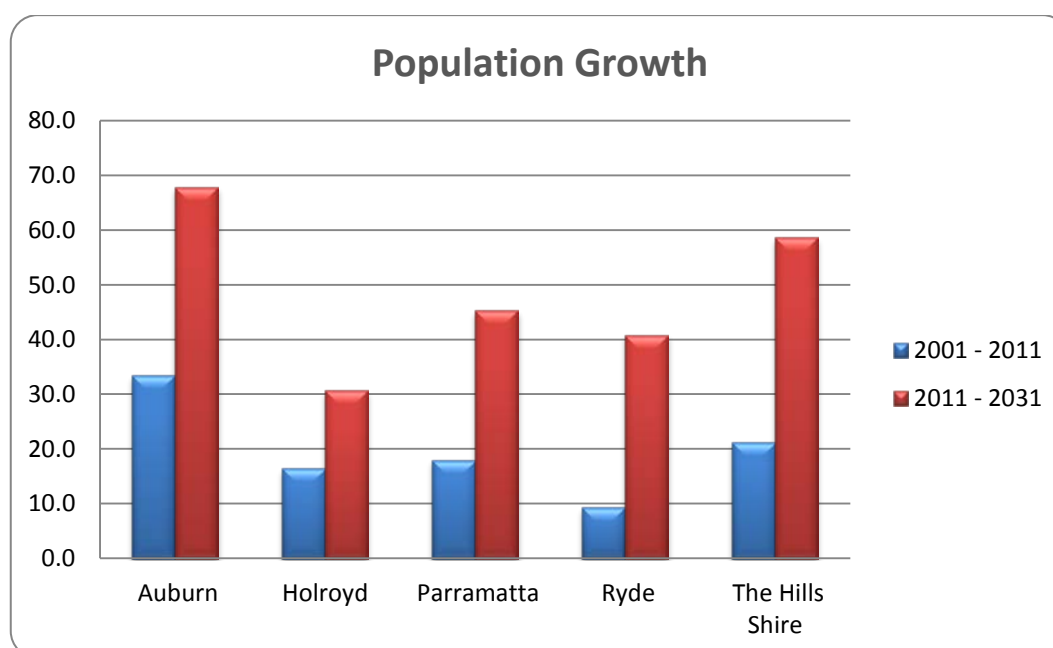
	Population (ERP 2014)	No. Households (Census 2011)	Land Area	Population Density
Auburn	85,446	22,079	3,249	26.30
Holroyd	111,000	33,011	4019	27.64
Parramatta	189,932	56,703	6138	30.95
Ryde	114,598	37,677	404	28.32
The Hills	187,703	53,294	40,059	21.1

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 *Similarities and Differences* Report groups all the Councils with the exception of the Hills Shire in a cluster with population growth rate above state average, with a balance between overseas arrivals and new births. Cluster members experienced a moderate rate of population loss due to internal migration, in some cases because residents were moving out to accommodate new immigrants. The Hills Shire is in a cluster with high growth, though not as high as the other areas.

All areas continue to see positive population growth in the out-years, with Auburn and The Hills seeing the largest percentage growth in future years.

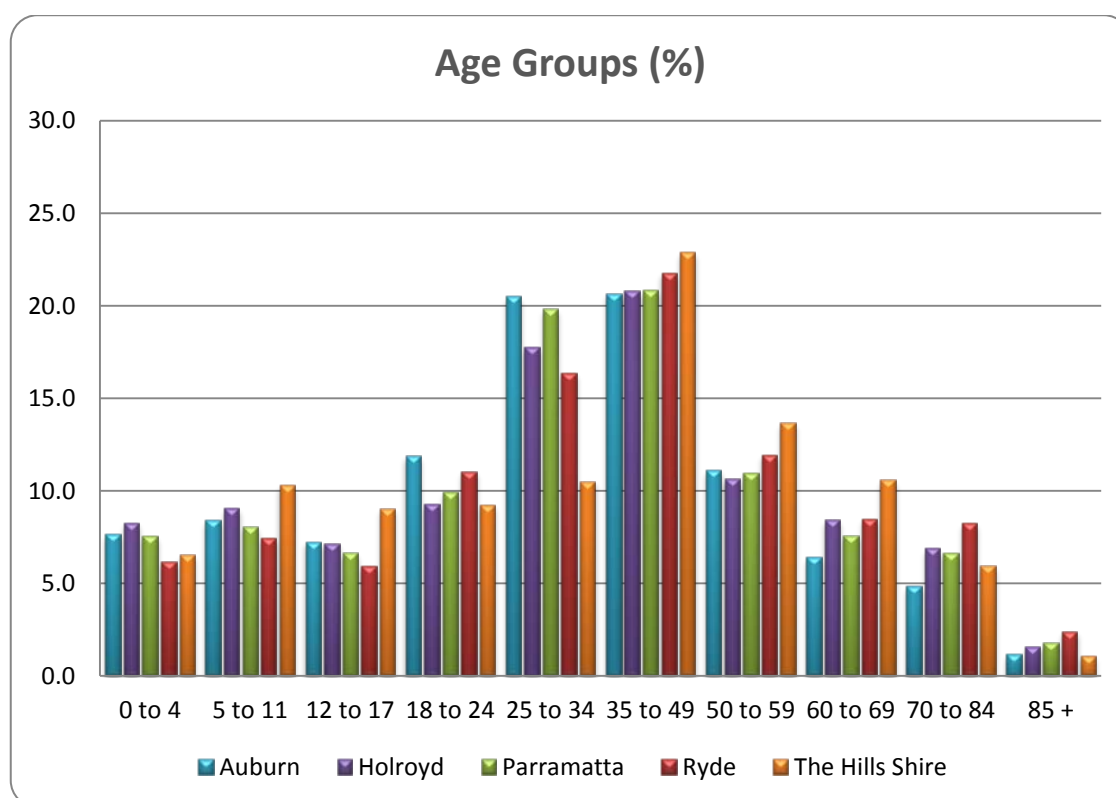


The Age Structure

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.

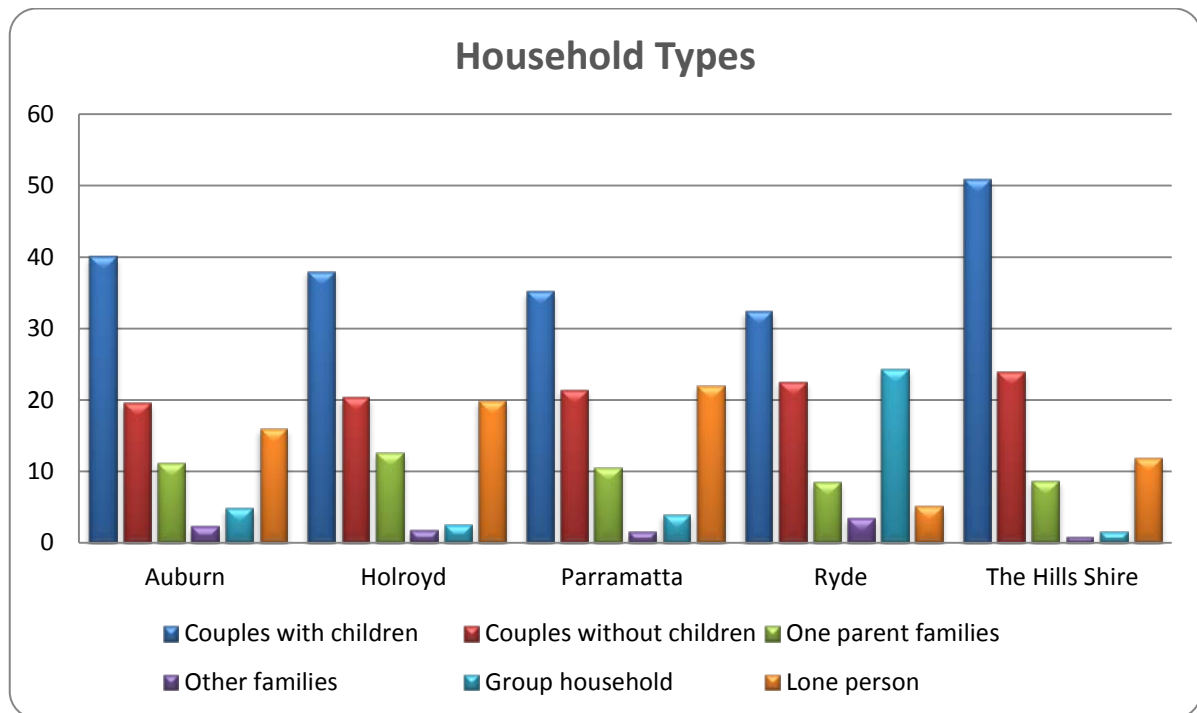
It is useful to note:

- The 35-35 year age group represents the largest age group clustering for the five areas.
- Ryde and the Hills Shire show the areas with the greatest number of people over 50 years of age.
- Additionally, Ryde proportional has lower numbers of children in its current age profile.



