IPART
New South Wales

Independent Pricing and Regulatory Tribunal

Assessment of Council Fit for the Future Proposals: Appendix C

Local Government — Final Report
October 2015

ALBURY CITY COUNCIL – CIP

	FIT		
Area (km^2)	306	Population 2011	49,450
OLG Group	4	(2031)	56,950
ILGRP Group	E	Merger 2011	59,500
		(2031)	66,900
Operating revenue (2013-14)	$72.5m	TCorp assessment	Moderate FSR Neutral outlook
ILGRP options (no preference)	Council in Upper Murray JO (all shaded) or merge with Greater Hume (part or all) (yellow).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council has a robust revenue base and is home to Albury, a large regional centre. Our analysis suggests this population is sufficient to enable the council to have the strategic capacity to meet the future needs of its community and be a capable partner in the regional area for government.
- The council's proposal to stand alone in a JO is consistent with the ILGRP's options for this council.
- The council indicates it is actively considering opportunities for an Upper Murray JO.
- The council rejected a proposal to merge and did not submit a merger business case. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the stand alone proposal.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance and own source revenue ratios by 2019-20.
- The building and infrastructure asset renewal ratio was 104% in 2014-15 and is forecast to fall to 71% in 2019-20, which is below the benchmark.

Infrastructure and service management – satisfies

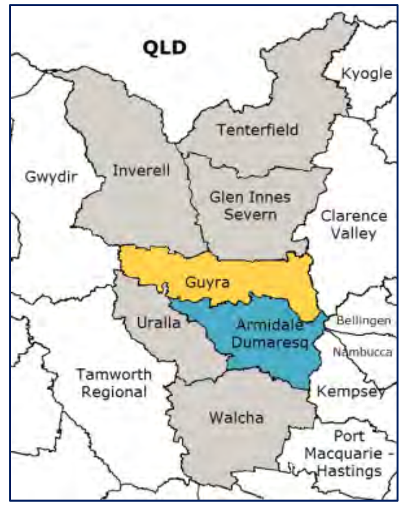
- The council satisfies the criterion for infrastructure and service management, as it is forecast to meet the asset maintenance, infrastructure backlog and debt service benchmarks by 2019-20.

Efficiency – satisfies

- The council satisfies the criterion for efficiency based on declining real operating expenditure per capita.

Other relevant factors	
Social and community context	The council is unique given its position as an Evocity and border town. This gives it a combined population with its Victorian neighbour Wodonga of 90,000 as well as 7,000 local businesses. The council argues that Albury-Wodonga experiences high business confidence and strong public and private sector investment.
Community consultation	The council kept the community informed of the FFTF process via media releases, media coverage and presentations. The draft FFTF proposal was publicly available and the council invited feedback. It received no submissions on the draft FFTF proposal. The council did not conduct a robust consultation process on the ILGRP options. The community was informed of the council's decision to stand alone.
Water and/or sewer	The council operates water and sewer businesses that both generate surpluses. It meets the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework. It has a large water and sewerage infrastructure backlog of $24m as at 30 June 2014. However, it has 10 proposed capital works projects totalling $36.2m with timeframes between 2016 and 2020.
Submissions	We received one late submission in relation to Albury's proposal, which supported an Albury-Wodonga merger.

ARMIDALE DUMARESQ COUNCIL – CIP



	NOT FIT		
Area (km^2)	4,212	Population 2011	25,150
OLG Group	4	(2031)	31,650
ILGRP Group	E	Merger 2011	29,650
		(2031)	36,500
Operating revenue (2013-14)	$31.4m	TCorp assessment	Moderate FSR Neutral outlook
ILGRP options (preference in bold)	**Merge with Guyra** (yellow) or council in New England JO (all shaded).		
Assessment summary			

Criterion	Assessment
Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion based on its forecast for a negative operating performance ratio by 2019-20.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils must meet, therefore the council is not fit.

Scale and capacity – does not satisfy

- The council's proposal to stand alone does not meet or only partially meets the elements of scale and capacity.
- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- Our analysis is consistent with the ILGRP's preferred option for Armidale to merge.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability based on its forecast for an operating performance ratio of -0.8% by 2019-20, which is below the benchmark.
- The council's forecast is based on depreciation declining and then remaining constant in nominal terms. We do not consider this is a reasonable assumption as it implies the asset base declines over time. Without this, the council's operating performance ratio would be worse.
- The council forecast it will meet the benchmark for the own source revenue ratio by 2019-20.
- The council has forecast the building and infrastructure asset renewal ratio will be 58.2% by 2019-20 which is below the benchmark.
- The council indicates it will apply for a permanent special variation from 2022-23 of 12.5% cumulative (10% above the rate peg). However, this is outside of the outlook period.

Infrastructure and service management - satisfies

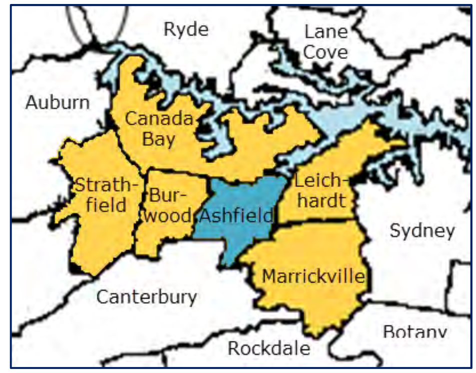
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmark for the debt service ratio by 2019-20.
- The council has forecast the asset maintenance ratio will be 97.1% by 2019-20, which is close to the benchmark. Similarly, the council has forecast the infrastructure backlog will be 3.1% in 2019-20, which is close to the benchmark. We consider the council's forecast performance on these ratios to be reasonable in the context of the council's performance against the other ratios.

Efficiency - satisfies

- The council meets the criterion for efficiency based on a forecast decline in real opex per capita by 2019-20.

Other relevant factors	
Social and community context	The LGA's community of interest would centre on Armidale. The presence of the University of New England makes the LGA somewhat distinct from other LGAs.
Community consultation	The council did not provide evidence of consultation about its proposal.
Water and/or sewer	The council has not provided evidence that its water and sewer businesses pay, or would be able to pay dividends. Consequently, the existence of these businesses only affect the council's scale and capacity insofar as they enable the council to hire staff with a wider range of skills.
Submissions	Two submissions were received in relation to the council's proposal. One supports the council standing alone. The other is from Guyra Shire Council's General Manager. It refers to a resolution by Armidale Dumaresq council that the council submit an attachment to its proposal about merging with Uralla and Guyra councils. We note that Guyra Shire Council's General Manager requested that IPART should not consider the submission because stakeholders have not been given the opportunity to respond.

ASHFIELD CITY COUNCIL – CIP



NOT FIT

Area (km^2)	8	Population 2011	43,550
OLG Group	2	(2031)	53,400
ILGRP Group	Sydney Metro	Merger 2011	331,800
		(2031)	433,000
Operating revenue (2013-14)	$35.4m	TCorp assessment	Sound FSR Neutral Outlook
ILGRP options (preference in bold)	**Merge with Burwood, Canada Bay, Leichhardt, Marrickville and Strathfield** (yellow) or combine as strong JO (all shaded)**.**		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria overall:	**Satisfies**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although it does not meet the efficiency criterion, the council satisfies the sustainability and infrastructure and service management criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 53,400 by 2031 compared with the forecast merger population of 433,000. Our analysis suggests the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case which showed a merger of Strathfield, Ashfield, Burwood, Canada Bay, Leichardt and Marrickville produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $396m over 20 years (including the full Government grant).
- In addition, our independent economic consultants have estimated net benefits from the merger of $194m over 20 years using public data (not including the Government grant).
- All analyses showed large gains to the local community from a merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP preferred option for Ashfield to merge with neighbouring councils.
- If standing alone is not a viable option, the council indicates its community's preference is for a merger with Leichhardt and Marrickville, rather than the full Inner West merger.

Sustainability – satisfies

- The council satisfies the sustainability criterion. It is forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure renewal ratio by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the infrastructure and service management criterion as it meets the asset maintenance and debt service benchmarks by 2019-20.
- The council has forecast the infrastructure backlog will be 3.6% in 2019-20, which is close to the benchmark. We consider the council's forecast performance on this ratios is reasonable in the context of the council's performance against the other ratios.

Efficiency – does not satisfy

- The council does not meet the efficiency criterion based on an increase in real operating expenditure per capita over time to 2019-20.

Other relevant factors	
Social and community context	Ashfield City Council indicates its LGA comprises distinct neighbourhoods with a high value placed on built heritage conservation and quality urban design. Local identity was identified as being important by 74% of respondents to the survey discussed below. An information brochure for its survey, discussed below, indicates Ashfield City Council has a history of working effectively with Leichhardt and Marrickville Councils, with 63% of respondents indicating a shared history of working effectively with Ashfield is important in amalgamation.
Community consultation	Ashfield City Council consulted the community on three options (stand alone, Inner West merger, Ashfield-Leichhardt-Marrickville merger). It distributed 22,000 information packs to households and ratepayers and received a total of 1,727 feedback forms. Based on first preferences, 54% prefer to stand alone, 27% prefer the smaller merger and 19% prefer an Inner West merger. However, we consider its information pack presents an incomplete assessment of costs and benefits.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received four submissions for Ashfield. One supported a merger with Burwood, Canada Bay and Auburn due to common demographics, natural boundaries and to improve planning such as for major projects (eg, WestConnex). Three submissions were against the merger proposal as they considered the council was performing well and were concerned about a potential loss of local focus and reduced services among a variety of other reasons.

AUBURN, BURWOOD & CITY OF CANADA BAY COUNCILS – MERGER PROPOSAL

FIT

	Auburn	Burwood	Canada Bay
OLG Group	3	2	3
Area (km^2)	33	7	20
Pop. current	77,800	34,200	80,050
(2031)	130,600	47,500	111,350
Proposed Mer Pop	192,050	192,050	192,050
(Pop 2031)	289,450	289,450	289,450
ILGRP Pop current	**356,700**	**331,800**	**331,800**
(Pop 2031)	**520,500**	**433,000**	**433,000**
Operating revenue (2013-14)	$62m	$38m	$74m
TCorp assessment	Sound FSR Negative outlook	Weak FSR Positive outlook	Moderate FSR Neutral outlook
ILGRP Option (preference in bold)	**Merge** with Parramatta and Holroyd, part of Ryde and boundary alteration with The Hills or combine as a strong JO.	**Merge** with Ashfield, Canada Bay, Marrickville, Leichhardt, Strathfield or combine as a strong JO.	**Merge** with Ashfield, Burwood Marrickville, Leichhardt, Strathfield or combine as a strong JO.

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The merger proposal from Auburn, Burwood and Canada Bay is fit. The merger provides significant benefits and efficiency gains for the local communities, and is better than each council standing alone.
- The merger is likely to be the best option currently available to the parties given neighbouring councils included in the ILGRP's preferred options for each of the councils did not wish to voluntarily join the proposal.
- Voluntarily negotiated merger agreements are likely to lead to desirable outcomes, according to the councils, including faster progress in achieving efficiencies when transitioning to a new council.
- The merger is expandable. The councils have informed us it would be possible and desirable for Strathfield Municipal Council and possibly Ashfield Council to be included in this proposal. The ability to expand the proposed merger might assist structural reform and the benefits to the local communities could be higher if other councils are included.
- The merged council satisfies the financial criteria overall. In particular, the operating performance ratio is forecast to improve from -0.4% in 2014-15 to 3.1% in 2019-20 for the combined councils, and 4% over the long term. This is primarily due to the efficiency savings from the merger contributing to a stronger financial position overall.

Scale and capacity - satisfies

- The enhanced scale of the merged council will enable it to advocate more effectively with governments on behalf of the local communities, and undertake more integrated planning and regional collaboration, resulting in better growth.
- The merged council's population nears 300,000 by 2031, which provides the council with enhanced scale to partner more effectively with governments on regionally significant projects such as major transport infrastructure.
- Auburn, Burwood and Canada Bay have provided estimates to IPART that the merger will produce ongoing savings of $20 million per year. Based on this and other data, we have estimated that the proposed merger, including the Government grant and merger

implementation costs, could provide net benefits to the local communities of $114 million over 20 years.

- There is a small shared border along the south side of the Parramatta River where significant prospective development is planned, and the communities share cultural similarities. The merging parties say the shared border would be enhanced with the inclusion of Strathfield in the proposal. The councils state there is a strong functional relationship between the councils.
- Auburn notes it prefers not to merge with Parramatta, as it has concerns that any increase in rates would be used to fund Parramatta's growth as a strategic centre and it has a lack of communities of interest with Parramatta. These issues were not stated as concerns under the proposed voluntary merger with Burwood and Canada Bay.
- The councils' business case states one of the strongest advantages of this merger proposal is that each council brings a relatively strong financial position to the new entity.
- Recent investment by each council in infrastructure and asset maintenance and renewal further supports the merged entity being in a strong position to deliver improved services to the communities.

Sustainability – satisfies

- The proposed merger council meets the sustainability criterion based on meeting all the benchmarks. It has forecast an operating performance ratio of 3.1%, a high own source revenue of 84.3% and a building and infrastructure asset renewal ratio over 100% by 2019-20.

Infrastructure and service management - satisfies

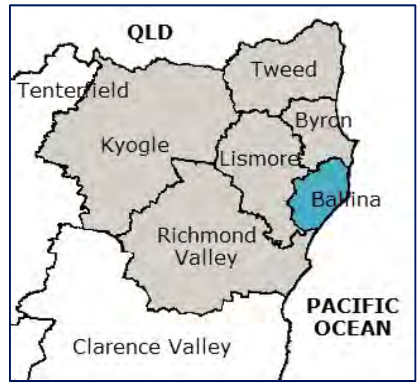
- The council meets the criterion for infrastructure and service management based on the proposed council meeting the benchmarks for infrastructure backlog ie, below 2%, by eliminating its backlog in 2019-20 and an asset maintenance ratio over 100%.

Efficiency - satisfies

- The merged council meets the criterion for efficiency based on forecasts of a reduction in real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The proposed merger has strong cultural synergies including: a younger population than the NSW average, cultural diversity and a positive multicultural identity, and large areas of public space throughout the merged LGA. Auburn Council stated the natural waterways of Parramatta and Duck River divided it from Parramatta.
Community consultation	All three councils have undertaken a number of community surveys and issued newsletters in relation to the ILGRP's options, and the proposed merger. 59% of the Burwood residents surveyed indicated a level of support for the proposed option (possibly including Strathfield). In addition, 71% of Auburn residents and 14% of Canada Bay residents surveyed indicated a level of support for the proposed option.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	123 submissions (including one early and one late submission) were received in relation to the Auburn, Burwood, Canada Bay FFTF merger proposal. The majority of submitters did not support the proposed merger citing that Auburn is not considered part of the inner west. The submissions also identified the merged councils do not reflect the different cultural diversity issues and the proposal was done without community consultation. The submitters also stated a merger would result in less representation, reduced services, a financially weaker council, higher rates and loss of local focus and identity. Four residents support the ILGRP option and eight residents supported some form of a merger with other Inner West councils but not Auburn.

BALLINA SHIRE COUNCIL – CIP



	FIT		
Area (km^2)	485	Population 2011	40,750
OLG Group	4	(2031)	44,750
ILGRP Group	G		
Operating revenue (2013-14)	$43.8m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP option	Council in Northern Rivers JO (all shaded).		
Assessment summary			

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone. Hence the council has been assessed as satisfying the scale and capacity criterion.
- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewal ratios by 2019-20.
- The council has assumed a special variation of 17% over three years, starting in 2017-18 (8.9% above the rate peg). This is in addition to a currently approved permanent special variation of 11.0% (5.5% above the rate peg) in 2015-16 and 2016-17.
- We note the council's forecast for its operating performance ratio is to reach a slim surplus by 2019-20. This may place the council at risk of not meeting the benchmark if unforeseen circumstances require increased expenditure. However we consider the council has scope to adjust its financial plans to meet the ratios.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its reducing real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council is located on the north coast of NSW in close proximity to major population centres such as the Gold Coast and Brisbane. The main commercial centre is Ballina. Most residents drive to work as there are limited public transport options.
Community consultation	The council did not provide any information about community consultation on its proposal.
Water and/or sewer	The council achieved 100% compliance for sewer and 90% compliance for water with the best practice management framework.
Submissions	There were no submissions received in relation to Ballina's proposal.

BANKSTOWN CITY COUNCIL – CIP

	FIT		
Area (km²)	77	Population 2011	190,850
OLG Group	3	(2031)	240,800
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$139m	TCorp assessment	Moderate FSR Positive Outlook
ILGRP options (preference in bold)	**No change** or combine as a strong JO with Liverpool, Fairfield, Camden, Campbelltown, Wollondilly Councils (all shaded). The ILGRP noted that an alternative could be to merge with Canterbury as part of the South sub-region, but this was not included as an option.		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council's proposal to stand alone is consistent with the ILGRP preferred option for no change.
- The council has a robust revenue base and sound financial position. Its own source revenue ratio and operating performance are affected by high amounts of developer charges and large depreciation amounts due to an increasing asset base.
- The council demonstrates scope to undertake new functions and projects and the ability to employ a wide range of skilled staff.
- The ILGRP report included an alternative for Bankstown City Council to merge with Canterbury. In response to an enquiry from IPART, the council provided some evidence to suggest this could produce benefits if it is pursued further.
- Our independent consultants Ernst & Young calculated that a merger between Bankstown City Council and Canterbury City Council could produce benefits of $86m over 20 years, using publically available data.
- While this evidence suggests a merger may be a better alternative to the council's proposal to stand alone, our finding is based on the proposal being consistent with the ILGRP preferred option for no change.

Sustainability – satisfies

- The council meets the criterion for sustainability as it is forecast to meet the benchmarks for the operating performance ratio, building and infrastructure asset renewal ratio and own source revenue ratio by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2017-18, which we estimate to be 34.7% cumulative over 5 years (21.5% above the rate peg).
- The council provided evidence that the cost savings from a merger with a neighbouring council would obviate the need for the special variation.
- The council provided further evidence that a significant portion of their community supported a merger with Canterbury City Council instead of a rate increase.

Infrastructure and service management - satisfies

- The council meets the criterion for infrastructure and service management as it is forecast to meet the benchmarks for the asset maintenance ratio by 2019-20.
- The council's debt service ratio was 2.7% in 2014-15 and is forecast to reach 0.0% by 2019-20; without rounding, this is slightly above 0 and so technically meets the benchmark.
- The council does not meet the infrastructure backlog benchmark. It is taking steps to address its infrastructure backlog, but improvements in its backlog will be dependent on successful application and adoption of its proposed special variation.

- The council states it has adopted an Asset Management Strategy that will result in a reduction in the infrastructure backlog ratio. The council plans to accelerate its infrastructure spending from 2017 onwards, assuming successful application and adoption of a special variation, which would enable it to completely remove its current infrastructure backlog by 2024-25.

Efficiency - satisfies

- The council meets the criterion for efficiency based on the Real Operating Expenditure per Capita showing a declining trend.

Other relevant factors	
Social and community context	The council's proposal states there are a number of key arterial channels common to the Bankstown and Canterbury Local Government Areas, including the M5 Motorway, Canterbury Road and the south western rail corridor. It considers a merger or partial boundary adjustment would offer scope to improve regional planning for the area. The council notes with some concern the issue of its current relative scale and position being substantially reduced should implementation of the ILGRP's proposed mergers occur, resulting in councils of over 350,000 residents encircling the Bankstown Local Government Area. The council considers that an alternative boundary adjustment with Strathfield Municipal Council would improve regional planning. IPART has received a petition from 260 Strathfield residents potentially affected by the proposed boundary adjustment, who indicate they have not been consulted on the proposal and do not share communities of interest with Bankstown.
Community consultation	The council consulted with the community on Fit for the Future options. Initially (without being informed of the need for a rate increase) nearly 90% of residents were at least 'somewhat supportive' of the council standing alone. With the knowledge of the need for a rate increase to remain Fit for the Future, 54% of residents were still supportive of standing alone rather than merging with Canterbury Council.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were 94 submissions received on Bankstown City Council's proposal. The majority of these were form letters submitted by Strathfield residents opposed to the council's investigation of a boundary adjustment to take over the southern portion of Strathfield Municipal Council. The form letter (and variations of the form letter) raised issues including: • Lack of consultation on the proposed change. • Satisfaction with Strathfield is high, residents do not identify with Bankstown. • Rate increases, reduced representation and declining services if the change were implemented. Bankstown City Council received two petitions from Strathfield residents in relation to the boundary change with a total of 373 signatures raising similar issues to the form letter. Strathfield Municipal Council made a submission regarding the boundary change, stating that it would provide no benefit for residents and businesses, would result in a loss of representation for residents and was not supported by the community. One submission against a merger was received based on lack of evidence that residents would be better off under a merger. One late submission was received which argued that if a merger is inevitable, it should be between Canterbury and Bankstown to reflect the sense of community. In a meeting the council made a number of points: • There would be an impact on Bankstown if an amalgamation pattern along the lines of the ILGRP's preferred options was implemented, particularly if it is surrounded by councils assessed as not fit for the future. In this circumstance, Bankstown is of the opinion that, with a forecast population of 240,000 (in 2031), and surrounded by councils with populations over 450,000 (eg, Fairfield/Liverpool 528,850; Canterbury/Rockdale/Kogarah/Hurstville 491,600), it would not have relative scale and capacity. • Further, Bankstown raised concerns that if this outcome was to eventuate, it would potentially disadvantage Bankstown's community by not being a preferred partner with Government or an equal regional partner in the NSW Government's Plan For Growing Sydney. • Whilst Bankstown's preferred option is to stand alone, if the Government requires mergers, Bankstown has a willingness to actively contribute to and or participate in the Government's process to ensure it maintains a strong regional position. • In response to a request from IPART, the council provided further information indicating estimated cost savings of $9.7 million per annum from a possible merger with Canterbury. If such a merger occurred, the council said its modelling indicated it would not need to proceed with a proposed special variation to raise residential rates by 7.5% in real terms. It would still proceed with a business rate adjustment alongside an increase in residential minimum rates. • Bankstown provided a summary of its community consultation reports (phone poll) which indicated residential support of a merger was higher where it had the potential to offset rate increases.