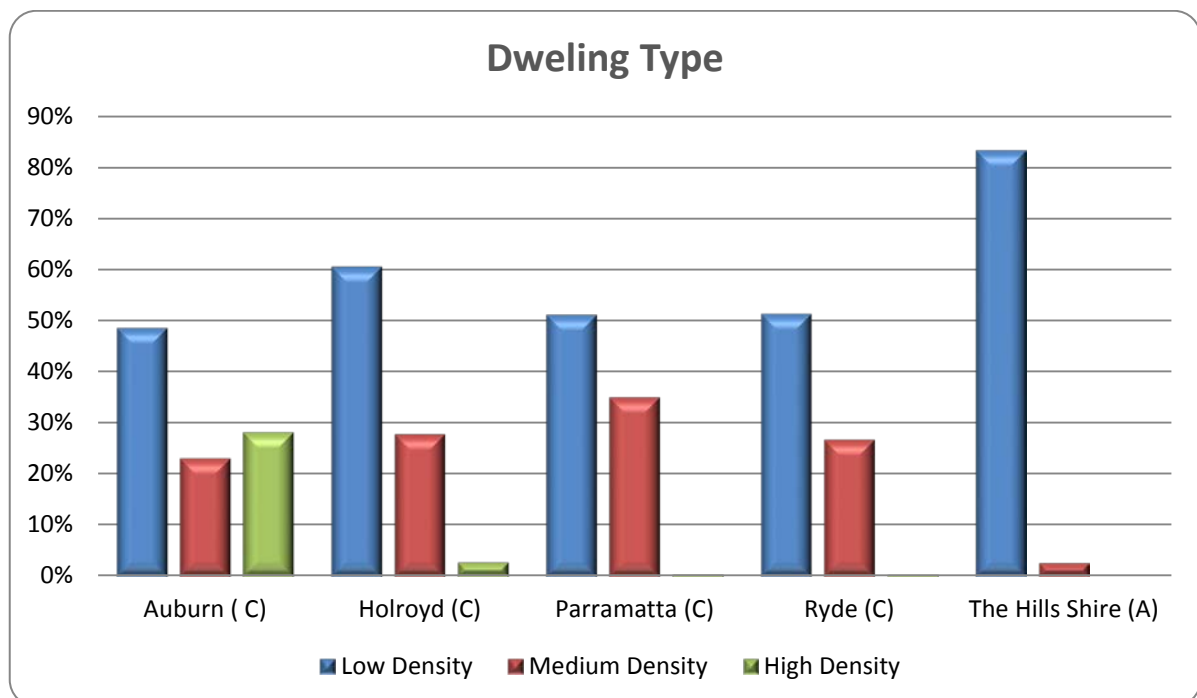
Household and Dwelling Types

Families make up the largest proportion of household types across the Councils. This is followed by couples and single people. Interesting, unlike other areas, Ryde Council shows more group households than single households. All councils fall in the same cluster with regards to household types in the *Similarities and Differences Report*.



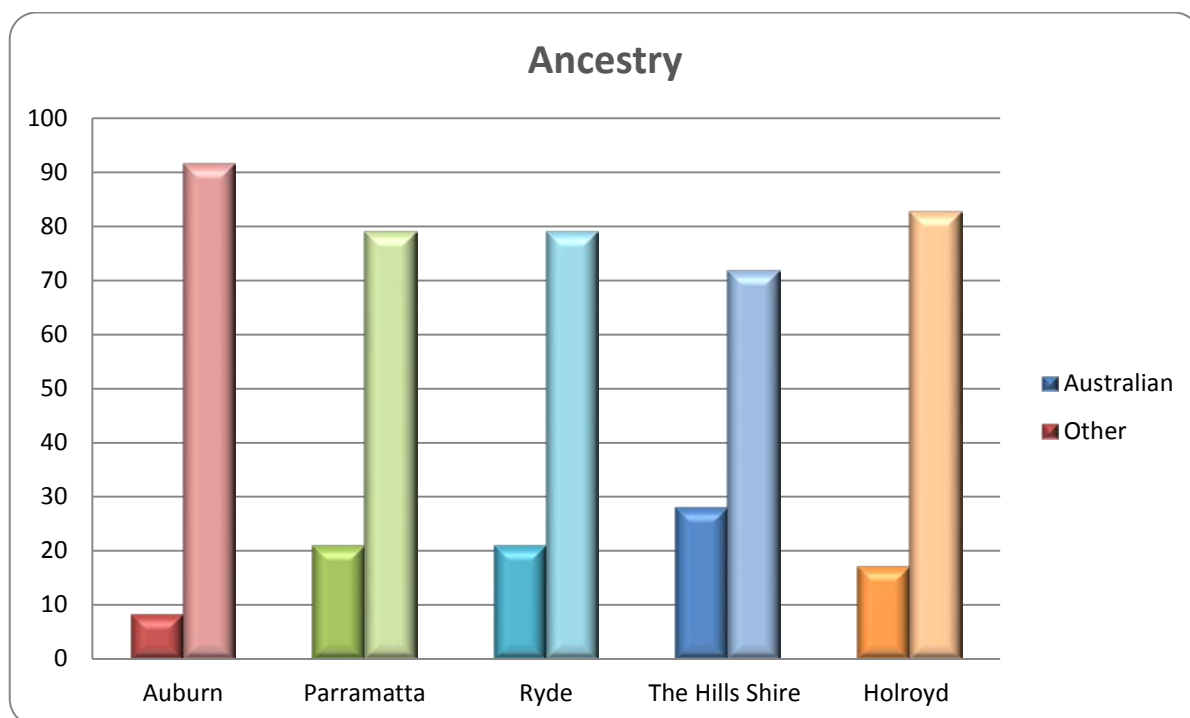
The makeup of dwellings across the regions shows some variation.

Low and medium density housing make up the majority of dwelling types across the council areas. In the Hills Shire, this accounts for all dwellings. Auburn and Holroyd both have the largest levels of high density housing, with Parramatta and Ryde having low levels.