BATHURST REGIONAL COUNCIL – CIP

FIT

Area (km^2)	3,819	Population 2011	39,950
OLG Group	4	(2031)	51,550
ILGRP Group	E	Merger 2011	45,150
		(2031)	56,500
Operating revenue (2013-14)	$50.8m	TCorp assessment	Moderate FSR, Negative Outlook
ILGRP options (no preference)	Council in Central West JO (all shaded) or merge with Oberon (yellow).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- The council states it met with Blayney, Oberon and Lithgow councils to discuss merger options and that a merger was not pursued because the other councils did not support a merger.
- We do not have sufficient evidence to evaluate the costs and benefits of a merger option compared to the stand alone proposal.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, the own source revenue and the building and infrastructure asset renewal ratios by 2019-20.
- The council meets the operating performance ratio with the inclusion of significant ongoing land sales forecast over the next 10-20 years.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the asset maintenance, infrastructure backlog and debt service benchmarks by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on its forecast for a decline in real operating expenditure over the period to 2019-20.

Other relevant factors

Social and community context	The proposal did not contain any relevant social and community context information for this criterion.
Community consultation	Bathurst states in its proposal that it met with Blayney, Lithgow and Oberon councils to discuss merger options but a merger was not pursued because the other councils did not support a merger. The proposal did not provide any details of community consultation.
Water and/or sewer	Bathurst Regional Council states its water and sewerage operations meet the requirements of the NSW Government's Best Practice Management of Water Supply and Sewerage Framework. The water and sewer business operates on a break-even basis and the council estimates that it has an infrastructure backlog of $48 million. Bathurst has a number of significant capital projects planned over the next three years related to water mains and new water and sewer infrastructure for the town of Kelso ($10m) to be funded by grants or external funding.
Submissions	No submissions were received in relation to Bathurst Regional Council's proposal.

BEGA VALLEY SHIRE COUNCIL – CIP

FIT

Area (km²)	6,277	Population 2011	33,150
OLG Group	4	(2031)	36,450
ILGRP Group	G		
Operating revenue (2013-14)	$45.6m	TCorp assessment	Sound FSR Neutral Outlook
ILGRP option	Council in South East JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's preferred option.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, the council has a robust revenue base and has demonstrated effective regional collaboration.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewal ratios by 2019-20.

Infrastructure and service management - satisfies

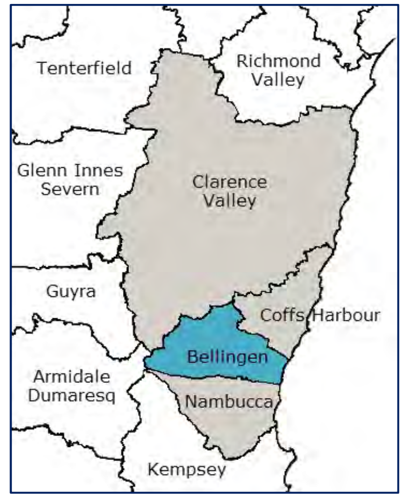
- The council satisfies the criterion for infrastructure and service management, as it is forecast to meet the asset maintenance, infrastructure backlog and debt service benchmarks by 2019-20.
- The council's recent asset management processes have assisted the council in understanding and planning for its assets into the future.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on declining real operating expenditure per capita.

Other relevant factors	
Social and community context	As the ILGRP recommended that Bega Valley Shire become a council in the South East JO, the council's CIP does not address any social or community concerns.
Community consultation	Bega Valley Shire states over the past two years it has amended its structure, reviewed services and refocussed its Resourcing Strategy and has included the community in discussion of this process. Bega has not specifically indicated any community consultation undertaken in relation to its CIP submitted.
Water and/or sewer	Bega Valley Shire operates water and sewer businesses. It is substantially compliant with the NSW Government Best Practice Management of Water Supply and Sewerage Framework Guidelines and is working with NSW Office of Water to resolve the outstanding issues. Bega's water and sewer businesses reported a deficit (before capital) of $1.3m and $1.4m respectively in 2013-14. The reported estimated cost to bring assets to a satisfactory standard for water and sewer is $16.2m.
Submissions	No submissions were received relating to Bega Valley Shire's proposal.

BELLINGEN SHIRE COUNCIL – CIP



	NOT FIT		
Area (km²)	1,611	Population 2011	12,900
OLG Group	11	(2031)	12,800
ILGRP Group	G		
Operating revenue (2013-14)	$17.6m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP option	Council in North Coast JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion based on its forecast for a negative operating performance ratio.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils must meet, therefore the council is not fit.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, it demonstrates good regional collaboration.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- Based on an initial analysis of total expenditure, the KPMG 'Optimising Service Delivery' report for MIDROC identified potential recurrent savings of $2m p.a. in service delivery for the council.

Sustainability – does not satisfy

- The council does not meet the criterion for sustainability based on its continuing operating deficits and relatively low building and infrastructure asset renewal ratio.
- Its operating performance ratio is forecast to be -7.2% in 2024-25.
- Its building and infrastructure asset renewal ratio was 40% in 2014-15 and is forecast to improve to 56.9% by 2019-20 which is remains below the benchmark.
- Its own source revenue ratio including and excluding FAGs is forecast to meet the benchmark.
- The council has limited options to improve its financial position and relies on the successful application for and adoption of a special variation from 2016-17 of 69% cumulative over 9 years (44% above the rate peg). This is included in the council's ratios.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council states it has revised the methodology for calculating the backlog ratio from the 2014-15 year onwards, which we consider to be reasonable.

Efficiency - satisfies

- The council meets the criterion for efficiency based on the Real Operating Expenditure per Capita showing a declining trend.

Other relevant factors	
Social and community context	Bellingen Shire Council has a small population base and a very large road and bridge network, large areas of non-rateable land (State Forests comprise 33%, National Parks 21%), below average SEIFA index ranking (ranked in the 50 most disadvantaged local government areas in the state.) It has an ageing population with 44.4% being over 50 and 62% of those employed earning less than $600/week. The area is prone to natural disasters that have major adverse cost impacts for Council (eg, 13 declared flood events since 2001 with $31m of damages). It has an abundance of natural assets (ocean, river and mountains) which has created a thriving tourism industry with more than 300,000 visitors each year.
Community consultation	The council has not provided any information on consultation with the community on Fit for the Future. It has however included some information on a community satisfaction survey, which showed that 26% were satisfied and 27% dissatisfied with council services.
Water/sewer	The council's water and sewer businesses operates on a better than break-even basis. The council states it currently achieves the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework and has no infrastructure backlog.
Submissions	We received one submission in relation to Bellingen's proposal, opposing any merger for Bellingen.

BERRIGAN SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	2,045	Population 2011	8,300
OLG Group	10	(2031)	7,800
ILGRP Group	D	Merger 2011	9,850
		(2031)	9,050
Operating revenue (2013-14)	$12.2m	TCorp assessment	Moderate FSR, Neutral Outlook
ILGRP options (preference in bold)	**Merge with Jerilderie** (yellow) or Council in Mid-Murray JO (all shaded).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- When compared to the merger, the council's forecast population of 7,800 in 2031 means it is unlikely to provide services cost-effectively to the local communities, advocate credibly and partner with government.
- A merged council is likely to have improved capabilities, a more robust revenue base, greater scope to undertake new functions and projects, better regional collaboration and integrated planning.
- The council submitted a business case undertaken by SGS for a merger with Jerilderie. The business case showed the merger of Jerilderie and Berrigan could deliver benefits to the local community of between $1.4m and $12.5m over 10 years (using a discount rate of 5.5%, not including the $5m Government funding).

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, the debt service and the asset maintenance ratios by 2019-20.

Efficiency - satisfies

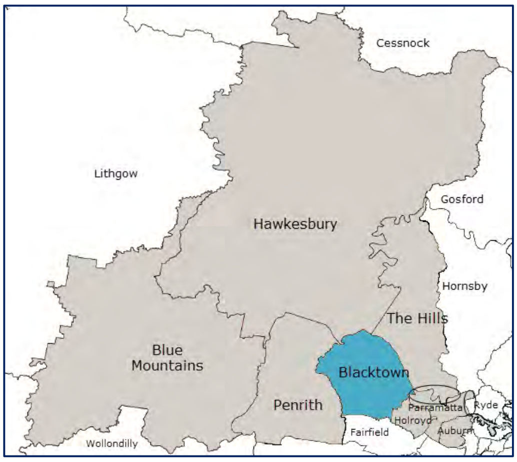
- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period.

Other relevant factors

Social and community context	The council notes that due to its location on the Murray, its social and economic orientation is south to Victoria and that ties with neighbouring NSW LGAs are limited. It states this is confirmed by ABS Travel to Work Data and SGS modelling. The main towns in Berrigan are Finley, Tocumwal and Berrigan.
Community consultation	The council conducted a telephone survey of 350 residential and 101 business residents in Berrigan Shire in January 2015. 53% of residents opposed the merger with Jerilderie (20% strongly), 15% neither supported nor opposed it and 26% supported the merger (4% strongly).

Other relevant factors	
Water and/or sewer	The council notes that it does not currently achieve the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework. The council postponed the implementation of its IWCMP to 2015-16 and receives 35% of its water revenue from consumption charges. In 2014-15 it met the 50% benchmark. It reported a water and sewer backlog of $2.6m in 2013-14 but notes that there are no water and sewer infrastructure assets that are currently not fit for purpose or unfunded.
Submissions	There were no submissions received in relation to Berrigan's proposal.

BLACKTOWN CITY COUNCIL – CIP



	NOT FIT		
Area (km^2)	240	Population 2011	312,350
OLG Group	3	(2031)	473, 500
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$246m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options (preference in bold)	**No change** or combine as strong JO with Auburn, Holroyd, Parramatta, part Ryde, The Hills, Hawkesbury, Penrith, Blue Mountains (all shaded). Possible boundary adjustments with The Hills and Hawkesbury to facilitate NW Growth Centre.		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- However, the council does not satisfy the sustainability criterion. It does not meet the benchmarks for operating performance ratio, the own source revenue ratio or the building and infrastructure asset renewal ratio.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, it has scope to undertake major projects. The council has the largest population in NSW, which is forecast to increase by 2.1% pa up to 2031. The council is forecast to deliver an additional $2.5 billion worth of infrastructure to facilitate development in the North West Growth Centre over the long term.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – does not satisfy

- The council does not meet the criterion for sustainability based on its growing operating deficits.
- The operating performance ratio is forecast to decline from -5.6% to -8.4% by 2019-20. The deficit is forecast to further increase by 2024-25. We estimate that adjusting this ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately two percentage points to -10.4% in 2019-20.
- Our analysis indicates the trend in growing operating deficits will have a significant impact on the council's financial sustainability, and ability to address asset renewals, in the long term.
- A factor adding to the council's poor operating performance is its depreciation expense, which is forecast to grow because of the accumulation of new assets to support population growth. Blacktown's depreciation rates are based on weighted average useful asset lives of approximately 60 years, which is reasonable. The accumulation of new assets is normal for a growth council. Accounting standards require councils to regularly review assumed useful asset lives and the depreciation methodology and rates used. This enables the reliability of annual depreciation estimates to be enhanced based on past actual asset performance.
- The council does not meet the own source revenue ratio benchmark. However, we consider this ratio is impacted by relatively high developer contributions, which are paid to fund local infrastructure provision.
- The council does not meet the building and infrastructure asset renewal ratio. The ratio is forecast to remain at around 40% in 2019-20. While a significant driver of this performance is depreciation and a growing asset base, the council considers it is able to meet renewal requirements.

- The council forecasts a significant asset renewal gap of around $140m by 2025-26 which is expected to increase further to $626m by 2035. This reinforces the need for the council to re-assess and improve its operating performance.
- Given its scale and capacity and revenue raising ability we consider that there are many options for Blacktown to become fit in future years. This includes exploring revenue and cost-reduction opportunities, refinements to asset management planning, and efficient use of debt for capital and infrastructure projects.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog and asset maintenance ratios by 2019-20.
- The council does not meet the debt service ratio benchmark. The council has a "no debt" policy.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on declining real opex per capita over time.

Other relevant factors	
Social and community context	Blacktown City Council is the largest local government area by population in NSW and the fourth largest in Australia, with an estimated resident population in 2014 of over 332,000. It consists of 48 suburbs, with distinct socio-economic diversity between long-established residential areas, including some of Australia's most disadvantaged urban areas, together with several identified urban renewal areas and new residential developments with very different needs and expectations. The council has an economy measured at $13 billion per annum (2.8% of the NSW Gross State Product). There are around 110,000 local jobs, 18,000 businesses within the 16 industrial estates and major commercial centres in the LGA.
Community consultation	The council exhibited its draft CIP for stakeholder comment its stakeholders for around 4 weeks. It did not provide details on the extent of stakeholder feedback.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions received in relation to Blacktown's proposal.

BLAND SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	8,558 km^2	Population	2011	6,000
OLG Group	10		(2031)	5,050
ILGRP Group	D			
Operating revenue (2013-14)	$20m	TCorp assessment		Weak FSR Neutral Outlook
ILGRP options (no preference)	Council in Riverina JO (all shaded) or merge with Coolamon and/or Temora (both yellow)			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – does not satisfy

- The council only meets one element of scale and capacity (Effective Regional Collaboration). The council either fails to meet or partially meets all other elements.
- The council does not have a robust revenue base or sufficient scale to undertake new functions or major projects. Its financial position means it would not have the resources to cope with complex and unexpected change.
- The council's population is declining and is forecast to be 5,050 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with Government.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- The council opposed a merger with either Coolamon or Temora. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the stand alone proposal. However, the merger is likely to better enable the provision of more cost-effective services to the local communities, advocating credibly and managing strategic issues in the region.

Sustainability –satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.
- The council's projected operating performance depends on the successful application for and adoption of a special variation from 2016-17 of 53.9% cumulative over 5 years (40.1% above the rate peg). However, our analysis indicates the council could break even via a smaller special variation.

Infrastructure and service management – does not satisfy

- The council does not satisfy the criterion for infrastructure and service management based on not meeting the benchmarks for the infrastructure backlog and asset maintenance ratio which was 95.6% in 2014-15 and is forecast to be 71.5% by 2019-20.
- The council meets the debt service ratio benchmark.
- The council's forecasts for the infrastructure and service management ratios appear cautious and based on conservative assumptions (eg FAGs remaining frozen and a slow timetable for implementing improvements such as user pays). Our analysis suggests the council would be able to renew its infrastructure more quickly than its forecasts suggest.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Bland Shire Council is located on the northern fringes of the Riverina region of New South Wales. Its major centre of West Wyalong is located on the junction of the Newell and Mid Western Highways and has communities located at Barmedman, Tallimba, Ungarie, Weethalle, Wyalong, Kikoira, Naradhan and Mirrool.
Community consultation	Bland sought the community's views on a potential merger with Temora and Coolamon: • the response rate was 9.3%, and • 84% of respondents opposed a merger.
Water and/or sewer	Bland's water and sewerage business does not pay dividends so it would only affect the council's scale and capacity insofar as it allows the council to employ specialist staff.
Submissions	We received one submission relating to Bland's proposal. It opposes any mergers noting that: • Bland, Narrandera and Coolamon are well-managed, and • the risks of merging are greater than expected benefits (ie, merged council would not be more economically sustainable).

BLAYNEY SHIRE COUNCIL – CIP

NOT FIT

Area (km²)	1,528	Population	2011	7,200
OLG Group	10		(2031)	7,800
ILGRP Group	E	Merger	2011	46,600
			(2031)	54,050
Operating revenue (2013-14)	$11.2m	TCorp assessment		Moderate FSR, Positive Outlook
ILGRP options (no preference)	Blayney in Central West JO (all shaded) or merge with Orange (yellow).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council's population is forecast to be 7,800 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- Based on the business case submitted by Cabonne and Orange on a merger between the two councils, our analysis suggests the merger could produce benefits to the local communities of $25m over 20 years. Morrison Low noted that the inclusion of Blayney in this merger would be expected to generate even higher benefits.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratio by 2019-20.

Efficiency – satisfies

- The council satisfies the efficiency criterion based on its forecast decline in real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Blayney Shire Council is close to two large centres, Bathurst and Orange. Blayney considers the council has connections with both cities and the community is likely to be divided over the most suitable merger partner. Blayney is a small rural shire, while Bathurst and Orange are urbanised city centres.
Community consultation	Blayney undertook a community survey. 86% of respondents to the survey supported the stand-alone option. Blayney states its community wants to retain local democracy, representation and services. Blayney's questionnaire did not provide detailed information on the merger.
Water and/or sewer	Blayney manages sewerage services. Blayney notes the sewerage business meets the NSW Government Best Practice Management guidelines and achieves a break-even performance.
Submissions	There were no submissions received in relation to Blayney's proposal.

BLUE MOUNTAINS CITY COUNCIL – CIP

	FIT		
Area (km^2)	1,432	Population 2011	78,550
OLG Group	7	(2031)	97,300
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$92.8m	TCorp assessment	Weak FSR Neutral Outlook
ILGRP options (preference in bold)	**No change** or combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, The Hills, Hawkesbury, Penrith, and Blacktown (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the criteria for sustainability, infrastructure and service management and efficiency.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- The council has entered into an agreement to form a strategic alliance with Hawkesbury City Council and Penrith City Council. The agreement is aimed at sharing expertise in project management and design and improving economies of scale.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio and the own source revenue ratio by 2019-20.
- The council has an approved special rate variation of 40.3% over four years (28.5% above the rate peg). This is the primary reason for the improvement in the council's financial performance over time, allowing it to just meet the benchmark for the operating performance ratio by 2019-20.
- The council forecasts improvement in its building and infrastructure asset renewal ratio to 76.9% by 2019-20.

Infrastructure and service management - satisfies

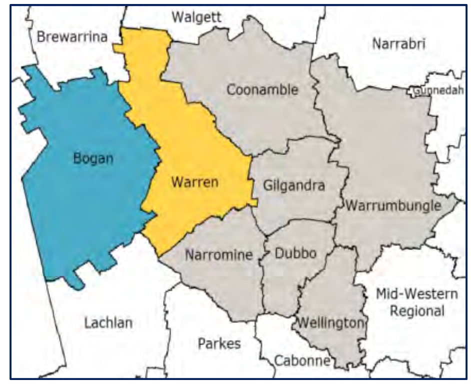
- The council satisfies the infrastructure and service management criterion based on its forecast to meet the benchmark for the debt service ratio by 2019-20 and for its asset maintenance ratio to be very close to the benchmark by 2019-20.
- The council does not meet the benchmark for the infrastructure backlog ratio by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real opex per capita to 2019-20.

Other relevant factors	
Social and community context	The LGA contains a number of reasonably large towns, rather than being centred on a single urban area, and many of its residents work in the Sydney metropolitan area. Nevertheless, the geographical characteristics of the LGA make it distinct.
Community consultation	While there is no evidence of community consultation about the CIP, the council notes its consultation with the community about the 2013-2014 'Resourcing Strategy' (the CIP's antecedent).
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions received in relation to Blue Mountains' proposal.

BOGAN SHIRE COUNCIL – RURAL COUNCIL PROPOSAL



FIT AS A RURAL COUNCIL

Area (km^2)	15,015	Population:	2011	3,000
OLG Group	9		(2031)	2,850
ILGRP Group	C			
Operating revenue (2013-14)	$10.5m	TCorp assessment		Moderate FSR Neutral Outlook
ILGRP options (no preference)	Rural Council in Orana JO (all shaded) or merge with Warren (yellow).			

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall. The council satisfies the criteria for sustainability, infrastructure and service management and efficiency.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's strategies for improvement include resource sharing within the JO, reviewing services and realising limited opportunities to raise additional revenue.
- The council states it did not explore the merger option with Warren due to community opposition to this alternative. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the Rural Council proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on Government adopting the Rural Council Model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If the Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio in 2024-25.
- In addition, the council meets the benchmark for the own source revenue with FAGS and is close to meeting this benchmark without FAGs.
- The council also meets the building and infrastructure asset renewal ratios.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management as it is forecast to meet the benchmarks for the infrastructure backlog ratio in 2019-20 and the debt service ratio in 2016-17. While the council is not forecast to meet the benchmark for the asset maintenance ratio, its forecast demonstrates improvement.
- The council states it intends to devote additional revenue to address the infrastructure backlog and infrastructure maintenance. Even if these surpluses do not eventuate, the backlog is relatively low and the council would have some capacity to finance infrastructure by borrowing.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a small, forecast decline in real opex per capita over the outlook period. In practice, the council might struggle to meet the benchmark, given the forecast decline in its population.