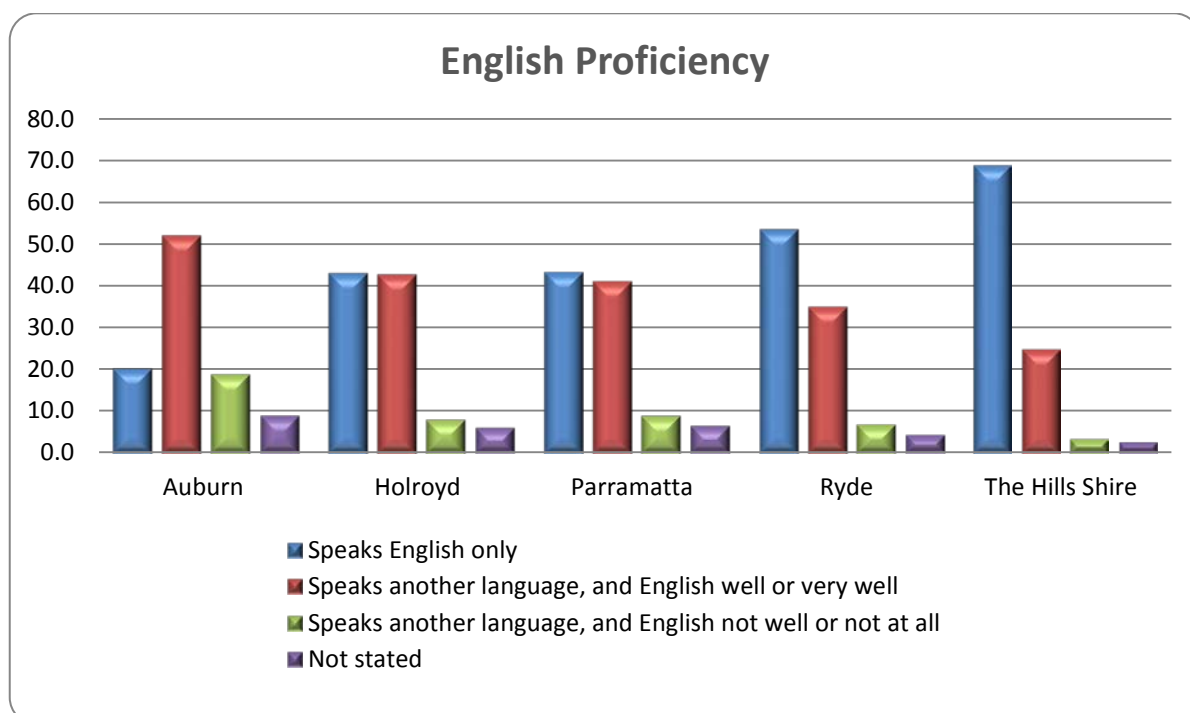


4 ANCESTRY, LANGUAGE AND CULTURE

The councils all show a significant number of residents as having been born outside Australia. People of Chinese and English heritage are also prominent; however there is a broad range of nationalities across the council areas.



This background is reflected in very high levels languages other than English being spoken at home, though English proficiency remains very high.

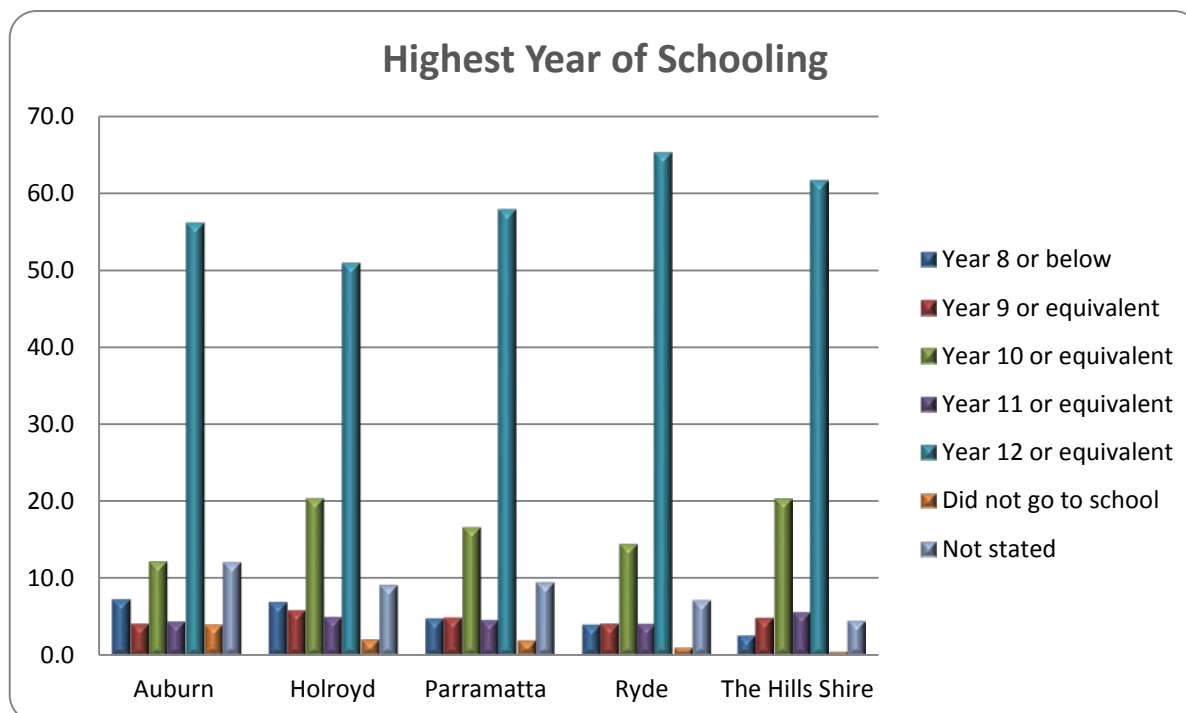


5 EDUCATION

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 51 and 65.4 percent across the Council areas. This compares favourably to the average of 47.6% across New South Wales.

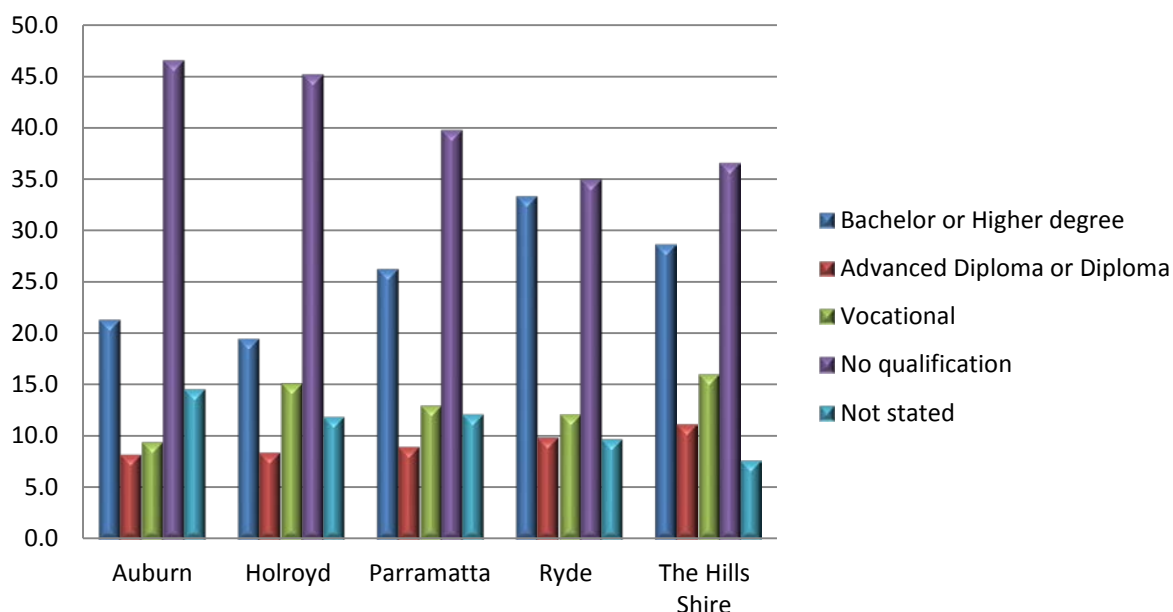


Post School Qualifications

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.

The council areas show some variation in the types of post school qualifications. Auburn and Holroyd fall below the Great Sydney region average of 24.1%, in terms of the number of individuals with degree qualifications at 21.3 and 19.5 percent respectively. They also show the largest percentage of people without qualifications, again with both council areas sitting above the Greater Sydney average of 40.5 percent. Levels of vocational and diploma level qualifications are comparable across the regions.