Other relevant factors	
Social and community context	The council considers the community of interest centres around Nyngan. As the population in the LGA is sparse and distances are great, this is a reasonable assertion.
Community consultation	Principally, the council consulted with the public via a survey and a public meeting. It is unclear how many people provided survey responses. However, the council states: • 95% of respondents oppose a merger between the council and Warren Shire councils • 98% of respondents oppose Bogan Shire Council becoming a Rural Council if decision-making and control is vested in a JO based in Dubbo, and • 98% of respondents would prefer the status quo.
Water and/or sewer	According to the council, its water and sewerage business recovers its costs and has an infrastructure backlog of $330,000.
Submissions	There were no submissions received in relation to Bogan's proposal.

BOMBALA SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

	NOT FIT			
Area (km^2)	3,763	Population	2011	2,500
OLG Group	9		(2031)	2,200
ILGRP Group	B	Merger- Cooma-Monaro	2011	12,650
			(2031)	12,950
		Merger- Cooma-Monaro and Snowy River	2011	20,400
			(2031)	21,600
Operating revenue (2013-14)	$8.6m	TCorp assessment	Moderate FSR Neutral Outlook	
ILGRP options (preference in bold)	**Merge with Cooma-Monaro** and Snowy River (both yellow) or Rural Council in South East JO (all shaded).			
Assessment summary				

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is as good an option to achieve the scale and capacity objectives for the region.
- The proposed Rural Council Proposal is not as good as the ILGRP's preferred option to merge with Cooma-Monaro. When compared to the merger, the council's small and declining population of 2,200 in 2031 means it is unlikely to cost-effectively provide services to the local communities.
- The efficiency strategies the council proposes could be realised in addition to the merger gains under the merger alternative.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- The council submitted a business case assessing the costs and benefits of merging Bombala, Cooma-Monaro, and Snowy River councils. Our assessment of the business case suggests the merger could generate benefits to the community of $22m over 20 years (including the Government grant).

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2024-25 and the building and infrastructure asset renewal and own source revenue ratios by 2019-20. In its financial planning, the council relies on the successful application and adoption of a special variation from 2016-17 of 30.7% cumulative over 3 years (23.0% above the rate peg).

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council changed its methodology for measuring the infrastructure backlog ratio, which accounts for much of the improvement.

Efficiency - satisfies

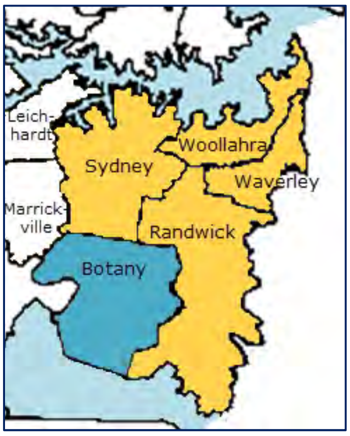
- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	The council refers to the geographic boundaries and relative isolation of the LGA contributing to a strong sense of place and the development of a cohesive and connected community where the council and community work together for social and economic benefit. This is reflected in the high level of volunteerism in the community: 33.5% compared to 16.9% for the state average. Economically, the main industries in the neighbouring LGAs do not show a clear overlap. By employment the main industries are: • In Bombala LGA: predominantly agriculture, forestry and fishing, followed by manufacturing, retail, accommodation and food services. • in Cooma-Monaro LGA: retail trade, public administration, health care and social assistance, agriculture, forestry and fishing. • In Snowy River LGA: predominantly accommodation and food services, followed by arts and recreation services, retail trade and construction, and agriculture, forestry and fishing.
Community consultation	A 2014 postal survey by the council received replies from 18% of the adult population. Survey results showed: • 52% of respondents preferred the council standing alone • 28% of respondents preferred a merger, and • in the case of a forced merger, 84% of respondents preferred merging with Cooma-Monaro and Snowy River over the other option of Bega Valley. The council held public meetings in March and June 2015. On both occasions, the attendees voted to stand alone as a rural council.
Water and/or sewer	Bombala Council states its water and sewer businesses do not yet meet the NSW Government Best Practice Management of Water Supply and Sewerage Framework. The businesses break-even, but have a combined infrastructure backlog of $13.1m.
Submissions	We received five submissions in relation to Bombala. All submissions support the council standing alone. They raised concerns about the social and economic impacts of a merger including job losses. Additionally, they added there is no evidence the residents will be better off, merged councils are financially weaker, road maintenance may be impacted, and Forestry Corp and National Parks should pay rates.

BOOROWA SHIRE COUNCIL

REFER TO YOUNG AND BOOROWA SHIRE COUNCILS – MERGER PROPOSAL

THE COUNCIL OF THE CITY OF BOTANY BAY – CIP



	NOT FIT		
Area (km^2)	22	Population 2011	41,500
OLG Group	2	(2031)	56,050
ILGRP Group	Sydney Metro	Merger 2011	487,600
		(2031)	653,250
Operating revenue (2013-14)	$57.4m	TCorp assessment	Moderate FSR, Neutral Outlook
ILGRP options (preference in bold)	**Merge with Randwick, Waverley, Woollahra and Sydney** (all shaded) or combine as strong JO.		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council did not meet the criterion for scale and capacity.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council has not demonstrated its stand-alone option is at least as good as a merger with any combination of the councils in the Global Sydney Council group. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 56,050 by 2031 compared with the forecast merger population of 653,250. Our analysis suggests the council does not have sufficient scale and capacity to effectively partner with governments compared to the merger.
- The council submitted a business case which showed a merger of Marrickville, Botany Bay and Rockdale produces net benefits of $83m over 9 years. Based on this model, our analysis suggests a merger between Marrickville, Botany Bay and Rockdale produces benefits of $251m over 20 years. However, the council did not wish to pursue this option and it was not an option identified by the ILGRP. We did not investigate the further regional impacts of this proposed merger.
- Randwick City Council submitted a business case which showed a merger with Woollahra Council, Waverley Council, Council of the City of Botany Bay and Council of the City of Sydney produces net benefits. Based on this model, our analysis suggests the merger could produce benefits of $416m over 20 years (including the Government grant).
- In addition, our independent economic consultants Ernst and Young estimated net benefits from the merger of $283m over 20 years using public data (not including the Government grant).
- Using information provided by councils, our analysis also suggests a merger with Randwick, Waverley and Woollahra councils produces net benefits of $384m over 20 years.
- These analyses, whilst producing different numbers because of different inputs and underlying methodologies, showed large gains to the local community from a merger.
- Our analysis is consistent with the ILGRP's preferred option for Botany Bay to merge with neighbouring councils.
- We note the council considers a merger would disrupt its relationship with Port Botany and Sydney Airport. The council states these facilities and its relationship with these stakeholders differentiates it from other councils.

Sustainability - satisfies

- The council meets the criterion for sustainability based on a positive and increasing operating performance ratio and continued improvement in own source revenue.
- The council's building and infrastructure asset renewal ratio meets the benchmark by 2019-20.

Infrastructure and service management - satisfies

- The council meets the criterion for infrastructure and service management based on re-aligning its funding towards renewals, which reduces its infrastructure backlog from 7.8% in 2014-15 to 1.7% in 2019-20.
- The council meets the asset maintenance ratio benchmark by 2019-20.
- However, the council's 'no debt' policy inequitably burdens current ratepayers. We note the council's debt position presents an opportunity to leverage its balance sheet for future growth by reconsidering its 'no debt' policy stance, if necessary.

Efficiency - satisfies

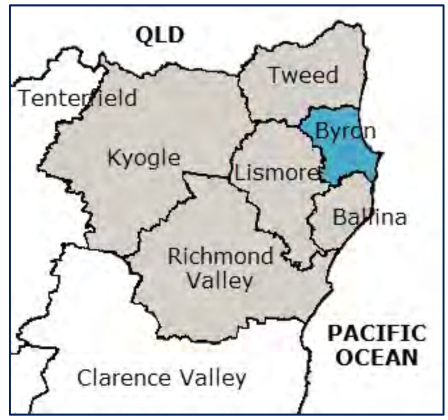
- The council meets the criterion for efficiency based on strategies for continuous improvement that are expected to lead to a fall in real opex per capita over time.

Other relevant factors	
Social and community context	The council observes that residents in the area of Botany Bay are culturally and linguistically diverse, and there are areas of significant socio-economic disadvantage that make this community different from other Eastern Suburb communities. Further, Botany supports key infrastructure including the Port and Sydney Airport, which the council considers presents it with unique challenges relative to other councils. However, the ILGRP notes that council boundaries should not unnecessarily divide areas with strong economic (and social) inter-relationships, and the Airport precinct and the Sydney CBD have a strong economic relationship.
Community consultation	Botany informed its community about the FFTF report through community days, and sought community views through focus groups, surveys, their websites, briefings and mailed information packs. Feedback from surveys and focus groups indicates that most respondents preferred their councils to stand alone. However, the council's mail out in June 2013 included a simple tick the box question of whether residents wanted the council to remain independent or merge. The information provided to residents mainly highlights the losses to the community without providing genuine regard to the benefits. The council's information to residents also selectively quotes modelling from the Parliamentary Budget Office about the costs of mergers, which may not reflect a balanced argument.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	Three submissions were received on Botany Council's proposal. One submission was concerned about the impact of mergers on NGOs, which are funded differently by councils. We also received two confidential submissions.

BURWOOD COUNCIL

REFER TO AUBURN, BUWOOD AND CANADA BAY CITY COUNCILS – MERGER PROPOSAL

BYRON SHIRE COUNCIL – CIP



FIT

Area (km^2)	567	Population	2011	30,700
OLG Group	4		(2031)	(36,200)
ILGRP Group	G			
Operating revenue (2013-14)	$48.9m	TCorp assessment		Weak FSR Negative Outlook
ILGRP option	Council in Northern Rivers JO (all shaded).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone. Hence the council has been assessed as satisfying the scale and capacity criterion.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewal ratios by 2019-20.
- In achieving these results, the council relies on efficiency savings as well as the successful application for and adoption of a special variation from 2016-17 of 22.5% cumulative over 4 years (13.0% above the rate peg).
- The council assumes it will receive a special variation of 3% above the rate peg under the streamlined process for rate pegging for councils found to be 'Fit For The Future.' While this policy has not been formally implemented, the council may still submit a special variation proposal consistent with its plan.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its reducing real opex per capita over the period to 2019-20.

Other relevant factors

Social and community context	The council is located on the far north coast of NSW, within 150km of Brisbane. The principal economic driver is tourism, with 1.4 million visitors each year. Agriculture and related products also contribute to the local economy.
Community consultation	The council did not provide any information about community consultation on its proposal.
Water and/or sewer	The council achieved 100% compliance for sewer and water with the best practice management framework.
Submissions	We did not receive any submissions for this council.

CABONNE COUNCIL – CIP

	NOT FIT		
Area (km^2)	6,021	Population 2011	13,200
OLG Group	11	(2031)	16,450
ILGRP Group	E	Merger 2011	52,600
		(2031)	62,700
Operating revenue (2013-14)	$30.1m	TCorp assessment	Sound FSR Neutral Outlook
ILGRP options (preference in bold)	Council in Central West JO (all shaded)or **merge with Orange City Council** (yellow).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- The council did not demonstrate its proposal was at least as good as the ILGRP preferred merger option. When compared to the merger, the council's forecast population of 16,450 in 2031 means it is unlikely to provide services cost-effectively to the local communities, advocate credibly and partner effectively with government.
- A merged council is likely to have improved capabilities, a more robust revenue base, greater scope to undertake new functions and projects, better regional collaboration and integrated planning.
- The council submitted a business case for a merger with Orange. Based on this model, our analysis suggests the merger could produce net benefits of $27m over 20 years (including the Government grant).

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratio by 2019-20.

Efficiency – satisfies

- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period.

Other relevant factors	
Social and community context	The community and social context of the two councils are vastly different, Orange is an urban/city council, while Cabonne provides rural services to dispersed small villages and communities.
Community consultation	A survey was undertaken in 2013 with 93% of the 1,650 respondents opposed to a merger with Orange. Cabonne also notes more recent consultations were undertaken, including through community meetings, newsletters, radio interviews, and television and newspaper ads, which also resulted in strong community opposition to a merger and the formation of a community led anti-amalgamation group. This consultation appears to have been fairly extensive. Cabonne states its consultation was conducted in a balanced way.

Other relevant factors	
Water and/or sewer	Cabonne operates its sewer business on a break even basis, while its water business operated at a loss in 2013-14. It plans to increase water charges by 10% a year and notes there is a high cost of servicing its dispersed community. It meets the requirements of the NSW Government's Best Practice Management of Water Supply and Sewerage Framework and estimates its infrastructure backlog is $730,000 for water and $182,000 for sewer.
Submissions	Fifteen submissions were received in relation to the council's proposal. All oppose a merger citing risks that job losses, reduced representation, reduced services, a lack of community support, financial weakness, differing demographics, a loss of social connection and a lack of evidence that a merger would produce benefits. One late submission was received that did not support the merger.

CAMDEN COUNCIL – CIP

	FIT		
Area (km^2)	206	Population 2011	58,450
OLG Group	6	(2031)	162,350
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$64.9m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options (preference in bold)	**No change** or combine as a strong JO with Liverpool, Fairfield, Bankstown, Campbelltown, and Wollondilly (shaded area).		

Assessment Summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- The council satisfies the criterion for sustainability based on its operating performance ratio being close to the benchmark and our assessment that its performance is adversely affected by its high growth.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, it has a robust revenue base and scope to undertake new functions and major projects.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council's forecast performance against the financial ratio benchmarks by 2019-20 is not strong, however we consider they are within an acceptable range given its prospective high growth.
- Camden is the fastest growing council in NSW based on the DP&E forecasts, with population growth of 178% from 2011 to 2031, compared to a Sydney average of 36%.
- The council has forecast it will be below the benchmark for the operating performance ratio, own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20. However, our analysis suggests the failure to meet these benchmarks is not a result of any underlying weakness in Camden's financial performance. Rather, Camden's particularly high forecast growth requires the council to deliver significant amounts of infrastructure and services to new areas before additional rate income and other revenues can be realised for that growth. The council has forecast its operating performance ratio will improve over the period to 2019-20 to be close to the benchmark. Over the long term, as Camden's growth rates moderate to more normal levels, it would be likely to meet the operating performance benchmark based on current data.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on a low infrastructure backlog ratio and a debt service ratio that meets the benchmark by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real opex per capita to 2019-20.
- Camden's operating expenditure per capita is significantly lower than other councils and is forecast to fall to $84 by 2019-20. The council states this is because most of its expenditure is on capital.

Other relevant factors	
Social and community context	Camden notes its population is one of the fastest growing areas in NSW and it faces challenges in managing new developments and providing the associated infrastructure to meet its forecast growth.
Community consultation	No details of community consultation were included in the proposal.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions received in relation to Camden's proposal.

CAMPBELLTOWN CITY COUNCIL – CIP

	NOT FIT		
Area (km^2)	312	Population 2011	151,150
OLG Group	7	(2031)	215,750
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$126.3m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP options (preference in bold)	**No change** or combine as a strong JO with Liverpool, Fairfield, Camden, Bankstown and Wollondilly Councils (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it satisfies the criteria for infrastructure and service management and efficiency, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion based on its forecast for a negative operating performance ratio by 2019-20 and financial assumptions which do not include new capital expenditure despite high population growth.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, it has a robust revenue base, scope to undertake new functions and major projects and the ability to employ a wide range of skilled staff.
- The council provides extensive evidence of regional collaboration and effective advocacy and working with other levels of government.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- The Government has declared the Campbelltown/Macarthur CBD as a Regional City Centre and there is clear evidence of a number of significant projects that have been implemented and planned for the region. The council states that it attempts to align its own policies and project parameters with those of other levels of government.

Sustainability – does not satisfy

- The council does not meet the criterion for sustainability based on its forecast for an operating performance ratio of -2.4% by 2019-20. Additionally, the council does not expect to reach an operating surplus by 2024-25, with revised information provided by the council projecting that the operating performance ratio will remain between -3.0% and -3.5% over the period 2020-21 to 2024-25 (single year basis).
- Campbelltown notes its modelling assumes no significant new capital expenditure over the outlook period and that its focus is on eliminating the infrastructure backlog and annual maintenance gap. Campbelltown's need to undertake additional new capital expenditure to meet population growth will be mitigated to some extent, as a number of infrastructure projects will likely be delivered by other government agencies and developers. However, it is likely additional capital expenditure will be required to meet population growth, which would have an adverse impact on its operating performance ratio through increased depreciation and operating expenditure on labour, contracts and materials.

- The council is an area of reasonable growth. The population is forecast to increase from 151,150 in 2011 to 215,750 in 2031 using the DP&E forecasts. This is an increase of 43% and an average annual increase of 1.8%, slightly above the overall Sydney average of 1.6% pa. The council's LTFP has forecast a higher annual population growth rate of around 3% pa and a population of 211,256 by 2025.
- Growth in Campbelltown may be bolstered over the long run by the Glenfield to Macarthur Priority Urban Renewal Corridor initiative and the Greater Macarthur Land Release Preliminary strategy. These developments, if progressed, will provide scope for significant additional dwellings. The timing of most of the potential housing development is uncertain, with additional preparatory work required before much of the development could proceed. For these reasons, and the timing of recent announcements on the strategy, Campbelltown's financial forecasts do not include the substantive part of these potential developments. These developments will require additional infrastructure spending. The funding mechanism for the additional infrastructure is uncertain, but it is expected Campbelltown will draw on state government funding and voluntary planning agreements to fund this infrastructure.
- The council has forecast it will meet the benchmark for the own source revenue ratio by 2019-20, but the building and infrastructure asset renewal ratio is forecast to remain significantly below the benchmark over the period to 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the infrastructure and service management criterion, as it meets the infrastructure backlog and debt service benchmarks by 2019-20 and is close to meeting the asset maintenance benchmark.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real opex per capita to 2019-20.

Other relevant factors	
Social and community context	The City of Campbelltown includes a large culturally diverse population, with residents from more than 40 different countries. It is recognised as a major economic and social growth entity in Metropolitan Sydney and its LGA has characteristics of rural, developing and established areas. The Campbelltown/Macarthur regional centre has grown into a hub which offers services and facilities to serve the Macarthur region. The environment is characterised by a diversity of land uses and built forms ranging from dense urban developments along the Southern Rail Line to bushland environments along the Georges River corridor.
Community consultation	The council has not provided any information on consultation with the community on Fit for the Future.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions received in relation to Campbelltown's proposal.

CANADA BAY CITY COUNCIL

REFER TO AUBURN, BUWOOD AND CANADA BAY CITY COUNCILS – MERGER PROPOSAL

CANTERBURY CITY COUNCIL - CIP

NOT FIT

Area (km²)	34	Population	2011	145,100
OLG Group	3		(2031)	181,850
ILGRP Group	Metropolitan Sydney	St George merger	2011 (2031)	390,300 497,500
		Bankstown Merger	2011 (2031)	335,950 422,650
Operating revenue (2013-14)	$96.8m	TCorp assessment	Moderate FSR Neutral Outlook	

ILGRP options (preferences in bold).

Merge with Hurstville, Kogarah and Rockdale (yellow) or combine as a strong Joint Organisation, also including Sutherland (grey) **and** adjust Rockdale boundary at airport.

The ILGRP Report also stated that an alternative could be to amalgamate with Bankstown (but this was not included as a final option in the table addressing the council's region.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under a merger option. In addition a merger option would provide significant further benefits such as delivering infrastructure in accordance with the South Subregion plan, and managing the Georges River catchment.
- The council's population is forecast to be 181,850 by 2031 compared with the forecast merger population of 497,500. Our analysis suggests that the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case which showed that a merger of Canterbury, Kogarah, Hurstville and Rockdale produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $280m over 20 years (including the full Government grant).
- In addition, our independent consultants Ernst and Young estimated net benefits from the merger of $172m over 20 years using publically available data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- We note the ILGRP report included an alternative for Canterbury City Council to merge with Bankstown. Bankstown provided evidence to suggest this merger could produce benefits if it is pursued further.
- Our independent consultants Ernst and Young calculated a merger between Bankstown City Council and Canterbury City Council could produce net benefits of $86m over 20 years, using public data.
- Our analysis is consistent with the ILGRP's preferred option for Canterbury to merge with neighbouring councils.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council's improvement in financial performance is driven by a special variation of 24.2% over 3 years approved in 2014 for sustainability and asset renewal purposes (16% above the rate peg).

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management. It meets the benchmarks for the infrastructure backlog and debt service ratios and shows improvement in the asset maintenance ratio over the outlook period.

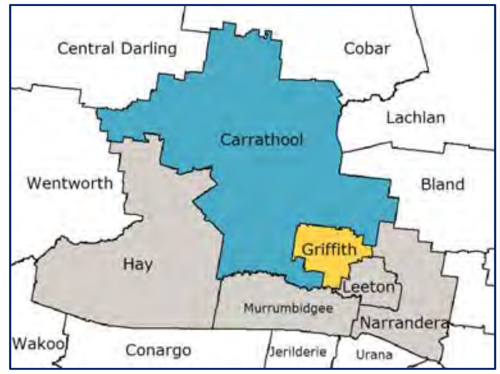
Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over time.