Post School Qualifications



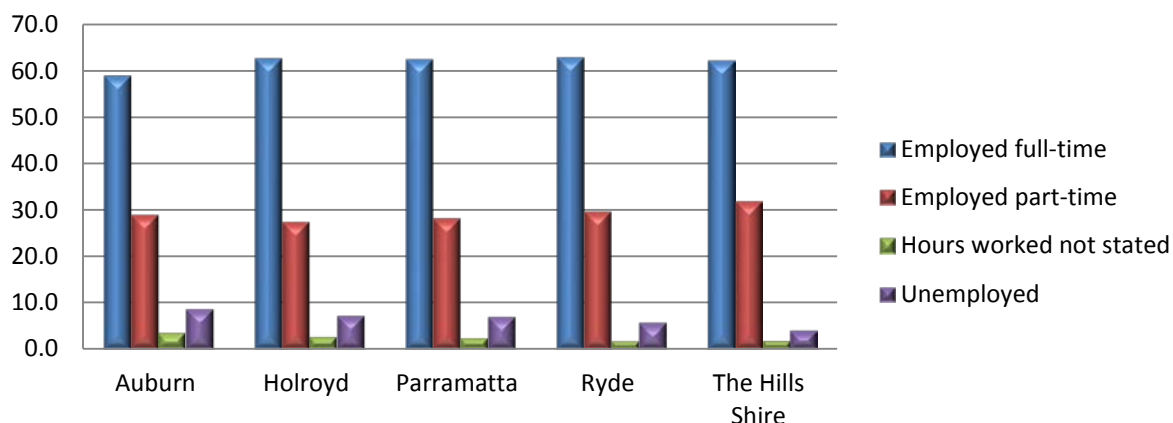
6 LABOUR MARKET

The Similarities and Differences report splits the communities across two clusters in terms of employment. Ryde and the Hills, fall in a cluster is characterised by low unemployment however measured, low social security take-up, reasonably high work availability and moderate FTE employment participation – and, high average earnings.

The remaining councils fall in a cluster with moderate unemployment and social security take-up – and with an FTE employment rate which is considered to be low.

Census data shows that majority of residents across the five councils are in full time employment, and there is a considerable level of part time employment across each region. The unemployment rate shows some variations though across the five regions, as low as 4.2% in the Hills, but up to 8.6% in Auburn.

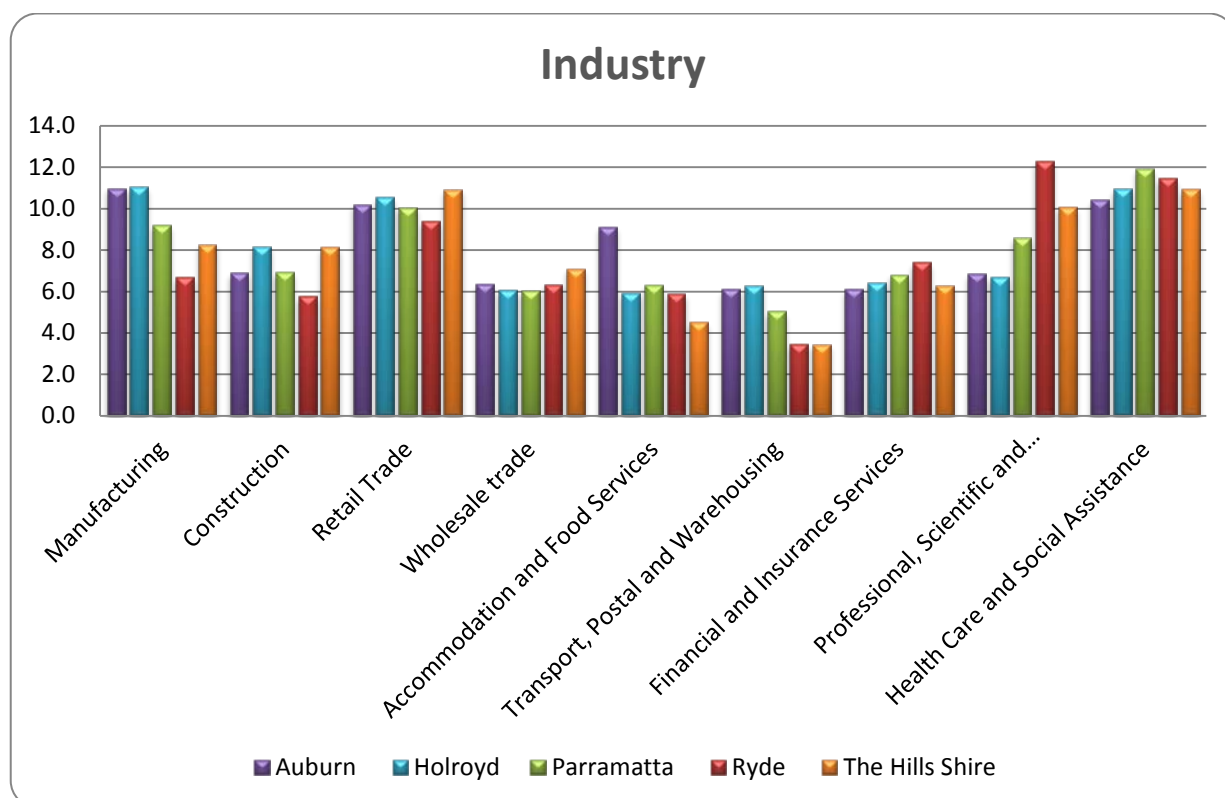
Employment Status



Industries of Employment

There is a spread of industries cross the five council areas.

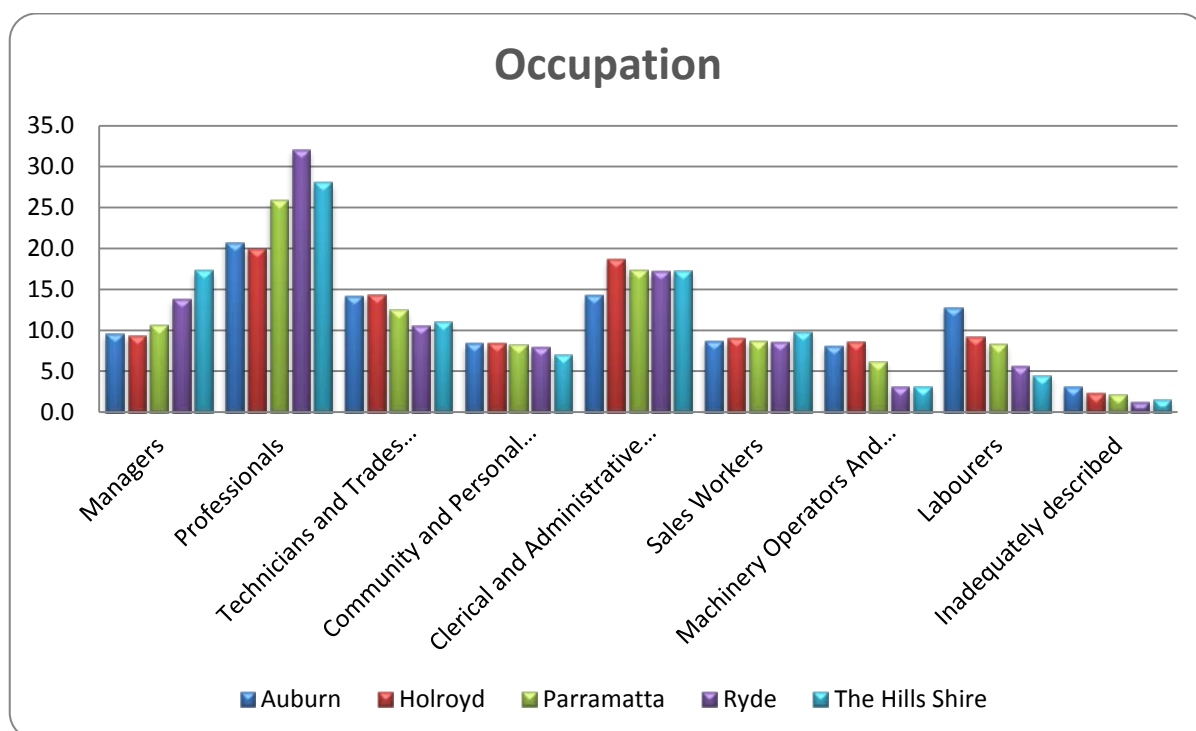
- Health and social services is prominent in all council areas, and is consistent with this being a growth area across the county. Auburn and Holroyd both show high levels of manufacturing
- Retail is a strong employer across the five councils
- Ryde shows a larger number of people being employed in professional services and in the financial and insurance sector
- Auburn also shows a greater number of people employed in the accommodation and food sectors
- There is some variation in the number of people employed in construction and transport and postal services across the five councils



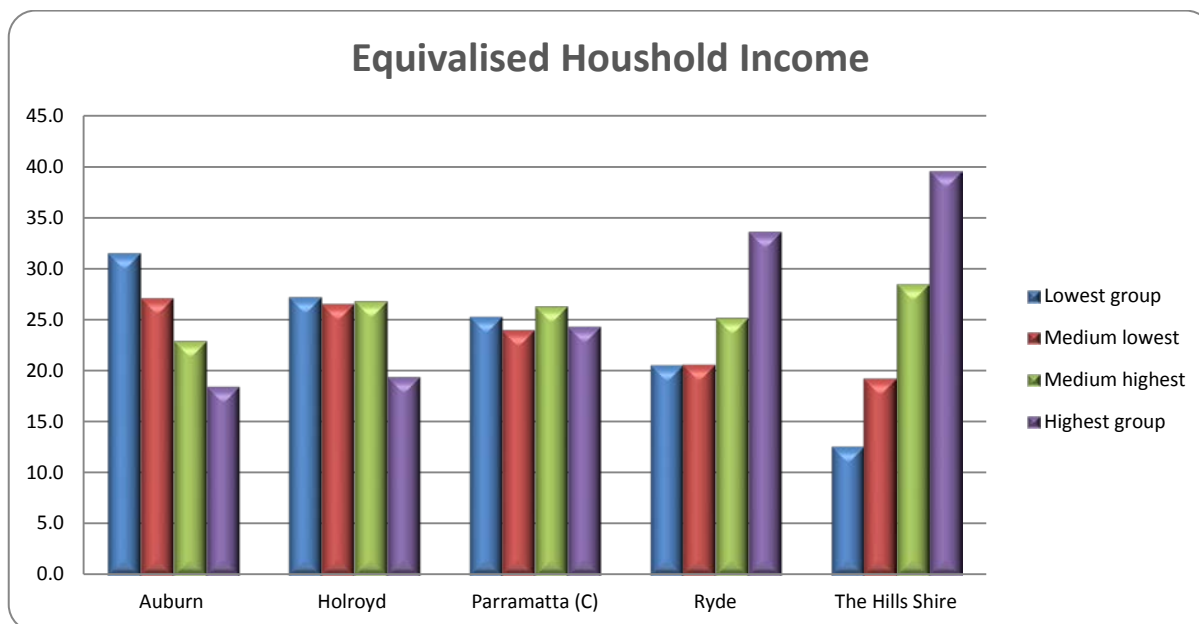
Occupations

There is a spread of occupation types across the Council areas. Ryde and Hills Shire both show higher levels of Managers and Professionals than the other regions. Auburn shows a high number of people employed in labouring roles.

Retail and community and personal services workers are broadly comparable across the regions.



7 HOUSEHOLD INCOME AND WEALTH



Equalised Household Income gives an indication of the economic resources available to each individual in a household. Ryde and The Hills show their greatest proportion of residents in the area in the highest group for income level. Auburn has its highest level of income in the lowest group.

The Similarities and Differences report groups Auburn, The Hills and Holroyd in the same cluster with 67 LGAs across 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.

Parramatta and Ryde fall within a separate cluster, which is largely urban, and characterised by middle incomes (actually a fair range of middle incomes) with a high wage and salary component – from which is deducted significant taxes. This group can be characterised as middle-income suburbs.

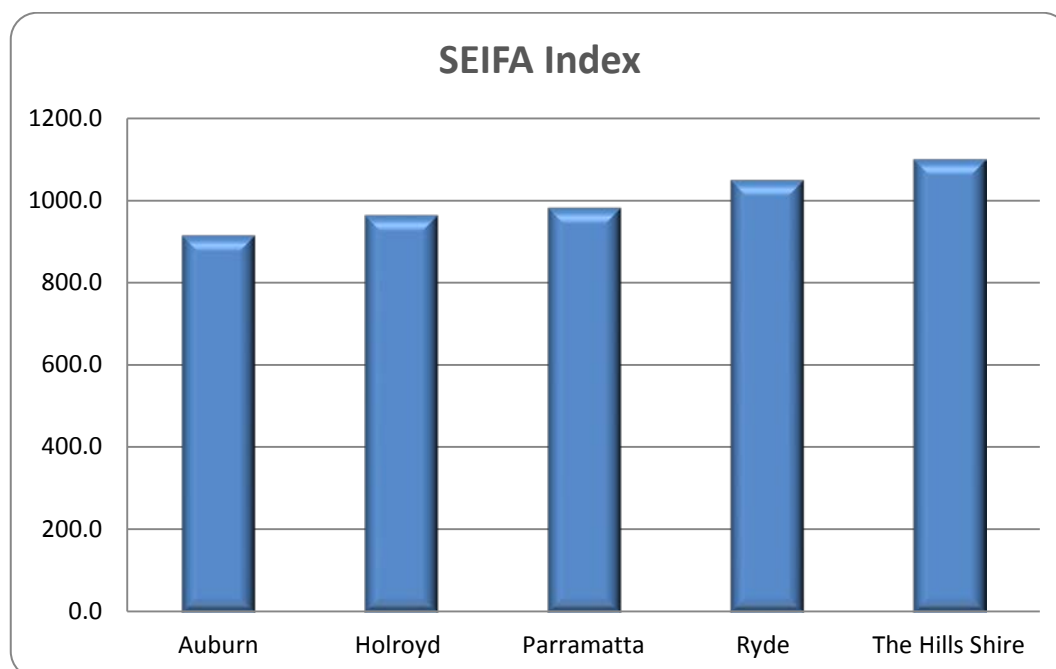
8 SOCIOECONOMIC DISADVANTAGE

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.

The five councils show a spread of advantage across this scale with the Hills and Ryde featuring in the top twenty Local Government Areas, with Parramatta and Ryde falling within the top 80. Auburn however is at 137 in terms of advantage as compared to other LGA SEIFA indexes for New South Wales.



9 POLITICAL PARTY COMPOSITION

The five council areas are currently largely represented by members of the Liberal Party of Australia, across all levels of Government.