Other relevant factors	
Social and community context	Canterbury has a culturally diverse population. Around 70% of its residents speak a language other than English at home. Similarly, Kogarah, Rockdale and Hurstville LGAs are also culturally diverse. Around 50% to 60% of residents in these LGAs also speak a language other than English at home.
Community consultation	Canterbury commissioned Qdos Research to gauge the community's views about the proposed amalgamation. This involved two focus group meetings in December 2014. The Qdos report indicated that the community's views were mixed: • Most people would not prefer a merger, but noted that there is no "passion" to their opposition, because they do not identify themselves as residents of a municipality. Qdos noted that losing Canterbury City Council in its current form is not a particular concern for residents. • However, most residents noted some negative aspects of a merger eg, more bureaucracy and potential cuts to services or facilities. Qdos also conducted community surveys earlier in March 2014. This included a phone survey (450 respondents) and an online survey (944 completed surveys). • Overall, the surveys found that residents are more likely to identify themselves as part of the St George area, rather than the Bankstown LGA. However, 60% selected Canterbury to be a stand-alone council as their first preference. • The remaining 40% of first preferences were almost evenly split between a merger with St George councils and Bankstown council. However, 54% of second preferences were in favour of a merger with St George councils, compared with 31% for Bankstown City Council.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 14 submissions about the council's proposal. Most did not support the merger because it may lead to loss of local representation and services, and potentially higher council rates. Seven submissions stated that Canterbury is performing well and should not change. Four submissions supported some form of a merger to improve services. One submission supported dividing Canterbury between Marrickville, St George area and Bankstown. Also, the Hurlstone Park Association (representing 120 members) considers that its suburb shares greater economic and social links with Marrickville, and that the boundary should be changed to reflect this. One late submission was received which argued that if a merger is inevitable, it should be between Canterbury and Bankstown to reflect the sense of community.

CARRATHOOL SHIRE COUNCIL - RURAL COUNCIL PROPOSAL

FIT AS A RURAL COUNCIL



Area (km²)	14,820	Population 2011	2,700
OLG Group	9	(2031)	2,200
ILGRP Group	C	Merger 2011	28,100
		(2031)	27,650
Operating revenue (2013-14)	$11.6m	TCorp assessment	Weak FSR Neutral Outlook
ILGRP options (no preference)	Rural Council in Murrumbidgee JO (all shaded) or merge with Griffith (yellow).		

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall. It satisfies the sustainability and infrastructure and service management criteria. It does not satisfy the efficiency criterion.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include resource sharing within the JO, reviewing services and realising limited opportunities to raise additional revenue.
- The council states it has discussed the merger with its community and approached Griffith City Council about the merger. However, both its community and Griffith City Council preferred to stand alone. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the Rural Council proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on Government adopting a Rural Council model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio in 2023-24. The council also meets the building and infrastructure asset renewal ratios.
- The council expects to improve its own source revenue ratio from 40% in 2014-15 to 44% in 2019-20. With FAGs, the ratio increases from 62.0% in 2014-15 to 73.9% by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management as it meets the infrastructure backlog, asset maintenance and debt service ratios.

Efficiency – does not satisfy

- The council does not satisfy the criterion for efficiency based on our estimate of increasing real opex per capita over time. This is largely due to relatively static real operating expenditure forecasts, and a declining population. The council forecasts the real opex per capita will increase from $3,776 to $3,980 between 2014-15 and 2019-20.

Other relevant factors	
Social and community context	The council has a small population spread over a relatively large area. There are only five town centres to support rural-based local industries – Hillston, Goolgowi, Merriwagga, Carrathool and Rankins Springs.
Community consultation	The council used online media and newspapers to inform its community about the FFTF process. The council also undertook an online and reply-paid survey. The response rate for the surveys was 25% (sample was not specified), and 98% of respondents indicated their preference for Carrathool Shire Council to be a stand-alone council. Only 0.6% of the responses were in favour of a merger with Griffith City Council.
Water and/or sewer	The council's compliance with the NSW Government Best Practice Management frameworks is 70%. The council proposes to adopt strategies which would improve drinking water infrastructure, and a joint project to develop an integrated water cycle management plan with the Riverina and Murray ROC. The council also proposes strategies to improve long term sustainability by increasing fees for its rural supply network, and reducing maintenance costs through upgrade works.
Submissions	There were no submissions received in relation to Carrathool's proposal.

CESSNOCK CITY COUNCIL – CIP

	FIT		
Area (km^2)	1,963	Population 2011	52,500
OLG Group	4	(2031)	66,400
ILGRP Group	Hunter		
Operating revenue (2013-14)	$64.8m	TCorp assessment	Moderate FSR Negative Outlook

ILGRP option

The ILGRP did not present a table of options for the Hunter region. Instead, it included a discussion of these councils in its report.

IPART's methodology paper presented the option for Cessnock as 'Council in Joint Organisation', based on discussion in the ILGRP report and a map indicating no suggested merger. There was no specified JO, but Cessnock Council currently participates in the Hunter pilot JO.

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future - FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- However, we note the council has a relatively robust revenue base, engages in the Hunter ROC and the Hunter Pilot JO, and has provided some examples of large projects and collaborations with the State and Federal Governments.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building infrastructure and asset renewal ratio by 2019-20.
- However, it appears the council is forecasting wage rises below the award rate, so this might prevent the council from realising the projected operating performance.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a declining real opex per capita over the period to 2019-20.
- The council plans to improve its operating performance ratio by undertaking a review of its operations to identify where operating expenses may be reduced and revenue increased. It is likely this will impact service delivery to some extent given the planned reduction to staff.

Other relevant factors	
Social and community context	The council has not added additional information on the social and community context.
Community consultation	The council has not indicated it has undertaken any community consultation in regards to its Fit for the Future proposal.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received one early submission in relation to Cessnock's proposal, regarding the lack of road maintenance.

CLARENCE VALLEY COUNCIL – CIP

	NOT FIT		
Area (km^2)	10,440	Population 2011	51,043
OLG Group	4	(2031)	56,250
ILGRP Group	G		
Operating revenue (2013-14)	$75.5m	TCorp assessment	Weak FSR Negative Outlook
ILGRP option	Council in the North Coast JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. The council does not meet the criterion for sustainability including the benchmark for the operating performance ratio.
- It also does not satisfy the criterion for infrastructure and service management but does meet the efficiency criterion.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not propose another option for this council, Clarence Valley Council was not required to demonstrate how it met each of the elements of scale and capacity. It therefore did not provide sufficient information on the other elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- We note Clarence Valley has a weak financial position and faces challenges in meeting current and future infrastructure requirements.

Sustainability – does not satisfy

- The council does not meet the criterion for sustainability based on its continuing operating deficits and a relatively low building and infrastructure asset renewal ratio. The own source revenue ratio is greater than the benchmark.
- The operating performance ratio was -26.6% in 2014-15 and is forecast to remain in deficit at -5.7% by 2019-20.
- The building and infrastructure asset renewal ratio was 38% in 2014-15 and is forecast to improve to 72% by 2019-20.
- The council's improvement proposal relies on the successful application for and adoption of a special variation from 2016-17 of 47% cumulative over 5 years (34% above the rate peg).
- The council had its infrastructure assets independently re-valued which resulted in reduced depreciation expense (from $48m in 2012-13 to $34m in 2013-14). This has improved its operating performance ratio from 2012-13.
- The council states in the past it has not been funding its depreciation as part of its budget process, which has resulted in a significant infrastructure backlog.

Infrastructure and service management - does not satisfy

- The council does not meet the criterion for infrastructure and service management based on its forecast infrastructure backlog and asset maintenance ratios not meeting their respective benchmarks. The debt service ratio remains within the benchmark range.
- The infrastructure backlog was 6.4% in 2014-15 and is forecast to improve to 4.9% by 2019-20.
- The asset maintenance ratio was 64.7% in 2014-15 and is forecast to be 79.9% in 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on the real operating expenditure per capita showing a declining trend.

Other relevant factors	
Social and community context	The Clarence Valley Council area is located in the Northern Rivers region of NSW, about 300 kilometres south of Brisbane. It is predominantly rural, with expanding residential areas and some industrial and commercial land uses. Agriculture, forestry and fishing are important industries. Recently, tourism has become a major industry, especially along the coast. Settlement is based around the regional centre of Grafton and the townships of Iluka, Maclean, and Yamba and some 44 small villages and localities along the coast and inland.
Community consultation	The council did not provide details of community consultation for it submission. It has included the need for the SRV in its Operational Plan and is currently in the process of consulting the community on this.
Water and/or sewer	The council currently meets the Best Practice Management Framework for its sewerage business, and almost meets it (90%) for its water business. Both are run on a break-even basis. The council's sewerage backlog was \$3.1m, or 1.3% of the WDV of the sewerage assets in 2013-14, and its water supply infrastructure backlog was \$9.8m, or 2.5% of the WDV of the water supply assets.
Submissions	We received 12 submissions relating to Clarence Valley's FFTF proposal, which raised other issues such as opposition to further rate increases and that council is not meeting community needs. One late submission was received.

COFFS HARBOUR CITY COUNCIL – CIP

	FIT		
Area (km^2)	1,174	Population 2011	71,798
OLG Group	5	(2031)	88,100
ILGRP Group	G		
Operating revenue (2013-14)	$94.6m	TCorp assessment	Weak FSR Negative Outlook
ILGRP option	Council in the North Coast JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not propose another option for this council, Coffs Harbour was not required to demonstrate how it met each of the elements of scale and capacity. We consider the council currently meets or partially meets most of the elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio and the own source revenue ratios by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately one percentage point to 0.7% in 2019-20, which is still above the benchmark.
- The building and infrastructure asset renewal ratio shows improvement from 59.2% in 2014-15 to 91.2% in 2019-20, which is close to but below the benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog and debt service ratios by 2019-20.
- Its asset maintenance ratio is forecast to improve from 80.2% in 2014-15 to 94% in 2019-20, which is close to the benchmark.

Efficiency - satisfies

- The council meets the criterion for efficiency based on the Real Operating Expenditure per Capita showing a declining trend.

Other relevant factors	
Social and community context	Coffs Harbour is a major regional city on the mid north coast. The LGA's economy is driven by tourism, retail, manufacturing, construction, government services, education and the health industry. The city's extensive coastlines have presented climate change issues. Traffic congestion is also a growing concern according to the council's proposal.
Community consultation	The council engaged with the community in preparing its strategic action plan, but did not directly address the Fit for The Future requirements. Key priorities for the community include the local workforce, climate change, transport and enhancing cultural facilities.
Water and/or sewer	The council states it water and sewerage businesses meet the Best Practice Management Framework. However they do not operate on a break-even basis. Over the last ten years, capital expenditure for the water and sewer business has been in excess of $300m, funding for which includes borrowing of $221m. Although the businesses have an accounting deficit, they have positive cash flows, low maintenance capital requirements over the next ten years and a low gearing ratio.
Submissions	There were no submissions received in relation to Coffs Harbour's proposal.

CONARGO SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

	NOT FIT			
Area (km^2)	8,500	Population:	2011	1,600
OLG Group	8		(2031)	1,700
ILGRP Group	B	Merger	2011	16,100
			(2031)	16,150
Operating revenue (2013-14)	$6.6m	TCorp assessment		Sound FSR Neutral Outlook
ILGRP options (preference in bold)	**Merge with Deniliquin and Murray** (yellow) or Rural Council in Mid-Murray JO (all shaded).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- The proposed Rural Council Proposal is not as good as the ILGRP's preferred option to merge with Deniliquin and Murray. When compared to the merger, the council's small and static population of 1,700 in 2031 means it is unlikely to provide services cost-effectively to the local communities and advocate credibly.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2024-25 and the building and infrastructure asset renewal ratios by 2019-20.
- The council's own source revenue ratio excluding FAGs increases from 41% in 2014-15 to 51% by 2019-20, which is below the benchmark. The inclusion of FAGs will increase the ratio to 77% by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the infrastructure and service management criterion. It is forecast to meet the benchmark for the infrastructure backlog, asset maintenance debt service ratios over the outlook period to 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real opex per capita to 2019-20.

Other relevant factors	
Social and community context	The council produces around 14% of Australia's rice and is primarily focused on agriculture. Its population is dispersed between six main villages – Conargo, Blighty, Pretty Pine, Wanganella, Mayrung and Boorooban.
Community consultation	The council conducted a survey, with 96% of responses (469) indicating they support Conargo to remain separate from other councils. The council has also cited high levels of community satisfaction with current levels of service.
Water and/or sewer	The council does not have a water/sewer business.

Other relevant factors	
Submissions	We received two submissions relating to Conargo which raised concerns over any potential merger for Conargo. They indicated that the council currently meets ratepayers expectations and that evidence should be provided to indicate where (if at all) the council has not met its obligations. Both submissions questioned whether there are advantages to merging with Deniliquin.

COOLAMON SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

FIT AS A RURAL COUNCIL

Area (km^2)	2,482 km^2	Population:	2011	4,250
OLG Group	9		(2031)	3,950
ILGRP Group	C			
Operating revenue (2013-14)	$10.7m	TCorp assessment		Sound FSR Negative Outlook
ILGRP options (no preference)	Rural Council in Riverina JO (all shaded) or merge with Bland and/or Temora (yellow).			

Assessments summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall as the council meets the criteria for sustainability, infrastructure and service management and efficiency.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include resource sharing within the Riverina Eastern Regional Organisation of Councils. REROC demonstrates its success in increasing the scale and capacity of its member organisations on a range of measures and plans to become the pilot JO for the region.
- The council indicated it sought to commence merger negotiations with its neighbouring councils. However, these councils did not wish to participate in a merger. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the Rural Council proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on Government adopting a Rural Council model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2023-24 and the building and infrastructure asset renewal and own source revenue ratios by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on a declining real opex ratio over the outlook period to 2019-20.

Other relevant factors	
Social and community context	The council states the geographical spread across the northern and southern regions is a key issue. There is a considerable disparity between the north and south with different communities of interest. The northern region of the shire (Ardlethan and Beckom) is more closely affiliated with Temora or Griffith, while in the southern region of the shire the communities are more closely associated with the regional centre in Wagga Wagga. The council notes it is focused on providing services within these communities, rather than requiring them to travel to a regional centre.
Community consultation	The council held community information sessions on the Fit for the Future Process. The council also conducted a community survey of 283 residents, with 97% of respondents supporting the council remaining a stand-alone council. Where survey respondents were asked to choose a merger partner, the most popular merger partners were Bland and Narrandera. The information provided to the community did not appear to outline any potential benefits of a merger.
Water and/or sewer	The council does not supply water, but is responsible for the management of the Coolamon and Ganmain Sewerage Networks. The council does not meet the NSW Best Practice Management Framework, but states it is a willing participant in the JO/REROC working party to address this issue. Coolamon Shire estimates its 2013-14 sewer backlog is $100,000. It does not currently operate its sewer services on a breakeven basis but expects to address this over 2016-2020 by increasing fees and charges.
Submissions	We received one submission for Coolamon. It opposes mergers for reasons that include: the council's good performance (including collaboration with the private sector); potential risks outweighing potential benefits and the complementary nature of Bland, Narrandera and Coolamon Councils.

COOMA-MONARO SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	5,208	Population	2011	10,150
OLG Group	11		(2031)	10,750
ILGRP Group	D	Merger with Bombala	2011	12,650
			(2031)	12,950
		Merger with Bombala and Snowy River	2011	20,400
			(2031)	21,600
Operating revenue (2013-14)	$17.5m	TCorp assessment	Weak FSR Neutral Outlook	
ILGRP options (preference in bold)	**Merge with Bombala** and Snowy River (both yellow) or Council in South East JO (all shaded).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.
- The council does not satisfy the financial criteria overall. Although the council satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion because its forecast to meet the operating performance ratio benchmark includes the assumed approval of a large proposed special variation which may be unreasonable.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is as good an option to achieve the scale and capacity objectives for the region.
- Most of the efficiency strategies from the council improvement proposal could be realised in addition to the merger gains under the merger alternative.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- Our analysis of KPMG's business case submitted by Cooma-Monaro, for a merger of Cooma-Monaro, Bombala and Snowy River Councils, suggests the merger generates benefits to the local communities of $22m over 20 years (including the Government grant). This represents larger benefits than the three councils' share services arrangement and suggests merging is likely to be better than Cooma-Monaro's stand-alone proposal.

Sustainability - does not satisfy

- The council does not satisfy the sustainability criterion.
- The operating performance ratio is forecast to steadily improve from -25% in 2014-15 to 1% by 2024-25. The council relies on the successful application for and adoption of a special variation from 2016-17 of 65.0% cumulative over 9 years (40.1% above the rate peg). Our analysis indicates this assumption is unreasonable as the council's average residential rates were higher than the OLG Group 11 average in 2013-14, the council has not yet commenced consultation on the special variation and the planned increase is relatively large in terms of size and duration.
- Without the special variation, we estimate the ratio would improve at a slower rate to -8% by 2024-25. This is below the benchmark.
- The council forecasts a small improvement in the building and infrastructure asset renewal ratio from 43.8% in 2014-15 to 44.6% in 2019-20. However, this remains well below the benchmark.
- The own source revenue ratio is above the benchmark in 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	Cooma-Monaro Council states the town of Cooma is the 'capital of the Snowy Mountains', being the social and commercial hub of the region. The council indicates residents of the smaller villages feared their voice would be lost under a merger and influencing Council for the betterment of their community would become even harder.
Community consultation	Cooma-Monaro Shire Council undertook formal and informal community consultation but did not complete a survey. During the consultation process, residents raised issues including the potential loss of local representation, lack of understanding of the needs of small villages if the councils were to merge, concerns about job losses and questioned the potential for shared services given the distances. However, some residents believe the merged entity would have improved purchasing power, more credibility to advocate and more influence.
Water and/or sewer	Cooma-Monaro Shire Council supplies water and wastewater services to its community and its water supply business currently meets the NSW Government's Best Practice Management Framework. The council states the water and sewer businesses break-even but the infrastructure backlog is about $35m. We consider the council's water business would affect scale and capacity insofar as it allows the council to employ specialist staff.
Submissions	We did not receive any submissions relating to Cooma-Monaro Council's Council Improvement Proposal.

COONAMBLE SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

FIT AS A RURAL COUNCIL

Area (km^2)	10,765	Population	2011	4,250
OLG Group	9		(2031)	3,750
ILGRP Group	C			
Operating revenue (2013-14)	$14.7m	TCorp assessment		Sound FSR Negative Outlook
ILGRP options (no preference)	Rural Council in Orana JO (all shaded) or merge with Gilgandra (yellow shade).			

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall as the council meets the criteria for sustainability, infrastructure and service management and efficiency.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and declining population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include resource sharing within the JO and reviewing services.
- The council states it considered the merger option, although it appears this option was not explored in detail due to the response by the community and Gilgandra. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the Rural Council proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on Government adopting a Rural Council Model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2024-25 and the building and infrastructure asset renewal and own source revenue ratios by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on a declining real opex ratio over the outlook period to 2019-20.

Other relevant factors	
Social and community context	The council's community of interest centers on Coonamble, which is distant from other regional centres such as Gilgandra (around 1 hr away) and Walgett (around 1 hr 15 mins away).
Community consultation	Coonamble Shire Council states it consulted via the Mayor's newspaper columns, radio interviews and community group meetings. The council surveyed the community to gauge its views about different options for the council. According to the council, the survey response was overwhelmingly for Coonamble Shire Council to remain a stand-alone council within the ORANA JO. The council, however, did not cite statistics resulting from the survey.
Water and/or sewer	According to the council, its water and sewerage business breaks even and has an infrastructure backlog of \$885,000.
Submissions	There were no submissions received relating to Coonamble Shire Council's proposal.

COOTAMUNDRA SHIRE COUNCIL AND HARDEN SHIRE COUNCIL – MERGER PROPOSAL

FIT

	Harden Shire Council:	Cootamundra Shire Council:
Area (km^2)	1,907	1,510
OLG Group	9	10
Population 2011	3,700	7,550
(2031)	3,200	6,600
Proposed merger		
2011	11,250	11,250
(2031)	9,800	9,800
Operating revenue (2013-14)	$9.6m	$11.0m
TCorp assessment	Moderate FSR Negative Outlook	Moderate FSR Neutral Outlook
ILGRP options	**Merge with Boorowa and Young** (yellow) **or** rural council in Tablelands JO (bolded outline including Harden) (preference in bold).	Council in Riverina JO (bolded outline including Cootamundra) or merge with Junee (orange) (no preference).

Assessment summary		
	Scale and capacity	**Satisfies**
	Financial criteria:	**Satisfies overall**
	• Sustainability	Satisfies
	• Infrastructure and service management	Satisfies
	• Efficiency	Satisfies

Fit for the Future – FIT

- The merger proposal for Cootamundra Shire Council (Cootamundra) and Harden Shire Council (Harden) meets the criterion for scale and capacity.
- Scale and capacity is a threshold criterion which councils must pass in order to be deemed Fit for the Future (FTFF).
- The councils' merger proposal also satisfies the financial criteria overall. It satisfies the criteria for sustainability, infrastructure and service management and efficiency.