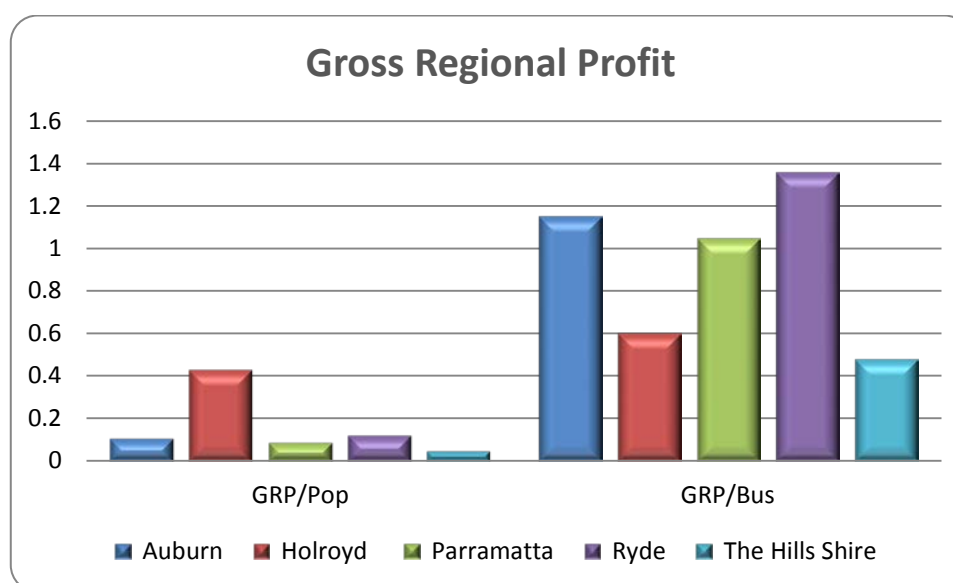
	Local Government	State Electorate	Party	Federal Electorate	Party
Auburn	Liberal	Auburn	Labour	Reid	Liberal
Holroyd	Labour	Fairfield Granville Parramatta Prospect	Labour Labour Liberal Labour	McMahon Blaxland Greenway	Labour Labour Labour
Parramatta	Liberal	Parramatta Epping Granville Baulkham Hills Riverstone	Liberal Liberal Labour Liberal Liberal	Parramatta Bennelong Greenway Mitchell	Labour Liberal Labour Liberal
Ryde	Liberal	Ryde Epping Lane Cove	Liberal	Bennelong	Liberal
The Hills Shire	Liberal	Baulkham Hills Castle Hill Hawkesbury Parramatta Seven Hills	Liberal	Berowra Mitchell Parramatta	Liberal Liberal Labour

10 LOCAL ECONOMIC FEATURES

Gross Regional Product

The Gross Regional Product of a region is the equivalent of Gross Domestic Product, but for a smaller area. It is the amount of the nation's wealth which is generated by businesses, organisations and individuals working in the area. The comparison of the Gross Regional Profit for each area is shown below.

	GRP (\$M)	GRP/Pop	GRP/Bus
Auburn	9165	0.107261	1.149072
Holroyd	4712	0.428364	0.598121
Parramatta	16928	0.089127	1.049083
Ryde	14106	0.12391	1.35726
The Hills Shire	9143	0.04871	0.477117



Journey to Work Connections

The *Similarities and Differences Report* notes that there is a strong connection between the five councils, and makes the following observations with regards to connections:

- In the Outer Western suburbs Parramatta receives significant inbound flows from Blacktown and to a lesser extent the Hills
- The Hills is part of this system in that it has strong connections with Parramatta
- Holroyd also fits into the Parramatta-based cluster in that Parramatta provides jobs for 18 per cent of its resident workers and 15 per cent of jobs in Holroyd are taken by Blacktown residents
- Auburn is unusual in that it draws its workforce from all over the western half of the metropolitan area. Likewise its residents go all over

A review of census data shows the following patterns for workers in the council areas and their place of residence, and Residents of each council's place of work. The top three council regions under each category show cross over between all councils but Ryde, who show patterns with Councils in other areas. It should be noted however that Parramatta and Auburn do feature within the top five for Ryde.

Council Area	Workers Place of Residence	Residents place of Work
Auburn	4. Auburn 5. Holroyd 6. Blacktown	4. Auburn 5. Sydney 6. Parramatta
Holroyd	4. Holroyd 5. Fairfield 6. Blacktown	4. Holroyd 5. Parramatta 6. Sydney
Parramatta	4. Holroyd 5. Parramatta 6. Blacktown	4. Parramatta 5. Sydney 6. Ryde
Ryde	4. Ryde 5. Hornsby 6. Ku-ring-gai	4. Ryde 5. Sydney 6. Willoughby
The Hills	4. The Hills Shire 5. Blacktown 6. Hornsby	4. The Hills Shire 5. Sydney 6. Parramatta

APPENDIX G AUBURN, HOLROYD, PARRAMATTA, RYDE AND THE HILLS COUNCILS - 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
Auburn (Auburn LEP 2010)	<p>Emphasis on natural environment</p> <p>The particular aims of the LEP which relate to the protection of the natural environment are:</p> <ul style="list-style-type: none"> • <i>to protect, maintain and enhance the natural ecosystems, including watercourses, wetlands and riparian land</i> • <i>to identify and conserve the <u>natural</u>, built and cultural <u>heritage</u> (emphasis added)</i> <p>Auburn is bordered to the north by the Parramatta River and the west by the Duck River. It contains considerable wetland areas associated with Sydney Olympic Park. The LEP reflects the importance of these environments in its aims.</p>	<p>Emphasis on built heritage</p> <p>The particular aim of the LEP which relates to the protection of built heritage is:</p> <ul style="list-style-type: none"> • <i>to identify and conserve the natural, <u>built</u> and cultural <u>heritage</u> (emphasis added)</i> <p>Protection of built heritage is seen as part of an overall approach to amenity management.</p> <p>Auburn contains the Rookwood Cemetery and other important historic sites such as Newington and the former Lidcombe Hospital site. The LEP specifically recognises these sites along with a range of other sites and areas of heritage significance.</p> <p>The LEP lists 49 Items of Environmental Heritage, 2 Heritage Conservation Areas and 14 Archaeological Sites</p>	<p>The aims of the LEP look to promote sustainable development, within a regime of flexible planning controls:</p> <ul style="list-style-type: none"> • <i>to establish planning standards that are clear, specific and flexible in their application</i> • <i>to foster integrated, sustainable development that contributes to Auburn's environmental, social and physical well-being</i> • <i>to protect areas from inappropriate development</i> • <i>to minimise risk to the community by restricting development in sensitive areas</i> • <i>to integrate principles of ecologically sustainable development into land use controls,</i> • <i>to facilitate economic growth and employment opportunities within Auburn</i> <p>The LEP contains a number of economic activity zones including B6 Enterprise Corridor and B7 Business Park zones indicating a facilitative attitude to the local economy.</p>

	Natural	Built	Approach to Growth
			The LGA also accommodates the Sydney Olympic Park precinct. Planning for that precinct is controlled under the State Environmental Planning Policy (Major Development) 2005. Council's zonings adjoining the precinct aim to capitalise on the residential and business spin offs from the precinct.
Holroyd (Holroyd LEP 2013)	<p>Emphasis on natural environment</p> <p>The particular aims of the LEP which relate to the protection of the natural environment are:</p> <ul style="list-style-type: none"> to promote ecologically sustainable development by facilitating economic prosperity, fostering social well-being and <u>ensuring the conservation of the natural environment</u> (emphasis added) to protect the environmental and cultural heritage of Holroyd including: <ul style="list-style-type: none"> effectively managing the natural environment (including remnant bushland and natural watercourses) to ensure its long-term conservation <p>Protection of the natural environment is viewed as a component of a sustainable development policy. Environment Conservation zoning is concentrated around Prospect Creek and elements associated with the eastern face of the old Prospect Quarry</p>	<p>Emphasis on built heritage</p> <p>The particular aim of the LEP which relates to the protection of built heritage is:</p> <ul style="list-style-type: none"> to protect the environmental and cultural heritage of Holroyd including: <ul style="list-style-type: none"> identifying, conserving and promoting cultural heritage as a significant feature of Holroyd's landscape and built form as a key element of its identity... <p>Protection of built heritage is seen as part of an overall approach to amenity management.</p> <p>The LEP identifies 164 individual items of heritage significance as well as 3 Conservation Areas, 8 Archaeological Sites and 3 Objects and Places of Heritage Significance</p>	<p>The aims of the LEP look to promote sustainable development focussed around a centres and transport oriented development approach:</p> <ul style="list-style-type: none"> to provide a clear framework for sustainable land use and development in Holroyd to provide for a range of land uses and development in appropriate locations to meet community needs, including housing, education, employment, recreation, infrastructure and services to concentrate intensive land uses, increased housing density and trip-generating activities in close proximity to centres and major public transport nodes in order to retain the low-density character of other areas to promote the efficient and equitable provision of public services, infrastructure and amenities(f)
Parramatta (Parramatta LEP 2011)	<p>Emphasis on natural environment</p> <p>The particular aims of the LEP which relate to the protection of the natural environment are:</p> <ul style="list-style-type: none"> to identify, conserve and promote Parramatta's <u>natural</u> and cultural <u>heritage</u> as the framework for its identity, prosperity, 	<p>Emphasis on built heritage</p> <p>The particular aim of the LEP which relates to the protection of built heritage is:</p> <ul style="list-style-type: none"> to identify, conserve and promote Parramatta's <u>natural</u> and <u>cultural</u> heritage as the framework for its identity, prosperity, 	<p>The Aims of the LEP reflect Parramatta's role as a major centre of economic activity (reflected in its industrial and commercial centres and the importance of transport links into the area) and as major residential area in its own right</p> <ul style="list-style-type: none"> to encourage a range of development, including housing, employment and recreation, that accommodates the needs

	Natural	Built	Approach to Growth
	<p><i>liveability and social development (emphasis added)</i></p> <ul style="list-style-type: none"> <i>to minimise risk to the community in areas subject to environmental hazards, particularly flooding and bushfire, by restricting development in sensitive areas</i> <i>to protect and enhance the natural environment, including areas of remnant bushland in Parramatta, by incorporating principles of ecologically sustainable development into land use control</i> <i>to improve public access along waterways where natural values will not be diminished</i> <i>to ensure development occurs in a manner that protects, conserves and enhances natural resources, including waterways, riparian land, surface and groundwater quality and flows and dependant ecosystems</i> <p>Protection of the natural environment is viewed as a component of a sustainable development policy, contributing to the identity and liveability of the LGA.</p>	<p><i>liveability and social development (emphasis added)</i></p> <p>Protection of built heritage is not specifically identified but is encompassed within the concept of cultural heritage and as such is considered in an overall approach to amenity management.</p> <p>The LEP identifies 522 individual items of heritage significance as well as 12 Conservation Areas and 6 Archaeological Sites, reflecting the early European settlement of the area</p>	<p><i>of the existing and future residents, workers and visitors of Parramatta</i></p> <ul style="list-style-type: none"> <i>to foster environmental, economic, social and physical wellbeing so that Parramatta develops as an integrated, balanced and sustainable city</i> <i>to improve public access to the city and facilitate the maximum use of improved public transport, together with walking and cycling</i> <i>to enhance the amenity and characteristics of established residential areas</i> <i>to retain the predominant role of Parramatta's industrial areas</i> <i>to ensure that development does not detract from the economic viability of Parramatta's commercial centres</i> <i>to ensure that development does not detract from the operation of local or regional road systems</i> <p>The importance of Parramatta as Sydney's second CBD is emphasised by the CBD and its immediate environs being subject to a separate LEP focussing on the economic importance of that locality (see below)</p>
Parramatta City Centre (Parramatta LEP 2007)	<p>Emphasis on natural environment</p> <p>The particular aims of the LEP which relate to the protection of the natural environment are:</p> <ul style="list-style-type: none"> <i>to encourage responsible management, development and conservation of <u>natural</u> and <u>man-made resources</u> and to ensure that the Parramatta city centre achieves</i> 	<p>Emphasis on built heritage</p> <p>The particular aim of the LEP which relates to the protection of built heritage is:</p> <ul style="list-style-type: none"> <i>to encourage responsible management, development and conservation of <u>natural</u> and <u>man-made resources</u> and to ensure that the Parramatta city centre achieves</i> 	<p>The Aims of the LEP have been formulated to reinforce the importance of the Parramatta CBD as Sydney's second CBD</p> <ul style="list-style-type: none"> <i>to promote the economic revitalisation of the Parramatta city centre</i> <i>to provide a planning framework for Parramatta to fulfil its role as a primary centre in the Sydney Metropolitan Region</i>

	Natural	Built	Approach to Growth
	<p><i>sustainable social, economic and environmental outcomes</i> (emphasis added)</p> <ul style="list-style-type: none"> <i>to protect and enhance the <u>environmentally sensitive areas and natural</u> and cultural <u>heritage</u> of the Parramatta city centre for the benefit of present and future generations</i> (emphasis added) <p>Protection of the natural environment is viewed as a component of a sustainable development policy, contributing to the future status and attraction of the Parramatta CBD</p>	<p><i>sustainable social, economic and environmental outcomes</i> (emphasis added)</p> <ul style="list-style-type: none"> <i>to protect and enhance the <u>environmentally sensitive areas and natural</u> and <u>cultural heritage</u> of the Parramatta city centre for the benefit of present and future generations</i> (emphasis added) <p>Protection of built heritage is not specifically identified but is encompassed within the concept of cultural heritage.</p> <p>Protection of cultural heritage is viewed as a component of a sustainable development policy, contributing to the future status and attraction of the Parramatta CBD</p> <p>The LEP identifies 126 individual items of heritage significance reflecting the history of the Parramatta city centre as a focal point of colonial and post-colonial economic activity</p>	<ul style="list-style-type: none"> <i>to protect and enhance the vitality, identity and diversity of the Parramatta city centre and promote it as a pre-eminent centre in the Greater Metropolitan Region</i> <i>to promote employment, residential, recreational, arts, social, cultural and tourism opportunities within the Parramatta city centre</i> <i>to facilitate the development of building design excellence appropriate to a regional city and to improve the quality of urban design and ensure the public domain is safe and attractive</i> <i>to enhance access to Parramatta, particularly by public transport, walking and cycling</i> <i>to emphasise and interpret the role of the Parramatta River and its foreshore as an important natural focus and link through the Parramatta city centre</i> <i>to respect, enhance and interpret the role and place of Parramatta Park and its historic views and setting as an important cultural and natural focus and link to all parts of the Parramatta city centre.</i> <p>Principal zonings in the LEP (B3 Commercial Core, B4 Mixed Use, B5 Business Development and RE1 Public Recreation) enable and facilitate retail and commercial development in the CBD and protect Parramatta Park</p>

	Natural	Built	Approach to Growth
Ryde (Ryde LEP 2014)	<p>Emphasis on natural environment</p> <p>The particular aims of the LEP which relate to the protection of the natural environment are:</p> <ul style="list-style-type: none"> to foster the <u>environmental</u>, economic, social and physical <u>development</u> of Ryde so that it develops as an integrated, balanced and sustainable city (emphasis added) to identify, conserve and promote Ryde's <u>natural</u> and cultural <u>heritage</u> as the framework for its identity, prosperity, liveability and social development (emphasis added) to protect and enhance the natural environment, including areas of remnant bushland in Ryde, by incorporating principles of ecologically sustainable development into land use controls to preserve and improve the existing character, amenity and <u>environmental quality</u> of the land to which this Plan applies <p>Protection of the natural environment is viewed as a component of a sustainable development policy, contributing to the identity and liveability of the LGA.</p> <p>Important environmental elements in the western third of Ryde LGA include parts of the Lane Cove National Park (E1 Zone) and Parramatta River Foreshores (RE1 Zone)</p>	<p>Emphasis on built heritage</p> <p>The particular aim of the LEP which relates to the protection of built heritage is:</p> <ul style="list-style-type: none"> to identify, conserve and promote Ryde's natural and <u>cultural heritage</u> as the framework for its identity, prosperity, liveability and social development (emphasis added) <p>Protection of built heritage is not specifically identified but is encompassed within the concept of cultural heritage and as such is considered in an overall approach to amenity management.</p> <p>Approximately 125 items of Environmental Heritage are located in the western third of Ryde LGA along with 4 Heritage Conservation Areas</p>	<p>The aims of the LEP look to promote sustainable development, providing a range of housing types, employment opportunities and efficient transport options</p> <ul style="list-style-type: none"> to encourage a range of development, including housing, employment and recreation, that will accommodate the needs of the existing and future residents of Ryde to provide opportunities for a range of housing types that are consistent with adjoining development and the existing environmental character of the locality to foster the environmental, economic, social and physical development of Ryde so that it develops as an integrated, balanced and sustainable city to improve access to the city, minimise vehicle kilometres travelled, facilitate the maximum use of public transport and encourage walking and cycling in relation to economic activities, to provide a hierarchy of retail, commercial and industrial activities that enable employment capacity targets to be met, provide employment diversity and are compatible with local amenity <p>Higher density residential zones are located in close proximity to major commercial and activity centres. The LEP seeks to capitalise on the economic spin offs from Macquarie University by locating a range of Business Zones adjacent to the University (B3 Commercial Core, B4 Mixed Use and B7 Business Park)</p>