Scale and capacity – satisfies

- The merged councils will have enhanced scale, better scope to undertake new functions and major projects, an ability to employ a wider range of skilled staff, improved knowledge creativity and innovation, and more effective regional collaboration.
- The merger is therefore better than each council standing alone.
- Our analysis of the councils' business case indicates the merger could produce benefits to the local communities of $11m over 20 years (including the Government grant).
- In addition, the proposed merger between Cootamundra and Harden has the support of the respective councils, which reduces the risk associated with change management, and the support from their respective communities.
- For Cootamundra, the merger is the best available option, given Junee and other neighbouring councils did not wish to pursue a merge. Therefore, it is maximising outcomes subject to constraints.
- Harden withdrew from merger discussions with Young and Boorowa, and pursued the Cootamundra option instead, for a number of reasons, including:
  - o concerns about forecast job losses in the consultant's report on the proposed merger with Young and Boorowa, which it considers are inadequately justified
  - o it considers the other merger councils were less focused on the creation of a brand new organisation, and
  - o it receives proportionally more representation on the new council than with a 'Hilltops' merger.

- The available evidence suggests merging with Young and Boorowa may produce a better outcome for Harden's local community.
- However, the Harden-Cootamundra proposal is consistent with the government's Fit for the Future reform process that provides support for voluntarily negotiated mergers. Hence, we have assessed the proposal as fit.
- Young and Boorowa submitted a business case on a 3 way 'Hilltops' merger with Harden, prepared by LKS Quaero. Young has indicated it supports a four-way merger between Young, Boorowa, Harden and Cootamundra. However, Cootamundra has rejected this option on the basis that it changes the focus of Cootamundra and the southern half of Harden away from the Riverina region. Our analysis of this 'Hilltops' councils' business case (ie, Young-Boorowa-Harden) suggests merging four councils, including Cootamundra, could produce further benefits of $42 million to the local communities over 20 years. These benefits are in addition to the benefits from completing the current two merger proposals.

Sustainability - satisfies

- The proposed merger satisfies the criterion for sustainability as the councils forecast they will be above the benchmarks for the operating performance ratio by 2024-25 and the own source revenue by 2019-20.
- In their merger proposal, the councils rely on the successful application for and adoption of a special variation from 2017-18 of 21.6% cumulative over 4 years (11.2% above the rate peg).
- The building and infrastructure asset renewal ratio was 90.5% in 2014-15 and is forecast to increase above the benchmark for two years before declining to 74.1% by 2019-20. However, the councils state that over the same period their internally restricted reserves are projected to increase, and would correct this trend from year five onwards.
- The councils estimate merger efficiency savings over five years at $4.5m, with $1.2m of these savings resulting from a non-cash efficiency saving due to an adjustment to depreciation expenses. Ongoing cash benefits from merging are estimated at close to $900,000 pa by 2019-20.

Infrastructure and service management - satisfies

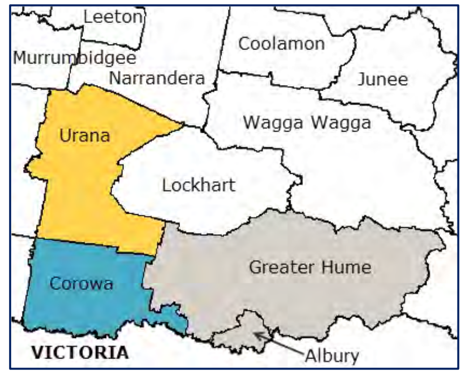
- The proposed merger satisfies the criterion for infrastructure and service management based on the councils' forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The councils appear to be funding future maintenance requirements and reducing their backlog. However, the councils note issues related to the reliability of estimates from their asset management processes, and that resources (ie, staff) through re-deployment following the merger are expected to be directed towards asset management.

Efficiency - satisfies

- The proposed merger meets the criterion for efficiency based on declining real opex per capita over time.
- The councils' merger business case identifies ongoing savings from reduction in costs from the governance and management of between $400,000 and $550,000. In addition, the councils identify a number of savings from reducing duplication or rationalising assets. These efficiency savings are estimated to be about $3.4m over five years to 2019-20 (or about $60 per person per year).

Other relevant factors	
Social and community context	Cootamundra chose not to pursue a possible merger with Junee because both councils consider the topography of the Bethungra Range reduces the efficiencies from merging these councils. Cootamundra and Junee's desktop analysis concluded only marginal benefits would occur from the merger (including any government financial support). Cootamundra and Harden consider they have strong community links, with the towns being just 38 kilometres apart (30 minutes drive), with common landform and primary industries.
Community consultation	The councils informed their communities of the FFTF process and proposed merger through four public meetings each, an information brochure (allowing feedback), a website displaying the business case, and media releases to ratepayers. Feedback on the proposed merger proposal was predominately positive.
Water and/or sewer	Harden is the sole water provider in its area and Cootamundra provides water to the town. They have not forecast additional savings or costs for these activities for the merged entity.
Submissions	No submissions were received on Cootamundra and Harden's merger proposal.

COROWA SHIRE COUNCIL – CIP



NOT FIT

Area (km^2)	2,407	Population	2011	11,300
OLG Group	11		(2031)	11,250
ILGRP Group	D	Merger	2011	12,500
			(2031)	12,050
Operating revenue (2013-14)	$18.6m	TCorp assessment		Moderate FSR Negative Outlook

ILGRP options (preference in bold): Council in Upper Murray JO (all shaded) or **merge with Urana Shire Council** (yellow)**.**

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy in order to be assessed as Fit for the Future.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- In the absence of willing merger partners, Corowa has not undertaken a business case or explored a merger that establishes the stand-alone position is at least as good as the merger option.
- Corowa's proposal does not address all of the elements of scale and capacity in detail. However, where we have been able to gather information on some elements of capacity, our analysis indicates a merger would generally benefit both councils, even though for some elements the improvement for Corowa is modest.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- The merger with Urana would provide greater scale and capacity for the system of local government in the area.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.
- The council was granted special variations in 2013-14 and 2014-15. We observe the council's rates were 36% lower than the OLG Group 11 average prior to the first of these. The council plans to apply for two consecutive special variations:
  - Commencing in 2016-17 of 31.1% cumulative over 4 years (20.7% above the rate peg). The council consulted on this special variation as part of FFTF and claims it has community support.
  - Commencing in 2020-21 of 40.3% cumulative over 5 years (27.1% above the rate peg). It does not appear to have consulted on this special variation.
- The council estimates its planned special variation would generate an additional $13m in rate income over the ten year period to 2024-25. It indicates its operating performance ratio would break even in 2017-18 and then rise to 4% by 2024-25 without the planned special variations. Based on this, the council meets the benchmark from 2017-18, with or without the additional special variations.

Infrastructure and service management - satisfies

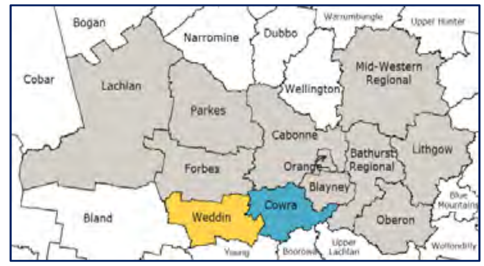
- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Corowa Shire has a population of around 11,000 people. Within Corowa Shire, the main towns are Corowa (population of 5,600), Howlong (population 2,553) and Mulwala (population 2,028). The unemployment rate (4.7%) is relatively low in Corowa Shire, with manufacturing, agriculture and tourism being key industries. Agriculture, forestry and fishing accounts for around 12% of employment and manufacturing accounts for around 19% of employment. Agriculture comprises a mix of dryland and irrigated cropping, grazing and small areas of forestry. Major employers in Corowa Shire include the munitions factory at Mulwala and the Riverlea piggery and stockfeed plant. Corowa Shire is regarded as a retirement destination and, as a consequence, has a high pensioner base.
Community consultation	Corowa had a web page for FFTF information, community information sessions were held in five towns, there was media commentary, and an information pack and survey were distributed to all households. The information pack explained the FFTF process and stated that Corowa had resolved to submit a CIP having failed to secure amalgamation partners. The survey was distributed to residents and non-resident ratepayers by Australia Post, and was available from council offices. There were 283 survey responses. The survey found over 60% of respondents showed some level of support for Corowa considering amalgamation opportunities. Over 70% of respondents were supportive of Corowa submitting a FFTF proposal to stand alone.
Water and/or sewer	Corowa operates its water and sewerage operations on a break-even basis. However, Corowa does not achieve the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage and it does not pay a dividend. The current water and sewerage infrastructure backlog is over $19m. There are three capital projects valued at $3.7m planned for the period 2015-16 to 2017-18. Corowa reported an operating surplus of $1.6m on its water and sewerage operations in 2013-14 (source OLG).
Submissions	There were no submissions received in relation to Corowa’s proposal.

COWRA SHIRE COUNCIL – CIP



	FIT		
Area (km^2)	2810	Population 2011	12,500
OLG Group	11	(2031)	11,200
ILGRP Group	D	Merger 2011	16,250
		(2031)	14,450
Operating revenue (2013-14)	$19m	TCorp assessment	Sound FSR Negative Outlook
		TCorp assessment (2015)	Moderate FSR Positive Outlook
ILGRP option (no preference)	Council in Central West JO (all shaded) or merge with Weddin (yellow).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council demonstrates it meets most of the elements of sale and capacity, and appears to have a revenue base that is robust and the ability to attract skilled staff, which together shows the council, has the ability to cope with complex and unexpected changes.
- The council's proposal is consistent with the ILGRP's option to stand alone.
- The council has not provided analysis of the alternative merger option. Instead it appears to have relied on analysis undertaken by Weddin to inform its decision to submit a CIP. We do not have sufficient evidence to evaluate the costs and benefits of a merger option compared to the stand alone proposal.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewal ratios by 2019-20.
- In June 2015, TCorp provided Cowra Shire with an updated Financial Sustainability Rating that observed there was a clear improvement in projected outcomes, in particular for its operating position over the next 10 years.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the asset maintenance, infrastructure backlog and debt service benchmarks by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on its forecast for a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	The Shire has one town, Cowra, and a number of small villages. Cowra is a strong service centre for the shire and surrounding areas including Canowindra and Grenfell, but no specific communities of interest were identified.
Community consultation	The council has not outlined any specific community consultation in relation to the councils Improvement Proposal. However council's minutes of the 25 May 2915, state the proposal will be on public exhibition. No submissions were received following this process.
Water and/or sewer	The council operates and water and sewer businesses. The council states it meets the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework. We note Cowra Shire reported a deficit before capital of $1.1m for water and a surplus for sewer of $418,000 as well as an infrastructure backlog for water and sewer of $6.8m.
Submissions	There were no submissions received in relation to Cowra's proposal.

DENILIQUIN COUNCIL – CIP

	NOT FIT			
Area (km²)	143	Population	2011	7,300
OLG Group	4		(2031)	5,700
ILGRP Group	D	Merger Murray and Conargo	2011 (2031)	16,100 16,150
		Merger Murray and Wakool	2011 (2031)	18,550 17,650
Operating revenue (2013-14)	$11.1m	TCorp assessment	Moderate FSR, Negative Outlook	
ILGRP options (preference in bold)	**Merge with Conargo/Murray** and Wakool (yellow), or council in Mid-Murray JO (all shaded).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- The council has not demonstrated its proposal to stand alone is as good as the ILGRP identified merger option. When compared to a merger, the council's forecast population of 5,700 in 2031 (based on DP&E data) means it is unlikely to provide services cost-effectively to the local communities, advocate credibly and partner effectively with government.
- The council submitted a business case by LKS Quaero for a merger between Wakool, Murray and Deniliquin Councils, but did not identify an NPV estimate. Based on this model, our analysis suggests a merger could produce net benefits of $26m over 20 years (including the full government grant of $11m).
- Our analysis also suggests a potential Murray and Deniliquin merger could produce net benefits of $16m over 20 years (including a Government grant of $5m).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Deniliquin to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmark for the operating performance ratio by 2019-20.
- The council's own source revenue ratio is forecast to be 53.2% by 2019-20 which is slightly below the benchmark. Its building and infrastructure asset renewal ratio is also below the benchmark. However, we consider this is acceptable in the context of its sound operating position.
- The council's building and infrastructure asset renewal ratio is forecast to be 79.2% by 2019-20, which is below the benchmark. However, its performance during the period exceeds 100% in some years based on the cyclical nature of its renewal expenditure program.
- The council's improvement in its financial position is partly due to an approved special variation of 4.5% in 2015-16 (including the rate peg) which remains in the rate base for three years to fund tourism promotion.

- The council has assumed FAGs funding is frozen until 2017-18, after which it assumes they are indexed at 3% per annum. We note the council's declining population may affect the size of its grant in future years.

Infrastructure and service management - satisfies

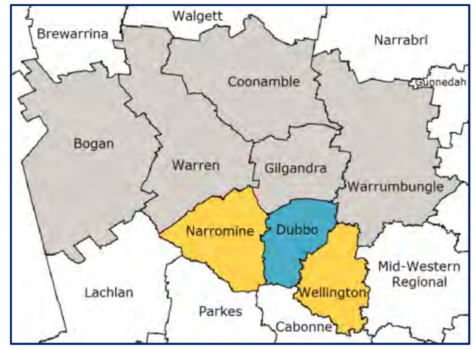
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period.

Other relevant factors	
Social and community context	Deniliquin township is 750km west of Sydney, 200km west of Albury and 250km southwest of Wagga Wagga. It is 80km north of the Victorian border. It is the headquarters of the Murray Irrigation Ltd which irrigates Berriquin, Deniboota, Denimein and Wakool – these areas produce 50% of Australia's rice and 75% of NSW tomatoes.
Community consultation	The council's proposal indicates that it completed its first Community Strategic Plan in 2012 with community consultation at that time identifying a strong desire for mergers as a key priority to ensure the long term sustainability for the region. Deniliquin councillors have been supportive of the concept of mergers as an opportunity to improve regional strength.
Water and/or sewer	The council states it currently achieves the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework. The council's proposal indicates it operates its services on a break even basis, however there is an estimated $0.25m water and sewerage infrastructure backlog.
Submissions	There were no submissions received in relation to Deniliquin's proposal.

DUBBO CITY COUNCIL - CIP



	FIT			
Area (km^2)	3,425	Population	2011	40,250
OLG Group	4		(2031)	46,500
ILGRP Group	E	Narromine merger	2011	47,100
			(2031)	52,800
		Wellington merger	2011	49,100
			(2031)	54,600
		All combined	2011	55,950
			(2031)	60,900
Operating revenue (2013-14)	$56.4m	TCorp assessment	Moderate FSR Neutral Outlook	
ILGRP options (no preference)	Council in Orana JO (all shaded) or merge with Wellington and/or Narromine (yellow).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future - FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- We consider the council currently meets or partially meets most of the elements of scale and capacity.
- The council has explored the alternative merger options with Narromine and Wellington councils. An evaluation of the financial statements of Dubbo City, Narromine and Wellington councils was undertaken to examine the performance of the merged entity. However, the council decided to submit a stand alone proposal.
- The council's proposal is consistent with the ILGRP's option to stand alone.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.
- Improvement in its operating performance ratio is driven by a more accurate assessment of its depreciation expenses ($6.2m reduction), and cost-saving initiatives ($1m pa). The council plans to apply for a four-year special variation in 2016, of 1% above the rate peg each year (or 4.4% cumulative).
- The council has revised its infrastructure renewal requirements, and plans to increase its renewal expenditure using operational cost savings.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2016-17 of 14.8% cumulative over 4 years (4.1% above the rate peg).

Infrastructure and service management - satisfies

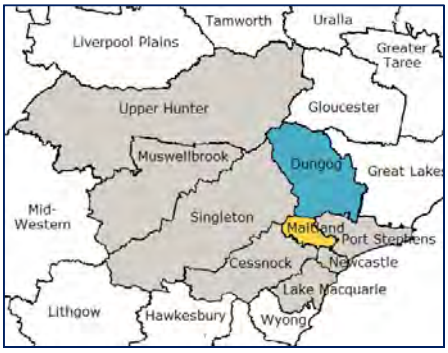
- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council plans to meet the asset maintenance ratio by better targeting asset maintenance expenditure consistent with its IP&R documents.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors	
Social and community context	The council is classified as a Regional Town/City by OLG, and its population is expected to grow by around 10% by 2031. The LGA capital of Dubbo is the only city in the Orana region, and its cultural and business facilities help service the communities in the other Orana and neighbouring LGAs.
Community consultation	The council has exhibited the draft proposal (along with supporting materials) for 28 days. The council broadly publicised its draft proposal, including an online exhibition, online self-selected poll and media promotions. The poll results showed that 83% of the voters were not in favour of merging with another council (151 of 182 votes), and that 81% were in favour of the council being part of the Orana JO (87 of 110 votes). The council interpreted the low number of responses as evidence of satisfaction with the existing council structure.
Water and/or sewer	The council's water utility function achieved 100% compliance of the NSW Government Best Practice Management requirements for 2013-14. The council has identified around $18m worth of capital works for its utility function and numerous strategies to improve its performance.
Submissions	We received one confidential submission relating to the council's proposal.

DUNGOG SHIRE COUNCIL – CIP



NOT FIT

Area (km²)	2,252	Population 2011	8,550
OLG Group	10	(2031)	8,800
ILGRP Group	Hunter	Merger 2011	78,450
		(2031)	109,300
Operating revenue (2013-14)	$11.7 m	TCorp assessment	Weak FSR Negative Outlook

ILGRP options (preference in bold)

The ILGRP report includes a map which indicates that Maitland and Dungog are a preferred merger option. We have therefore approached the assessment of these councils as if the merger was the ILGRP's preferred (ie bolded) option.

Our approach to Hunter Councils is reflected in the table in our Methodology Paper and indicates the preferred option that Maitland and Dungog:

Merge or council in Hunter JO (all shaded).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council does not meet the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF).
- The council does not satisfy the financial criteria overall. Although the council meets the criterion for infrastructure and service management, it does not satisfy the criteria for sustainability and efficiency.
- The council does not satisfy the sustainability criterion because its forecast to meet the operating performance ratio benchmark includes the assumed approval of a large proposed special variation which may be unreasonable.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all FTFF councils should meet, therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 8,800 by 2031 compared with the forecast merger population of 109,300. Our analysis suggests that the council does not have sufficient scale to cost-effectively delivery services to its community and to partner effectively with governments compared to the merger.
- The council has a small revenue base with limited ability to increase revenue.
- The council has limited staff and capacity to provide additional or improved services.
- The council faces significant challenges in overcoming its infrastructure backlog.
- The council submitted a business case which showed a net cost of $6.1m over 8 years. Based on this model, our analysis of the business case suggests that the merger could produce benefits of $5.3m over 20 years, which includes the $5m Government grant.
- Our analysis is consistent with the ILGRP's preferred option for Dungog to merge.

Sustainability – does not satisfy

- The council does not meet the sustainability criterion. It is forecast to meet the benchmarks for the operating performance ratio by 2024-25, the own source revenue ratio (by including FAGs) and the building and infrastructure asset renewal ratio by 2019-20. However, these results are dependent on a successful application for and adoption of a large special variation which we consider is not a reasonable assumption.

- For councils within OLG groups 8-11 we have assessed the own source revenue ratio with the inclusion of FAGs.
- The operating performance ratio was -13.1% in 2014-15 and is forecast to reach 20.0% by 2024-25, which is above the benchmark. However, the forecasts are based on a successful application for and adoption of a special variation from 2016-17 of 108.2% cumulative over 6 years (92.2% above the rate peg). We do not consider this to be a reasonable assumption as the council has not yet commenced community consultation on the proposed rate increase.
- The council has forecast it will meet the benchmarks for the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20, based on figures which include the proposed special variation.

Infrastructure and service management – satisfies

- The infrastructure backlog was 8.6% in 2014-15 and is forecast to reach 1.9% by 2019-20. The council states it has reviewed and amended the methodology for calculating the infrastructure backlog and this is the primary reason for the reduction.
- The asset maintenance ratio was 103% in 2014-15 and is forecast to be 100% by 2019-20.
- While the council reports that it meets the infrastructure and service management benchmarks, these are dependent on the council implementing the above mentioned strategies.

Efficiency – does not satisfy

- Real opex per capita was $830 in 2014-15 and is forecast to be $854 in 2019-20. The expenditure increases in 2015-16, but declines in the remaining years.
- The council states outsourcing and resource sharing in several areas where the organisation has skill gaps will be essential; however these are not currently budgeted in forward financial projections.

Other relevant factors	
Social and community context	Dungog Council states it is better off standing alone with a special variation and consulting with the community in regard to service levels. The recent flood events have strengthened the views of some councillors who oppose the merger option. The business case indicates that the corporate values of both councils are largely shared between the organisations and they have adopted very similar styles in expressing their respective vision and associated themes.
Community consultation	At the time of submitting its CIP, Dungog Council stated it had not undertaken community consultation due to the natural disasters which occurred in April 2015. The proposed financial modelling has not been discussed in detail with the council or the community. However, the council has since undertaken community consultation and has forwarded a letter outlining some of the comments made by residents at the community meetings. It did not outline any proposed actions from these meetings.
Water and/or sewer	The council does not have a water/sewer business. The council's water and sewer businesses were transferred to Hunter Water in 2008, which the council states has left it without any major external revenue generators to support the other activities of the council.
Submissions	Six submissions have been received relating to Dungog's proposal. Issues raised included lack of community consultation in relation to council's proposal, the possible special variation, poor management of council and lack of ability to adopt change. Two late submissions were received.

EUROBODALLA SHIRE COUNCIL – CIP

	FIT		
Area (km^2)	3,427	Population 2011	37,100
OLG Group	4	(2031)	40,650
ILGRP Group	G		
Operating revenue (2013-14)	$60.8m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP option	Council in South East JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, the council has a robust revenue base and has demonstrated effective regional collaboration and advocacy.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewal ratios by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management, as it is forecast to meet the asset maintenance and debt service benchmarks by 2019-20.
- The infrastructure backlog was 15.3% in 2014-15 and forecast to improve to 9.8% by 2019-20. This is nonetheless still below the benchmark.
- The council states it is proposing to undertake an independent audit of its asset management position, including depreciation and revaluation, which will improve its ability to plan and address the infrastructure backlog and asset renewals. The council will also explore opportunities for more cost effective borrowing and debt management to address the provision of infrastructure.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on declining real operating expenditure per capita.

Other relevant factors	
Social and community context	As the ILGRP identified Eurobodalla could become a council in the South East JO, the council's proposal does not address any social or community concerns.
Community consultation	Eurobodalla undertook community consultation to inform the development of its Integrated Planning and Reporting documents. The council has also developed a dedicated FFTF website and invited community members to information sessions about the revised 2013/17 Delivery Program and 2015/16 Operational Plan. Eurobodalla states it will continue to involve the community in refining and implementing Council's Improvement Proposal.
Water and/or sewer	Eurobodalla operates water and sewer businesses and states it has achieved the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework Guidelines. The council's proposal states that its sewer fund paid a dividend to the general fund during 2013-14. Eurobodalla has identified strategies to improve the performance of its water and sewer operations in the 2016-17 to 2019-20 years.

Other relevant factors	
Submissions	We received four submissions in relation to Eurobodalla. The submissions raised concerns about the management of the council and that council assumes it is FFTF as the ILGRP did not outline other options and limited community consultation. Concerns were also identified about the council's inconsistency in financial reporting. We received two late submissions which raised concerns about the council's management and the FFTF process.

FAIRFIELD CITY COUNCIL – CIP

	NOT FIT		
Area (km^2)	102	Population 2011	196,500
OLG Group	3	(2031)	239,900
ILGRP Group	Sydney Metro	Merger 2011	384,600
		(2031)	528,850
Operating revenue (2013-14)	$143.6m	TCorp assessment	Sound FSR, Neutral Outlook
ILGRP options (preference in bold)	**Merge with Liverpool City** (yellow) or Council in JO with Bankstown, Camden, Campbelltown, Liverpool City and Wollondilly (shaded area).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger.
- The council provided documentation to support its proposal to stand alone rather than merge with Liverpool City, which included comparisons of each councils' different financial and demographic positions. However, it did not calculate a net present value or provide sufficient financial analysis for a possible merger to demonstrate its proposal to stand alone would deliver benefits to the community as good as or better than the preferred merger. The efficiency improvements in the council's proposal can be realised under a merger option. In addition a merger option could provide significant further benefits.
- The council's population is forecast to be 239,900 by 2031 compared with the forecast merger population of 528,850. Our analysis suggests that a merged council will have enhanced scale to better partner effectively with governments compared to the stand alone option.
- Our independent consultants Ernst and Young estimated net benefits from a merger with Liverpool of $131m over 20 years using publically available data (not including the Government grant).
- Our analysis is consistent with the ILGRP's preferred option for Fairfield to merge.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately one percentage point to 0.6% in 2019-20, which is still above the benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on decreasing real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council considers that it has very different strategic directions from Liverpool City. It suggests that its low socio-economic demographic, high refugee intake and strategic objectives aimed at providing services to its residents are not compatible with Liverpool City's regional infrastructure demands and high population growth. The council states if required to merge with Liverpool City, the merged council's focus would shift to growing the Liverpool CBD, which would undermine Fairfield's current growth strategies and social objectives.
Community consultation	The council conducted an independent survey which shows 91% of respondents (of 2,000 surveyed) were opposed to a merger.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	IPART received 12 submissions regarding Fairfield's proposal. The majority of these opposed the merger on the basis that it would not deliver benefits to the community, would result in job losses, higher rates and reduced levels of service. The submissions supporting the merger suggested that the council is not currently meeting the needs of its residents, there would be a potential cost saving and there is a community of interest between the councils. Fairfield City Council met with IPART to present its proposal, and made the following points: • The council's preferred option is to remain stand-alone and it believes it has demonstrated it has the required Scale and Capacity. • Fairfield says it is the third largest Council in metropolitan Sydney, with a greater population growth projection than a number of other councils not recommended for amalgamation, namely Bankstown (pop. 200,357) and Sutherland (pop. 225,070). As a demonstration of the scale of Fairfield City, it has a population of 203,109, similar to these other non-release area councils that are not recommended for amalgamation. • The council provided evidence to suggest it does not share communities of interest (close functional interactions or economic and social links, as stated by the ILGRP), with Liverpool City Council. This is due to differences in the socio-economic backgrounds of the populations and the priorities of the councils, including Liverpool's urban release priorities. • Fairfield City Council said it is financially sustainable and meets all Fit For the Future financial benchmarks within the set timeframe. It provided examples of its strategic capacity, including a significant works program, whilst keeping rates affordable for its disadvantaged community. • When asked its preference if required to merge, the council restated its position was to 'stand-alone' but its proposal included an option of boundary adjustments with Holroyd, Liverpool and Penrith, to acknowledge particular linkages that do exist. It also supports a Strategic Alliance with neighbouring councils.

FORBES SHIRE COUNCIL – CIP

	NOT FIT			
Area (km^2)	4,640	Population	2011	9,450
OLG Group	11		(2031)	8,750
ILGRP Group	F	Merger	2011	13,200
			(2031)	12,000
Operating revenue (2013-14)	$25.1m	TCorp assessment		Sound FSR Negative Outlook
ILGRP options (no preference)	Combine as a Central West JO (all shaded) or merge with Weddin (yellow).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- Our assessment against the strategic capacity elements suggests the council has limited strategic capacity, particularly in relation to advanced skills in strategic planning.
- The council's population is forecast to be 8,750 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio and the own source revenue ratio by 2019-20.
- The building and asset renewal ratio was 48.2% in 2014-15 and is forecast to be 46.7% by 2019-20. This is below the benchmark and does not meet the requirement for rural councils to demonstrate improvement within five years. According to the council, its assets meet required service levels, so there is no requirement for asset renewal expenditure to be at the level needed to meet the benchmark. As the council's infrastructure backlog ratio meets the corresponding benchmark, we consider this is a reasonable assumption.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratio by 2019-20.

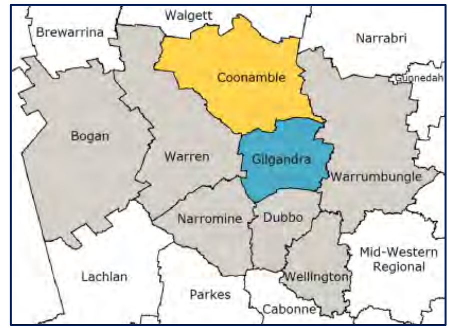
Efficiency – satisfies

- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period.

Other relevant factors	
Social and community context	Forbes Shire Council states a merger with Weddin Shire Council would not benefit either community, as it would result in a loss of identity and the potential for long-term job losses and increased rates for both communities. Forbes Shire Council considered a separate boundary adjustment with a small community, Eugowra, within Cabonne Council. Eugowra considers it has a closer affinity with Forbes Shire Council than Cabonne due to a closer physical proximity (Eugowra is located 36km from Forbes) and a community of interest which dates back to the gold rush era. Forbes Shire has indicated it is open with Cabonne to this boundary adjustment, but to date has not pursued this adjustment due to an inability to agree on a mutually beneficial adjustment.
Community consultation	Forbes Shire Council consulted on its proposal with the community through public meetings, and the provision of factsheets, a website, and media releases. Forbes Shire does not indicate that specific consultation was undertaken in relation to the options to be considered and does not provide any indication of the results of this consultation.
Water and/or sewer	Forbes Shire Council operates water and sewer businesses. For 2013-14 Forbes Shire reported a deficit (before capital) for water of $324,000 and a surplus for sewer of $276,000. Forbes has adopted a 5-year pricing policy to bring the water operations into an operating surplus. Forbes reports the cost to bring its water and sewer assets to a satisfactory standard is $7.9m, with the majority of this infrastructure backlog related to its sewer assets.
Submissions	There were no submissions received in relation to Forbes' proposal.

GILGANDRA SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

FIT AS A RURAL COUNCIL



Area (km^2)	4,669	Population	2011	4,500
OLG Group	9		(2031)	4,000
ILGRP Group	C			
Operating revenue (2013-14)	$17.6m	TCorp assessment		Weak FSR Neutral Outlook
ILGRP options (no preference)	Rural Council in Orana JO (all shaded) or merge with Coonamble (yellow).			

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall as the council meets the criteria for sustainability and infrastructure and service management. The council does not meet the criterion for efficiency.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include resource sharing within the JO and reviewing services.
- While the council did not explore the merger option with Coonamble in detail, the council's proposal outlines a qualitative assessment of the advantages and disadvantages of this option. The council's proposal does not contain information about the community's opinion of a merger or the council's proposal to stand-alone. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the Rural Council proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on Government adopting a Rural Council Model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2024-25 and the building and infrastructure asset renewal and own source revenue ratios by 2019-20.

Infrastructure and service management - satisfies

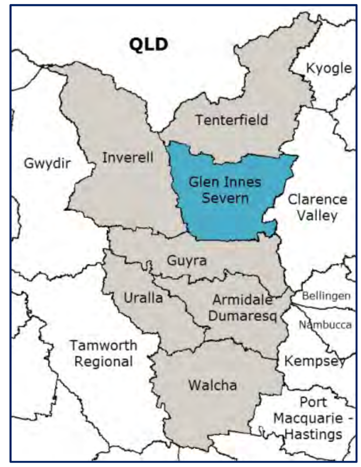
- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency – does not satisfy

- The council does not satisfy the criterion for efficiency as it forecasts an increase in real opex per capita. Real opex per capita was $4,120 in 2014-15 and is forecast to be $5,020 in 2019-20. The forecast is consistent with a declining population and reflects the council's proposal, which acknowledges the difficulty meeting this benchmark due to the local population characteristics.

Other relevant factors	
Social and community context	The council's community of interest centres on the town of Gilgandra, which is distant from other regional centres such as Coonabarabran and Narromine (both around 1 hour away).
Community consultation	The council provided LGA residents with information about the FFTF process and requested feedback. The proposal, however, does not contain information about feedback the council may have received.
Water and/or sewer	According to the council, its water and sewerage business breaks even and has an infrastructure backlog of $500K.
Submissions	We received one submission in relation to Gilgandra's proposal. The submission suggests the council should reduce its size and rely on contractors to a greater extent.

GLEN INNES SEVERN SHIRE COUNCIL – CIP



	FIT		
Area (km^2)	5,487	Population 2011	8,900
OLG Group	10	(2031)	(8,100)
ILGRP Group	F		
Operating revenue (2013-14)	$19.8m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP option	Council in New England JO (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although it does not satisfy the infrastructure and service management criterion, it satisfies the sustainability and efficiency criteria.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- Hence we have assessed the council as meeting the scale and capacity criterion.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- Notwithstanding this, the council's population is forecast to be 8,100 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - does not satisfy

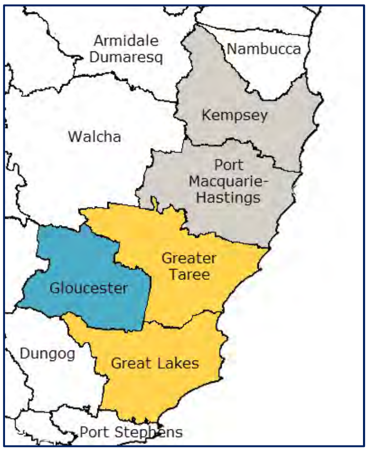
- The council satisfies the infrastructure and service management criterion. The council forecasts it will meet the benchmarks for the asset maintenance and debt service ratios by 2019-20. Its forecast the infrastructure backlog ratio does not meet the benchmark by 2019-20. The council acknowledges the backlog could take as long as 20 years to clear.

Efficiency - satisfies

- The council meets the criterion for efficiency based on a forecast decline in real opex per capita by 2019-20.

Other relevant factors	
Social and community context	The LGA's community of interest would centre on the town of Glen Innes, which is distant from other regional centres in New England. Inverell is around 50 minutes to the west. Armidale and Tenterfield are around an hour from Glen Innes.
Community consultation	The council's consultation process consisted of advertising the CIP and inviting the community to comment.
Water and/or sewer	The council operates water and sewer businesses and has resolved to increase corresponding fees to enable dividends to be paid. However, these businesses have infrastructure backlogs.
Submissions	We received two submissions in relation to Glen Innes' proposal. The first suggested the council's financial position is tenuous. The second was from Guyra Shire Council requesting that IPART ignore Glen Innes's proposed boundary adjustment due to the effect on Guyra.

GLOUCESTER SHIRE COUNCIL – CIP



NOT FIT

Area (km²)	2,996	Population: 2011	5,000
OLG Group	10	2031	4,850
ILGRP Group	F	Mergers: 2031	43,350 with Great Lakes 56,750 with Greater Taree 95,250 all three councils
Operating revenue (2013-14)	$10.2m	TCorp assessment	Very weak FSR Negative Outlook
ILGRP options (no preference)	Council in Mid-North Coast JO (all shaded) or merge with Great Lakes and/or Greater Taree (both yellow).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion because its forecast to meet the operating performance ratio benchmark includes the assumed approval of a large proposed special variation which may be unreasonable.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity - does not satisfy

- The council's population is forecast to decline 4,850 by 2031 based on DP&E data. While the council forecasts population growth of 1.8% over the next 10 years, the population is likely to remain below 10,000, which the ILGRP considers may place a council at risk of becoming unsustainable. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments compared to the merged entity. Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- The council's current financial position also restricts its regional capacity, and a merged council would have a more robust revenue base.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- The council engaged Morrison Low to undertake a business case for the suggested merger with Great Lakes Council, which showed a negative NPV from the merger. Based on this model, our analysis suggests the merger could produce net benefits of $11m over 20 years (including the Government grant).

Sustainability - does not satisfy

- The council does not satisfy the criterion for sustainability. Its forecast for a positive operating performance ratio by 2024-25, which is largely dependent on a successful application and adoption of a large special variation which we consider may not be a reasonable assumption because it could have a high impact on ratepayers.
- We approved a special variation of 44.3% over 3 years to begin in 2015-16 (33.6% above the rate peg). The council relies on the successful application for and adoption of a special variation from 2018-19 of 44.3% cumulative over 3 years (36.6% above the rate peg). Together, these special variations result in a cumulative increase in rates of 108% over 6 years (92% above the rate peg).

- The council meets the benchmarks for the own source revenue and the building and infrastructure asset renewal ratios by 2019-20.

Infrastructure and service management – satisfies

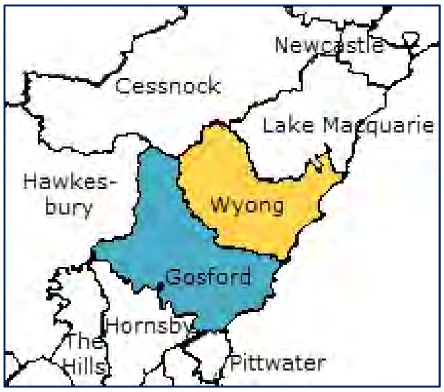
- The council satisfies the benchmarks for the infrastructure backlog and the debt service ratios. It shows considerable improvement in the asset maintenance ratio but does not meet the benchmark.
- The council changed its asset condition assessment methodology to a risk-based approach. This led to a significant improvement in the backlog ratio from 2013-14 to 2014-15 and has contributed to the operating performance ratio improvement through lower depreciation costs.

Efficiency - satisfies

- The council meets the criterion for efficiency based on forecast decreases in real operating expenditure per capita over time.

Other relevant factors	
Social and community context	Gloucester Shire is a small rural area with its economy mainly based on retail and services (43%), farming (20%) and manufacturing (14%) as well as tourism industries. It includes the World Heritage listed Barrington Tops NP. It has an older demographic than the State average. Morrison Low compared Gloucester and Great Lakes communities, noting similar features such as demographics, a well-developed focus on environmental protection, and many aligned policies. Differences include the councils' approach to infrastructure: Gloucester focuses on maintaining the core elements, whilst Great Lakes aims to manage its environment to produce quality lifestyle opportunities through appropriate development. Morrison Low suggests merging unequal sized councils presents a risk of a perceived takeover by the larger council, in this case Great Lakes.
Community consultation	The council consulted its community via: • an information brochure included in the rate notices and handed out at local events • its website • local radio and newspaper • staff information and workshops with councillors. It undertook a survey which showed: • 81% of respondents preferred the council to remain independent (with 11% unsure), • 55% of respondents disagreed that Gloucester should merge with Great Lakes Council (with 25% unsure). Comments related to retaining a local focus and losing representation in a merger, needing to be realistic about the financial situation and potential benefits, and that rural councils require different treatment to Sydney councils.
Water and/or sewer	The council does not have a water/ sewer business.
Submissions	There were no submissions received in relation to Gloucester's proposal.

GOSFORD CITY COUNCIL – CIP



	NOT FIT		
Area (km^2)	1,029	Population 2011	168,300
OLG Group	7	(2031)	(189,050)
ILGRP Group	Central Coast	Merger 2011	322,650
		(2031)	(386,900)
Operating revenue (2013-14)	$168.3m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP option (no preference)	Gosford (blue) to merge with Wyong (yellow) or form a multi-purpose JO (no separate water corporation until other options properly evaluated).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The ILGRP noted that the Central Coast would benefit from strong governance. It stated that 'an amalgamation warrants further investigation, but if that option is rejected or deferred indefinitely, then a JO *should* be established and should assume responsibility for water along with other strategic functions' [emphasis added].
- Gosford's proposal is not consistent with the objectives for the Central Coast. The council ruled out both a merger and a multi-purpose Central Coast JO with Wyong. In particular, its proposal not to join a JO does not promote the objectives of strong governance for the Central Coast.
- The council's population is forecast to be 189,050 by 2031 compared to the forecast merger population of 386,900. Our analysis indicates the council does not have sufficient scale and capacity to effectively partner with governments compared to the merger.
- The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- Wyong submitted a business case from Third Horizon. Based on this model, our analysis suggests the merger produces net benefits of $101m over 20 years (including the full Government grant).
- In addition our independent economic consultants Ernst and Young have estimated gains from the merger of $196m over 20 years using public data (not including the Government grant).
- All analyses showed large gains to the local community from a merger. Variances in calculations result from different inputs and underlying methodologies.
- The council noted its SGS business case showed net benefits from a Gosford/Wyong merger. IPART requested a copy of this business case, but the council did not provide it.

Sustainability – satisfies

- The council satisfies the sustainability criterion based on its forecast to meet the benchmarks for the operating performance ratio and own source revenue ratio by 2019-20.
- The council's strategies for improvement rely on a number of assumptions including the potential application for and adoption of a single year special variation in 2017-18 of 12.0% cumulative (9.5% above the rate peg). The council has not yet resolved to proceed with this special variation. The council states rate increases under the proposed special variation are half that expected under a merger with Wyong (around 21.5% including the rate peg).
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 reserves would reduce this ratio by approximately two percentage points in 2019-20, however the council would still meet the benchmark.

- The council's building and infrastructure asset renewal ratio improves from 69.5% in 2014-15 to 88.2% in 2019-20, which does not meet the benchmark. However, the council has forecast it will meet the benchmark by 2022-23.

Infrastructure and service management - satisfies

- The council meets the infrastructure and service management criterion based on its forecast to meet the benchmarks for the asset maintenance ratio and the debt service ratio by 2019-20.
- The council's infrastructure backlog ratio is forecast to reduce to 3.5% by 2019-20, but does not meet the benchmark. The council notes a review of its Special Schedule 7 by Jeff Roorda & Associates identified its asset backlog was overstated as a higher 'Condition 2' standard was used for most of its asset base.

Efficiency - satisfies

- The council meets the efficiency criterion based on a decrease in real operating expenditure per capita from 2014-15 to 2019-20. It has assumed an operational efficiency dividend of 0.5% per annum. It notes a targeted 10% operational efficiency dividend could not be met in 2014-15 due to the recent storm clean up in April 2015.

Other relevant factors	
Social and community context	The council's proposal stated there are very different socio-economic backgrounds between the far north and far south coast of the Central Coast area.
Community consultation	The council undertook online and face to face surveys. The survey outcome was that 38% of respondents ranked the shared services model as the preferred option and another 47% ranked it as the next preferred option. (The other options were 'no change' and 'amalgamation with Wyong Shire Council').
Water and/or sewer	The council indicated its water and sewerage operation fully complies with the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework. Its water and sewerage rates are set by an IPART Determination on a full cost recovery basis until 30 June 2017. No dividends were paid in the last two financial years.
Submissions	We received four submissions in relation to Gosford's proposal. Three supported a merger. One (from the Federal MP) opposed the merger. In a meeting the council discussed a number of issues from implementing a merger with Wyong along the lines of the ILGRP's preferred options. For example, it considered there would be a financial impact on ratepayers from rate harmonisation in a merger with Wyong. Additionally, it considered the councils had a different focus given Wyong was undergoing greenfield growth with Gosford undergoing brownfield growth.