	Natural	Built	Approach to Growth
The Hills (The Hills LEP 2012)	<p>Emphasis on natural environment</p> <p>The particular aim of the LEP which relates to the protection of the natural environment is:</p> <ul style="list-style-type: none"> <i>to preserve and protect the natural environment of The Hills and to identify environmentally significant land for the benefit of future generations</i> <p>In the area of the LGA to the south of the M2, significant environmental assets are associated with major creek lines and are zoned RE1 Public Recreation</p>	<p>Emphasis on built heritage</p> <p>The LEP contains no specific aim relating to the protection of built heritage</p> <p>Notwithstanding this, the LEP lists 33 Items of Environmental Heritage, 1 Heritage Conservation Area and 6 Archaeological Sites in the suburbs of the LGA to the south of the M2</p>	<p>The aims of the LEP look to promote sustainable development, respect the significant rural lands in the north of the LGA, provide for a range of housing types, employment opportunities and efficient transport options</p> <ul style="list-style-type: none"> <i>to guide the orderly and sustainable development of The Hills, balancing its economic, environmental and social needs</i> <i>to provide strategic direction and urban and rural land use management for the benefit of the community</i> <i>to provide for the development of communities that are liveable, vibrant and safe and that have services and facilities that meet their needs</i> <i>to provide for balanced urban growth through efficient and safe transport infrastructure, a range of housing options, and a built environment that is compatible with the cultural and natural heritage of The Hills</i> <i>to contribute to the development of a modern local economy through the identification and management of land to promote employment opportunities and tourism</i> <p>In the area of the LGA to the south of the M2, higher density residential zones (R3 & R4) are relatively constrained and located close to centres such as Carlingford and along major roads such as Windsor Road</p>

SUMMARY COMPARISON

All five councils underpin their planning controls with a policy of 'sustainable development'. This is, however, expressed in differing fashions in the various LEPs.

Given the developed nature of the bulk of the areas under review, significant natural assets represent minor components of the land use mix. The most common zoning protection for these assets is afforded by a public recreation zoning (RE1). However, Lane Cove National Park (Ryde Council) is zoned E1 in recognition of its regional and state significance.

While the areas under review contain significant numbers of heritage items and areas, protection of this heritage estate does not feature strongly in the aims of the LEPs.

The bulk of residential zonings are R2 (Low Density). Higher density residential zones tend to be focussed around commercial and activity centres (including areas such as Macquarie University) however The Hills Council also pursues a policy of promoting higher residential density along major road routes.

Major economic activity centres in the areas under review are recognised by all Councils with appropriate Business Zones. In the case of Ryde Council, the LEP seeks to capitalise on the importance of Macquarie University (planning for which is controlled under the Major Development SEPP) by locating a range of Business Zones adjacent to the University (B3 Commercial Core, B4 Mixed Use and B7 Business Park). Auburn Council pursues a similar approach in capitalising on the benefits presented by the Olympic Park precinct, using high density residential (R4) and Business Park (B7) zonings adjacent to the precinct.

Existing industrial areas are also recognised by all councils with appropriate General (IN1) Light (IN2) or Waterfront (IN4) Industrial Zones in the areas under review.

Parramatta Council recognises and reinforces the importance of the Parramatta CBD and its immediate environs by using a specific LEP to guide the development of Sydney's second CBD. In all other areas under review, Councils deal with their major centres as elements of their overall LEPs.

APPENDIX H COMPARISON OF COMMUNITY STRATEGIC PLANS OF THE FIVE COUNCILS

Council	Vision	Broader Themes
Holroyd	<ul style="list-style-type: none"> • A sustainable city, with integrated transport options, a thriving local economy and well-planned and maintained development • A city with open parkland and accessible recreational facilities, encouraging our community to socialise and contribute towards their well-being • A city led by an innovative Council, working with our community, service partners and all levels of Government to ensure the best for our area <p>NOTE – Holroyd City Council has developed a long and detailed Vision. The above points are example statements extracted to indicate the style and content of the Vision as a whole.</p>	<ul style="list-style-type: none"> • Active Holroyd - a place that is inclusive, healthy and safe • Growing Holroyd - a place that is focused on effective urban planning and economic development • Balanced Holroyd - a place that values its environment, open space and sustainable development • Connected Holroyd - a place that is open and accessible for all • Dynamic Holroyd - a place that is engaged and innovative
Auburn	<p>Auburn City is a community with a sense of pride -</p> <ul style="list-style-type: none"> • A place that celebrates cultural diversity • An inclusive, harmonious and welcoming community • A place of learning and leadership • A vibrant centre of economic growth • A sustainable city 	<ul style="list-style-type: none"> • Our Community: Diverse and Inclusive • Our Places: Attractive and Liveable • Our Environment: Healthy and Green • Our Leadership: Visionary and Responsible

Council	Vision	Broader Themes
The Hills Shire	<ul style="list-style-type: none"> Resilient leadership creating vibrant communities balancing urban growth protecting our environment and building a modern local economy. 	<ul style="list-style-type: none"> Resilient Leadership – Establishing and implementing a direction for our community's future Vibrant Communities – Active, safe and culturally rich people enjoying community life together Balanced Urban Growth – An attractive built environment that reflects our garden image Protected Environment – The natural character of our Shire is preserved and protected Modern Local Economy – Meaningful business and job opportunities close to home
Ryde	<ul style="list-style-type: none"> The place to be for lifestyle and opportunity @ your doorstep. 	<ul style="list-style-type: none"> City of Liveable Neighbourhoods City of Wellbeing City of Prosperity City of Environmental Sensitivity City of Connections City of Harmony and Culture City of Progressive Leadership

Council	Vision	Broader Themes
Parramatta	<ul style="list-style-type: none"> Parramatta will be the driving force and heart of Australia's most significant economic region; a vibrant home for diverse communities and a centre of excellence in research, education and enterprise. 	<ul style="list-style-type: none"> Economy Environment Connectivity People and Neighbourhoods Culture and Sport Leadership and Governance

Commentary

Whilst there are clear threads of commonality between the Community Strategic Plans of these five councils, there are also significant individualities. A unifying feature of all these plans is their optimistic themes and positive language.

Holroyd Council's Vision statement provides a detailed description of the preferred vision for the council area, nearing a page in length. By contrast the other councils have encapsulated their visions for the future in a single statement or series of brief dot points. Parramatta's vision denotes the council area as a significant economic centre with a pivotal role in regional growth.

The broader themes expressed in the plans also share commonality in such areas as environment, economy, cultural diversity and leadership. However here again, they are more individual in how the themes are expressed. Whilst some are neutral statements that act as headings within the document, others are expressed as value statements