GOULBURN MULWAREE COUNCIL – CIP

NOT FIT

Area (km^2)	3,221	Population	2011	28,350
OLG Group	4		(2031)	33,550
ILGRP Group	G	Merger	2011	35,750
			(2031)	39,050
Operating revenue (2013-14)	$30.8m	TCorp assessment		Moderate FSR Negative Outlook

ILGRP option: Council in Tablelands JO (note that the option was identified for Upper Lachlan Shire to consider a merger with Goulburn-Mulwaree).

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. The council does not meet the criterion for sustainability, in particular the benchmark for the operating performance ratio.
- The council satisfies the criteria for infrastructure and service management and efficiency.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not propose another option for Goulburn Mulwaree, it was not required to demonstrate how it met each of the elements of scale and capacity.
- Hence we have assessed the council as meeting the scale and capacity criterion.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability based on its forecast operating performance ratio not meeting the benchmark.
- The council has forecast its operating performance ratio to be -4.3% in 2019-20 which is below the benchmark. It meets the own source revenue benchmark.
- The council's building and infrastructure asset renewal ratio was 41.4% in 2014-15 and is forecast to improve to 70.4% by 2019-20, which remains below the benchmark.
- In its proposal, the council considers an application for a special variation of 46.6% cumulative over 4 years (36.0% above the rate peg) which would assist in meeting the ratios. The council has indicated it is not sure when the proposed special variation would commence although this will be included as part of the 2016-17 budget preparations. It has indicated a preference to see the benefits of its other reforms before proceeding with an application.

Infrastructure and service management - satisfies

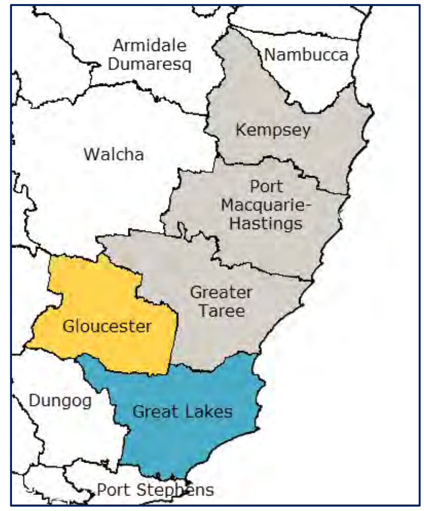
- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- Improvements in these ratios reflect the council's updated approach to asset maintenance and renewal, in which the council plans to increase its expenditure on asset maintenance in line with risks, revenue and community expectations of service levels.

Efficiency - satisfies

- The council meets the efficiency criterion based on a decrease in real operating expenditure per capita from $1,220 in 2014-15 to $1,040 in 2019-20.

Other relevant factors	
Social and community context	The council is located along the Sydney to Melbourne transport corridor and is also within the Sydney Drinking Water Catchment. It is a major regional centre with the city of Goulburn comprising 70% of the LGA's population. It has an ageing population, with 12% of the community over 70 years old. The council has highlighted high welfare dependency, limited local education opportunities and lower socio-economic demographic as challenges for the LGA.
Community consultation	The council notes it recently surveyed residents. According to the council, 91% of respondents said that they were aware of the Local Government reform process. Of these respondents, 67.7% believed that an amalgamation with Upper Lachlan Council would not provide a positive outcome for Goulburn Mulwaree, while 71.5% were opposed to the idea of an amalgamation with any other neighbouring councils.
Water and/or sewer	The council achieved 100% compliance for sewer and water with the NSW Government Best Practice Management of Water Supply and Sewerage Framework Guidelines. The council's reported backlog was $4.4m in 2013-14, which is forecast to be eliminated following a $40m upgrade to the council's wastewater treatment plant and major works at the Goulburn Water Filtration Plant.
Submissions	There were no submissions received in relation to Goulburn Mulwaree's proposal.

GREAT LAKES COUNCIL – CIP



FIT

Area (km²)	3,380	Population 2011	35,750
OLG Group	4	(2031)	38,500
ILGRP Group	G	Merger 2011	40,750
		(2031)	43,350
Operating revenue (2013-14)	$63.5m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options (no preference)	Council in Mid-North Coast JO (all shaded) or merge with Gloucester (yellow).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- We consider the council currently meets or partially meets most of the elements of scale and capacity.
- We note that the council is currently participating in the Hunter pilot JO and the OLG has allowed it to join the Hunter JO rather than the Mid-North Coast JO.
- The council engaged Morrison Low to undertake a business case for the ILGRP option to merge with Gloucester, which resulted in a negative NPV of -$1m over 8 years. On this basis, both councils decided not to pursue the merger.
- Our analysis of this business case suggests the merger would generate benefits of $11m over 20 years (including the Government grant). While this evidence suggests a merger may be a better alternative to the council's proposal to stand alone, our finding is based on the proposal being consistent with the ILGRP option to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio and the own source revenue ratio by 2019-20.
- Although the council's forecast to meet the operating performance ratio benchmark in 2019-20 is marginal, further improvement in the ratio is forecast to 2024-25.
- While the building and infrastructure asset renewal ratio is slightly below the benchmark in 2019-20, it peaks at around 128% in 2015-16.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2016-17 of 20.7% cumulative over 4 years (10.3% above the rate peg).

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on maintaining its asset maintenance ratio at the benchmark level and having an asset backlog ratio which meets the benchmark.
- The council undertook community consultation in 2014 to determine the community's preferences regarding asset quality, cost and service levels. Feedback from this consultation resulted in a reduction in asset service levels and the required cost to bring assets to a satisfactory condition, thereby improving the infrastructure asset backlog ratio.
- The debt service ratio is forecast to meet the benchmark in 2019-20.
- The council states it historically received $3m-$5m in grants and contributions for capital purposes, but given the variability and uncertainty of approval surrounding these, it has conservatively included $1.17m of grants and contributions annually from 2016-17.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on forecast decreases in real operating expenditure per capita over time.

Other relevant factors	
Social and community context	Morrison Low compared Great Lakes and Gloucester communities, noting similar features such as demographics, a well-developed focus on environmental protection and many aligned policies. Differences include the councils' approaches to infrastructure: Gloucester focuses on maintaining the core elements and Great Lakes refers to managing its environment with quality lifestyle opportunities.
Community consultation	Great Lakes Council's proposal has not outlined details of any community consultation undertaken on Fit for the Future. In 2014, it consulted its community on asset service levels to inform its Asset Management Plans.
Water and/or sewer	The council does not have water/sewer businesses.
Submissions	We received 5 submissions regarding Great Lakes Council's proposal. All support amalgamation stating discontent with the current council and believing there would be benefits from a merger. Two of these submissions supported a merge with Port Stephens Councils. One late submission was received which raised concerns about council management.

GREATER HUME SHIRE COUNCIL – CIP

	FIT		
Area (km^2)	5,939	Population 2011	10,050
OLG Group	11	(2031)	b/w 9,950 - 11,348
ILGRP Group	E	Merger 2011	59,500
		(2031)	66,900
Operating revenue (2013-14)	$29.8m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP options (no preference)	Council in Upper Murray JO (all shaded) or merge part or all with Albury (yellow).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council's proposal to stand alone in a JO is consistent with the ILGRP's options for this council.
- The council demonstrates effective regional collaboration and is participating in the Riverina JO pilot. A future JO based on REROC would supplement the council's scale and capacity.
- The council rejected a proposal to merge and did not submit a merger business case. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the stand alone proposal.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance and the building and infrastructure asset renewal ratio by 2019-20.
- The own source revenue ratio was 42.5% in 2014-15 and is forecast to reach 56.6% by 2019-20 without the inclusion of FAGs, which is below the benchmark. We note the inclusion of FAGs will increase the ratio to 76.4% by 2019-20.

Infrastructure and service management – satisfies

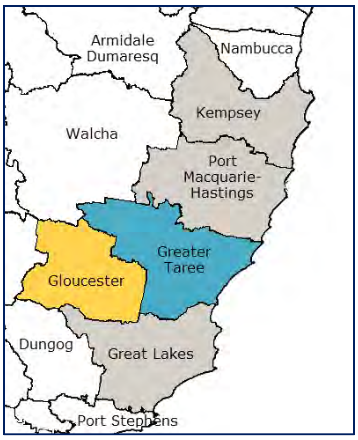
- The council satisfies the criterion for infrastructure and service management, as it is forecast to meet the asset maintenance, infrastructure backlog and debt service benchmarks by 2019-20.

Efficiency – satisfies

- The council satisfies the criterion for efficiency based on declining real operating expenditure per capita.

Other relevant factors	
Social and community context	The council does not believe its residents' vision and community values are compatible with all or part of the shire merging with a large regional city. The council states it is heavily influenced by agricultural production, which is unlikely to be a focus of a regional centre as diversified as Albury.
Community consultation	The council has consulted with its community and reports that overwhelming support exists to remain stand-alone. However, the council's survey does not appear to provide more than yes / no questions, but there is insufficient information in the proposal to tell if they explored the pros and cons of the potential ILGRP alternatives.
Water and/or sewer	The council delivers water and sewerage services to urban populations across the shire in Culcairn, Jindera and villages in the south of the shire. But, water to Henty, Holbrook and villages in the north and east of the shire is supplied by Riverina Water. An independent review of its water and sewer business found it mostly complied with NSW Government's Best Practice requirements. The council's sewer business only operates on a break-even basis, but its water supply business does not.
Submissions	There were no submissions received in relation to Greater Hume's proposal.

GREATER TAREE CITY COUNCIL – CIP



NOT FIT

Area (km^2)	3,731	Population 2011	48,100
OLG Group	4	(2031)	51,900
ILGRP Group	G	Merger 2011	53,100
		(2031)	56,750
Operating revenue (2013-14)	$52.3m	TCorp assessment	Very weak FSR Negative Outlook
ILGRP options (no preference)	Council in Mid-North Coast JO (all shaded) or merge with Gloucester (yellow).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it satisfies the efficiency criterion, the council does not satisfy the infrastructure and service management criterion.
- It also does not satisfy the sustainability criterion as a result of its forecast for a negative operating performance ratio by 2019-20.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- The council currently meets or partially meets most of the elements of scale and capacity.
- The council's 2031 forecast population represents 91% of the suggested merged entity's forecast population. The suggested merged entity would not greatly increase scale and capacity compared with Greater Taree as a stand-alone council.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability because it does not meet the operating performance ratio benchmark by 2019-20. The operating performance ratio was -24.2% in 2014-15 and will improve to -2.3% by 2019-20.
- The council meets the benchmark for own source revenue by 2019-20.
- The building and infrastructure asset renewal ratio is forecast to be 75.9% by 2019-20, which is below the benchmark.
- In its financial planning, the council assumes the successful application for and adoption of a special variation from 2016-17 of 63.2% cumulative over 6 years (47.2% above the rate peg).

Infrastructure and service management – does not satisfy

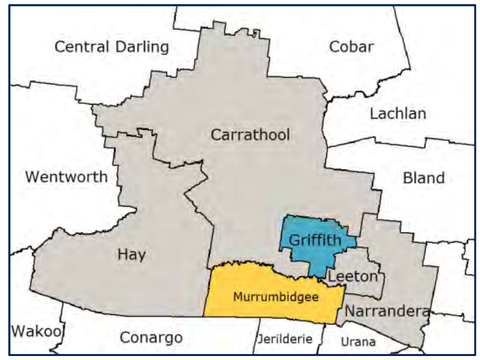
- The council does not satisfy the criterion for infrastructure and service management based on its forecasts of a high infrastructure backlog ratio.
- The infrastructure backlog ratio was 24.1% in 2014-15 and is forecast to improve to 11.8% by 2019-20, which remains above the benchmark. According to the Long Term Financial Plan, it would not meet the benchmark by 2024-25.
- The council meets the benchmark for the asset maintenance and debt service ratios.
- The council intends to change its approach to asset service levels. It will consult the community in the coming months proposing the 'satisfactory condition' of a road is less than condition 1 or 2.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita over the outlook period.

Other relevant factors	
Social and community context	The council has not included much information on the social and community context in regards to this proposal other than stating it is in the growth corridor of NSW. It has suggested border changes such that Greater Taree would include the communities currently to the north of the Great Lakes LGA which it considers are strongly connected with the Mid-North coast
Community consultation	The council has not indicated it undertook community consultation regarding its Fit for the Future application.
Water and/or sewer	The council does not supply water/sewerage services.
Submissions	We received one submission regarding Greater Taree's submission, stating the council is not Fit for the Future.

GRIFFITH CITY COUNCIL - CIP



NOT FIT

Area (km^2)	1,637	Population	2011	25,400
OLG Group	4		(2031)	25,450
ILGRP Group	D	Merger	2011	27,750
			(2031)	27,250
Operating revenue (2013-14)	$31.3m	TCorp assessment	Sound FSR Negative Outlook	

ILGRP options (preference in bold): **Merge with Murrumbidgee** (yellow) or council in Murrumbidgee JO (all shaded).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy in order to be assessed as Fit for the Future.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is as good an option to achieve the scale and capacity objectives for the region.
- The council did not demonstrate the stand alone proposal is at least as good as the ILGRP's preferred option to merge with Murrumbidgee.
- Our analysis indicates the merger is a superior outcome for managing strategic issues along the Murrumbidgee River, such as agriculture and other primary industries. The merger will also further promote the close economic and social ties between the two councils.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- The merger with Murrumbidgee would provide greater scale and capacity for the system of local government in the area.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the period to 2019-20.

Other relevant factors

Social and community context

Griffith City is a major service centre for the agricultural sector and its facilities service a broader region of 60,000 residents. Around two thirds of the population in 2011 lived in the main town of Griffith in the LGA. Griffith has a large poultry and winery industry.

Baiada Poultry is expanding in Griffith and plans to expand its workforce by another 600 workers. Also, Griffith has 12 wineries, which are amongst the largest in NSW. These wineries export more than $800m worth of wine to the international market each year. We note that Griffith also shares similar agricultural industries with Murrumbidgee, including grain and horticulture.

Other relevant factors	
Community consultation	The council stated it implemented a new community engagement strategy to inform its draft FFTF proposal. This included an online forum and use of social media. The council has not provided more details about how it has consulted with its community, or the community's feedback on its proposal.
Water and/or sewer	The council's water utility is compliant with the NSW Government Best Practice Management Frameworks. The utility business is forecast to achieve surpluses for the next 10 years. It has a 30-year capital expenditure program and substantial capital reserves to ensure long term sustainability. The council does not have any asset backlogs.
Submissions	There were no submissions received in relation to the council's proposal.

GUNDAGAI SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

	NOT FIT			
Area (km^2)	2457	Population	2011	3,750
OLG Group	9		(2031)	3,450
ILGRP Group	B	Merger	2011	15,000
			(2031)	14,100
Operating revenue (2013-14)	$6.7m	TCorp assessment		Moderate FSR Negative Outlook
ILGRP options (preference in bold)	**Merge with Tumut Council** (yellow) or Rural Council in Riverina JO (shaded area).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.
- The council meets the criterion for infrastructure and service management. However, the council does not meet the criteria for efficiency or sustainability. As a result, the council does not satisfy the financial criteria overall.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all FFTF councils should meet, therefore the council is not fit.

Scale and capacity - does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is as good an option to achieve the scale and capacity objectives for the region.
- The proposed Rural Council Proposal is not as good as the ILGRP's preferred option to merge with Tumut. When compared to the merger, the council's small and declining population of 3,450 in 2031 means it is unlikely to cost-effectively provide services to the local communities and advocate to or partner with government.
- Our analysis indicates the merger is likely to be a better outcome for managing strategic issues in the region.

Sustainability - does not satisfy

- The council does not satisfy the criterion for sustainability. It meets the own source revenue and the building and infrastructure asset renewal ratios by 2019-20. However, it does not meet the operating performance ratio based on our calculations.
- The operating performance ratio projected with the councils forecast was -19.0% in 2014-15 and is forecast to reach 4.0% by 2024-25. The council's long term financial plan projects income in 2015-16 to be $13.1m, while income for 2013-14 was $7.1m. The council forecasts an increase in revenue of approximately 40% from 2013-14 to 2015-16, which may be optimistic and is not supported by detailed figures.
- We have calculated the operating performance ratio with income growth at 35%. Our calculations indicate the operating performance ratio is forecast to be -2.6% in 2015-16 and -1.2% in 2024-25.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - does not satisfy

- The council does not meet the criterion for efficiency based on an increasing real opex ratio without evidence of an increase in the level or quality of services. Real opex per capita was $1,980 in 2014-15 and is forecast to be $2,230 in 2019-20.

Other relevant factors	
Social and community context	Gundagai has one town and four small villages and maintains a road network of about 780km. Gundagai Shire has a strong history in Australian folklore with the 'Dog on the Tuckerbox'. The council considers one of its strengths is that the whole community shares the concern about keeping Gundagai's identity and unique heritage alive and strong.
Community consultation	The council undertook a community survey asking residents did they support Gundagai merging, and if yes, with what councils, giving ratepayers five options. A public forum was also held on 18 June and consultation occurred via the local newspaper. The survey did not outline the advantages and disadvantages for the proposals, but asked the residents what key factors would improve or decline following a merger. The result of the council's survey was 24% of respondents agreeing to a merger, with 50% of these agreeing it should be with Tumut.
Water and/or sewer	The council operates water and sewer businesses with surpluses before capital reported for 2013-14 of $110,000 and $254,000 respectively. The council reports a backlog figure of $185,000 for both funds.
Submissions	We received one submission in relation to Gundagai council's proposal, about its management being poor.

GUNNEDAH SHIRE COUNCIL – CIP

FIT

Area (km^2)	4,992	Population	2011	12,500
OLG Group	11		(2031)	13,300
ILGRP Group	G			
Operating revenue (2013-14)	$27.9m	TCorp assessment		Sound FSR Negative Outlook
ILGRP option	Council in Namoi JO (shaded area).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- We consider the council currently meets or partially meets most of the elements of scale and capacity.
- The council's proposal is consistent with the ILGRP's option to stand alone.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- In its options for Liverpool Plains Council, the ILGRP included a merger option with Gunnedah. However, it did not provide this merger as an option for Gunnedah.
- Gunnedah indicated it held merger discussions with Liverpool Plains and was willing to undertake a study into a merger, but Liverpool Plains resolved to remain a stand-alone council.
- The council is participating in the Namoi pilot JO.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.
- The council's performance against this criterion is strong for an OLG Group 11 council: it expects to generate operating surpluses in every year to 2024-25 and exceed the own source revenue benchmark without including FAGs.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

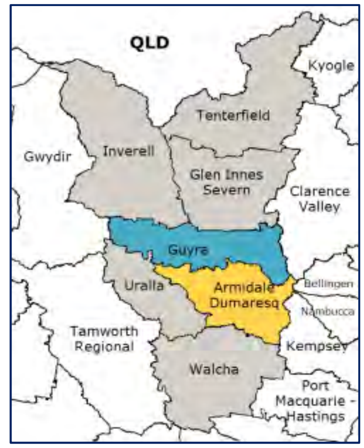
Efficiency – satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors

Social and community context	Gunnedah's local economy is predominantly based on agricultural and coal mining.
Community consultation	The proposal did not provide any details of community consultation undertaken in relation to a possible merger with Liverpool Plains Council. However, the proposal notes community consultation on the council's strategic plan did indicate that there was strong support to maintain current assets and services.
Water and/or sewer	Gunnedah provides water and sewer services. The council is compliant with the NSW Government's Best Practice Management of Water Supply and Sewerage Framework, but did not pay a dividend for 2012-13 and 2013-14. The council's current water and sewerage infrastructure backlog is $7.3m. $10.2m in capital works for its water and sewer operations are planned out to 2019-20.
Submissions	There were no submissions received in relation to Gunnedah's proposal.

GUYRA SHIRE COUNCIL – RURAL COUNCIL PROPOSAL



NOT FIT

Area (km^2)	4,521	Population	2011	4,500
OLG Group	9		(2031)	4,850
ILGRP Group	E	Merger	2011	29,650
			(2031)	36,500
Operating revenue (2013-14)	$8.4m	TCorp assessment		Moderate FSR Negative Outlook
ILGRP options (preference in bold)	**Merge with Armidale** (yellow) or council in New England JO (all shaded).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.
- The council does not satisfy the financial criteria overall. Although the council satisfies the criterion for infrastructure and service management, it does not satisfy the criteria for sustainability or efficiency.
- The council does not satisfy the sustainability criterion because its forecast to meet the operating performance ratio benchmark includes the assumed approval of a large proposed special variation which may be unreasonable.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- The Rural Council Proposal is not as good as the ILGRP's preferred option to merge with Armidale. When compared to the merger, the council's small and static population of 4,850 in 2031 means it is unlikely to cost-effectively provide services to the local communities.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability. The operating performance ratio was -20% in 2014-15 and is forecast to be 0% by 2024-25. However, our analysis indicates the assumptions for the improvement in operating performance ratio may be unreasonable. These are:
  - o the successful application for and adoption of a permanent special variation in 2016-17 of 30% cumulative (27.5% above the rate peg), and
  - o successive falls in depreciation totalling 15% and depreciation then remaining constant in nominal terms from 2015-16 onwards. This assumption suggests the council's asset base gradually decreases over time.
- The council forecasts its own source revenue and building and infrastructure asset renewal ratios will be above the benchmark by 2019-20.

Infrastructure and service management - satisfies

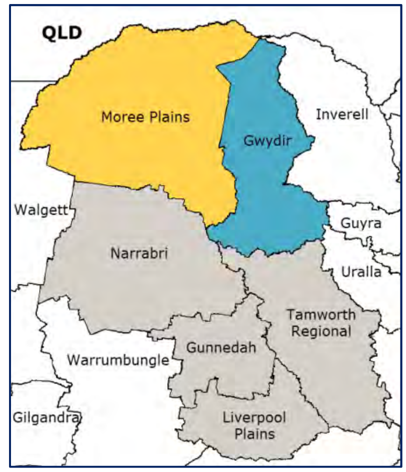
- The council satisfies the infrastructure and service management criterion. It is forecast to meet the benchmark for the infrastructure backlog, asset maintenance and debt service ratios over the outlook period to 2019-20.

Efficiency – does not satisfy

- The council does not meet the criterion for efficiency. Real opex per capita was $1,977 in 2014-15 and is forecast to be $2,157 in 2019-20.

Other relevant factors	
Social and community context	According to the council, there are cultural differences between Guyra's largely rural LGA and Armidale Dumaresq's LGA, due to Armidale's size and character as an urban, university centre.
Community consultation	The council consulted about the FTFF process via a Reference Group, public meetings and a survey. The survey was completed by over 200 people (about 5% of the LGA's population). Key survey results are: • 14% of respondents preferred the merger option (65% preferred the Rural Council model and the remainder preferred the Council Improvement Proposal). • 85% of respondents did not support the ILGRP's option to merger with Armidale Dumaresq Council (9% supported the option and the remainder were unsure). • 70% of respondents would accept a 30% rate rise if Guyra was able to be considered a Rural Council.
Water and/or sewer	The council's water and sewer business does not comply with the NSW Best Practice Framework. The council states the business breaks even and has a $3.2m infrastructure backlog. As the business does not pay dividends, it would only affect the council's scale and capacity insofar as it allows the council to employ specialist staff.
Submissions	There were no submissions received in relation to Guyra's proposal.

GWYDIR SHIRE COUNCIL – CIP



	NOT FIT		
Area (km^2)	9,122	Population 2011	5,100
OLG Group	10	(2031)	4,200
ILGRP Group	F	Merger 2011	19,150
		(2031)	15,950
Operating revenue (2013-14)	$19.2m	TCorp assessment	Very weak FSR Neutral Outlook
ILGRP options (no preference)	Council in Namoi JO (all shaded) or merge with Moree Plains (yellow).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy in order to be assessed as Fit for the Future.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion as a result of its forecast for a negative operating performance ratio by 2019-20.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all Fit for the Future (FFTF) councils should meet, therefore the council is not fit.

Scale and capacity – does not satisfy

- The council's population is declining and is forecast to be 4,200 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- The council's current financial position also restricts its regional capacity.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability based on its forecast operating performance ratio not meeting the benchmark.
- The operating performance ratio was -37.8% in 2014-15 and is forecast to be -8.0% in 2024-25.
- The council's building and infrastructure asset renewal ratio was 51.3% in 2014-15 and is forecast to be 88.6% in 2019-20, peaking at 107% during the period.
- The operating performance result includes reductions in service levels and reliance on the successful application for and adoption of a permanent special variation in 2016-17 of 32.3% cumulative (29.8% above the rate peg). This is partly to continue a temporary one year special variation of 15% approved in 2015-16 (13% above the rate peg).

Infrastructure and service management - satisfies

- The council satisfies the infrastructure and service management criterion as it meets the debt service ratio and asset maintenance ratio benchmarks by 2019-20.
- The council's infrastructure backlog ratio was 9% in 2014-15 and forecast to improve to 7.3% in 2019-20, which does not meet the benchmark.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors	
Social and community context	Gwydir Council was formed in 2004 as a result of a voluntary merger between Bingara, Yallaroi and Barraba. Gwydir's local economy is mostly rural based. The 2011 ABS census showed that the sheep, beef cattle and grain farming industries represented the largest source of employment (34% of all responses).
Community consultation	Gwydir's survey of 790 residents indicated that 58.1% of residents wanted to continue to stand alone, 13.8% supported merging with Inverell, and 9.5% supported a shared services agreement with Moree Plains. It also notes that eight community meetings were held and all 505 residents that attended these meetings, except one, supported not undertaking a merger with any council. The council appears to have undertaken adequate community consultation.
Water and/or sewer	Gwydir provides water and sewer services. The council is not currently compliant with the NSW Government's Best Practice Management of Water Supply and Sewerage Framework. It has a current water and sewerage infrastructure backlog of $1.8m, with $360,000 in capital works planned out to 2019-20.
Submissions	We received eight submissions relating to Gwydir's proposal. All of the submissions received rejected the ILGRP's proposed merger due to a range of concerns including job losses, reduced support for not for profit organisations, reduced representation, and loss of local identity. One of the submissions was from Gwydir Council, which included 646 signed letters and 967 petition signatures from the Gwydir community in support of remaining a stand-alone council. Gwydir also provided a late submission, which included a petition with 28 signatures in support of the council remaining a stand-alone council and attached a letter of support from the Warialda P&A Society.

HARDEN SHIRE COUNCIL

REFER TO COOTAMUNDRA AND HARDEN SHIRE COUNCILS - MERGER PROPOSAL

HAWKESBURY CITY COUNCIL – CIP

	NOT FIT		
Area (km²)	2,793	Population 2011	64,350
OLG Group	6	(2031)	80,650
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$59m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP options (preference in bold)	**No change** or combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, The Hills, Blacktown, Penrith, Blue Mountains. Possible boundary adjustments with The Hills and Blacktown to facilitate NW Growth Centre. Possible longer term merger with The Hills.		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion as a result of its forecast for a negative operating performance ratio by 2019-20.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, it has a robust revenue base and demonstrated regional collaboration.
- Hawkesbury has entered into an agreement to form a strategic alliance with Blue Mountains and Penrith Councils. The agreement is aimed at sharing expertise in project management and design and improving economies of scale.
- We note the ILGRP report included an alternative for The Hills Shire Council to merge with Hawkesbury Council. Our independent consultants Ernst and Young calculated that a merger between the two councils could produce benefits for local communities of around $60m over 20 years using public data.
- While this evidence suggests a merger may be a better alternative to the council's proposal to stand alone, our finding is based on the proposal being consistent with the ILGRP preferred option for no change.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability based on its forecast for a negative operating performance ratio by 2019-20.
- The council's operating performance ratio was -12.5% in 2013-14 and is forecast to be -1.1% by 2019-20. Its operating performance ratio forecast relies upon the successful application for and adoption of a special variation from 2017-18 of 29.7% cumulative over 5 years (16.0% above the rate peg) as well as service level reductions to fund asset maintenance and renewals.
- The council has forecast it will meet the benchmark for the own source revenue ratio and building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the asset maintenance ratio and debt service ratio by 2019-20.
- The council shows improvement in its infrastructure backlog ratio by 2019-20.

Efficiency - satisfies

- The council meets the criteria for efficiency based on declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Hawkesbury is on the north-western periphery of the metropolitan region and the largest local government area in Sydney. While the south east corner of the LGA is predominantly urban, the remainder of LGA forms a much larger rural hinterland. Compared to adjoining metropolitan councils, Hawkesbury has a relatively small population of 65,000 people spread over an area of 2,793 square kilometres. It is therefore required to maintain a large asset holding serving a dispersed population.
Community consultation	Hawkesbury's proposal did not discuss community consultation.
Water and/or sewer	Hawkesbury currently achieves the NSW Government Best Practice Management of Water Supply and Sewerage Framework requirements. Its water and sewerage infrastructure backlog is $1.2 million.
Submissions	We received one confidential submission.

HAY SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

NOT FIT

Area (km^2)	11,233		Population: 2011	3,100
OLG Group	9		(2031)	2,150
ILGRP Group	C			
Operating revenue (2013-14)	$7.0m		TCorp assessment	Moderate FSR Negative Outlook
ILGRP option	Rural Council in Murrumbidgee JO (all shaded).			

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council meets the scale and capacity criterion as a Rural Council.
- The council does not meet the criterion for sustainability based on an adjusted estimate of its operating performance ratio forecast to be below the benchmark by 2019-20.
- The council meets the criteria for infrastructure and service management and efficiency.
- We consider the operating performance ratio is a key measure of sustainability that councils must meet to be Fit for the Future, therefore the council is not fit.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include resource sharing within the JO, reviewing services and reducing employee costs.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on the Government adopting a Rural Council model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability– does not satisfy

- The council does not satisfy the criterion for sustainability.
- While it has forecast a small operating surplus by 2024-25, this is based on optimistic assumptions which may not be realistic. According to our adjusted estimates, the operating performance ratio is forecast to reach -0.4% by 2024-25, which does not meet the benchmark of break even within 10 years for Rural Councils.
- In its proposal, the council relies on the successful application for and adoption of a special variation in 2018-19 of 9.5% cumulative (7.0% above the rate peg).
- The council's own source revenue ratio meets the benchmark by 2019-20 when FAGs are included. However, the ratio excluding the FAGs remains below the benchmark of 60% and only a limited improvement is forecast by 2024-25.
- The council has forecast the building and infrastructure asset renewal ratio will be close to the benchmark by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management as it is forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council states it has revised the methodology for the calculation of the backlog, with risk analysis and assessment being incorporated in the methodology, in addition to the condition of the assets. We consider this to be a reasonable approach.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real opex per capita to 2019-20.

Other relevant factors	
Social and community context	The Hay Shire local government area has a population of 3,100 and covers 11,233 km^2. It is located in the western part of the Riverina area along the Murrumbidgee River. The Shire is one of Australia's leading wool and sheep meat producing areas. It also produces beef, irrigated vegetables and fruit, rice, wheat and cotton. The main regional centre is Hay (estimated population 1,800). The other main towns in the Shire are Maude (estimated population 30) and Booligal (estimated population 25). Hay is situated about halfway between Sydney and Adelaide and just over 400 kilometres from Melbourne.
Community consultation	The council conducted a community survey, noting in the survey that to be Fit for the Future, the council needed additional funds, which could be achieved through a rate increase or by reducing service levels or by a combination of both these strategies. The survey results showed over 83% favoured either a rate increase on its own or a rate increase in combination with a reduction in service levels.
Water and/or sewer	The council has a water/sewer business which it operates on a better than break-even basis. The council states it currently achieves the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework.
Submissions	There were no submissions received on Hay Shire Council's proposal.

THE HILLS SHIRE COUNCIL – CIP

	FIT		
Area (km²)	401	Population 2011	177,000
OLG Group	7	(2031)	280,900
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$158.8m	TCorp assessment	Sound FSR Positive Outlook

ILGRP options (preference in bold)

No change or combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, Blacktown, Hawkesbury, Penrith, Blue Mountains and: (all shaded)

- boundary with Parramatta shifted to M2
- possible boundary adjustments with Blacktown and Hawkesbury to facilitate NW Growth Centre
- possible longer term merger with Hawkesbury.

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure service and management and efficiency criteria.

Scale and capacity – satisfies

- The council's proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- The council has a robust revenue base, and has the capacity to undertake new functions and major projects, partner other levels of government, and to cope with complex and unexpected change.
- Hornsby Shire Council submitted a business case that included estimates for the benefits of a merger of Hornsby and The Hills Shire Council. Based on this model, our analysis suggests the merger could produce net benefits of $85m over 20 years (including the full Government grant). However, The Hills Shire Council did not wish to pursue this option and it was not an option identified by the ILGRP. We did not investigate further regional impacts of this proposed merger.
- The Hills Council has proposed alternative border changes expanding into neighbouring Hawkesbury, Hornsby and Parramatta LGAs, increasing its population by 59,220. It considers this is the best option which combines suburbs that are currently divided by the border, but has not undertaken financial analysis of the option. The neighbouring councils do not accept these proposals.
- The ILGRP report included an alternative for The Hills Shire Council to merge with Hawkesbury Council. Our independent consultants Ernst and Young calculated that a merger between the two councils could produce benefits $60m over 20 years based on public data (not including the Government grant).
- While this evidence suggests a merger may be a better alternative to the council's proposal to stand alone, our finding is based on the proposal being consistent with the ILGRP preferred option for no change.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management – satisfies

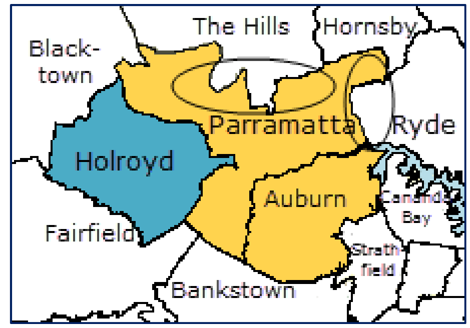
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratios by 2019-20.
- The council does not meet the debt service ratio benchmark. It has been debt free since 2002. It has a 'no debt' policy, but states it will consider borrowing for new capital in the future if it can identify a revenue source to service the debt.

Efficiency - satisfies

- The council satisfies the efficiency criterion based on a decrease in real operating expenditure ratio from 2014-15 to 2019-20.

Other relevant factors	
Social and community context	The council opposes the ILGRP's suggested southern boundary shift mainly because it would remove 15% of the total rate income and disturb and remove residents who have a long affinity with The Hills Shire. It also opposes the ILGRP's suggestion to potentially merge with Hawkesbury Shire Council in the longer term. The council proposes an alternative boundary change which would incorporate a large part of Hornsby Shire's rural area, including around 38,000 residents from Hornsby, and extend into Hawkesbury Shire and to a lesser extent into Parramatta Local Government Area. The council considers this a more logical boundary which would join currently divided suburbs and include residents who identify as being in The Hills Shire but live outside the border.
Community consultation	The council undertook a community survey which asked 1,244 respondents their preference to three options: • the ILGRP's suggested southern boundary change (15% support) • the option to merge with Hawkesbury (10% support), and • the option to expand the Hills' boundaries to include parts of Hornsby, Hawkesbury and Parramatta LGAs (75% support). We understand this was an online self-select survey and, as such the statistical representation of the respondents could not be determined.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received one submission relating to the council's proposal. The submission is from a Hawkesbury Shire Council representative and states its opposition to, and rejection of, the council's suggested boundary change on the grounds that: • it is inconsistent with ILGRP options • there was no meaningful consultation undertaken with Hawkesbury Shire Council or its residents • the proposed boundary change would move 13% of Hawkesbury Shire Council residents and rate base without transferring responsibility for a corresponding proportion of assets, and • the survey undertaken by The Hills Shire Council was flawed. In a meeting the council said it is reticent to undertake a full merger with Hawkesbury because it said Hawkesbury has a large infrastructure backlog which would need to be funded.

HOLROYD CITY COUNCIL – CIP



	NOT FIT		
Area (km^2)	40.2	Population 2011	104,100
OLG Group	3	(2031)	136,000
ILGRP Group	Sydney Metro	Merger 2011	356,700
		(2031)	520,500
Operating revenue (2013-14)	$83m	TCorp assessment	Weak FSR Neutral Outlook
		TCorp assessment (2015)	Moderate FSR Positive Outlook

ILGRP options (preference in bold): **Merge with Auburn, Parramatta, Ryde (part) and The Hills (part)** and move northern boundary of Parramatta to M2 (balance of The Hills to remain an individual council) **or** adjust Parramatta's boundaries to include parts of Ryde and The Hills and combine Auburn, Holroyd and Parramatta as a strong JO.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 136,000 by 2031 compared with the forecast merger population of 356,700. Our analysis suggests that the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case by Morrison Low which showed a merger of Parramatta, Holroyd, Auburn, part of Ryde and part of The Hills produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $254m over 20 years (including the Government grant).
- In addition, our independent consultants Ernst and Young estimated net benefits from the merger of $150m over 20 years using public data (not including the Government grant).
- These analyses showed large gains to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP preferred option for Holroyd to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council had a special variation approved from 2013-14 adding an additional 44.2% (29.1% above the rate peg) to rates revenue over a five year period. This is the primary reason for the improvement in the council's financial performance over time.

Infrastructure and service management - satisfies

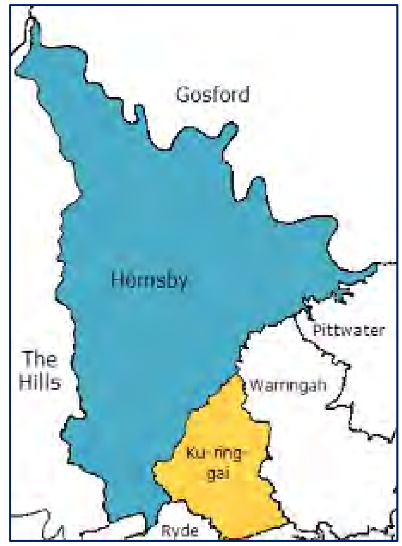
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratios by 2019-20.
- The council has forecast a debt service ratio of zero by 2019-20, which does not meet the benchmark.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council states it is concerned about a merger with Parramatta for the following reasons: • the focus and funding would shift to developing Parramatta and away from Holroyd's existing LGA • issues of importance to the Holroyd community may not receive sufficient focus • as Holroyd and Parramatta have different demographic characteristics, some areas would be prioritised for development service over others, and • there would be a risk of reduced representation and responsiveness.
Community consultation	In the recent survey by council (April-June 2015), 84% of respondents opposed the proposed merger. The council notes there were over 500 attendees at two public meetings (in February and March) that overwhelmingly opposed this proposal.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received six submissions for Holroyd supporting the council's proposal to stand alone. Two of the local MP also supported Holroyd's proposal. One late submission was received.

HORNSBY SHIRE COUNCIL – CIP



NOT FIT

Area (km^2)	462	Population 2011	163,800
OLG Group	7	(2031)	201,750
ILGRP Group	Sydney Metro	Merger 2011	278,400
		(2031)	352,850
Operating revenue (2013-14)	$129.2m	TCorp assessment	Sound FSR, Neutral Outlook

ILGRP options (preference in bold): **Merge with Ku-ring-gai** (yellow) or combine as a strong JO, and move the boundary with Parramatta northward to the M2.

Assessment summary:

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council acknowledges it does not meet the scale and capacity criterion and has not explicitly addressed the elements of capacity in its proposal.
- The council's population is forecast to be 201,750 by 2031 compared with the forecast merger population of 352,850. Our analysis suggests that the council does not have sufficient scale to partner effectively with the governments compared to the merger.
- The council submitted a business case which showed that a merger of Hornsby and Ku-ring-gai produces net benefits. Based on this model, our analysis suggests the merger produces net benefits of $61m over 20 years (including the Government grant).
- In addition, our independent economic consultants Ernst and Young have estimated net benefits from the merger of around $88m over 20 years using public data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Hornsby indicates it is willing to pursue the preparation of an independent merger business case with one or more of its neighbouring councils and then to further consider potential for a merger. It discussed a merger with Ku-ring-gai Council and other neighbouring councils but no agreement to merge was reached.
- Hornsby Shire Council also submitted a business case which showed that a merger with The Hills Shire Council produces net benefits. Based on this model, our analysis suggests the merger produces net benefits of $85m over 20 years (including the Government grant). However, The Hills Shire Council did not wish to pursue this option and it was not an option identified by the ILGRP. We did not investigate further regional impacts of this proposed merger.
- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- Our analysis is consistent with the ILGRP's preferred option for Hornsby to merge.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management – satisfies

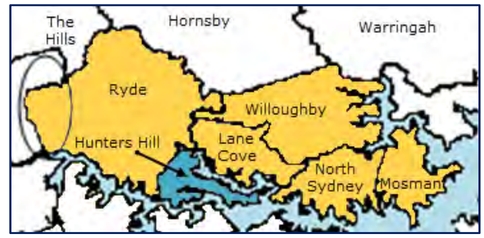
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratio by 2019-20.
- The council has been reviewing its asset management practices to ensure sufficient funding to improve the ratios, and notes this is illustrated by the large increase in the asset maintenance ratio from 2014-15 to 2015-16.
- The council also meets the debt service ratio. The council indicates an intention to be debt free in the future, however this is beyond the assessment period.

Efficiency - satisfies

- The council satisfies the criteria for efficiency based on a forecast reduction in real operating expenditure per capita from 2014-15 to 2019-20.

Other relevant factors	
Social and community context	Hornsby Council covers 462km^2 with an urban area in the south including the centres of Epping, Carlingford, Pennant Hills and Hornsby. The rural area in the north includes Berowra, Brooklyn and Wisemans Ferry. A demographics study commissioned and submitted by Ku-ring-gai Council indicates that Hornsby and Ku-ring-gai have many similar demographics including age structures, household types, incomes, and level of cultural diversity.
Community consultation	Hornsby engaged Crosby Textor Research to survey community attitudes towards a merger. The number of respondents was not provided so we cannot determine if the survey was statistically representative. Key results from this research include: • 44% of the surveyed residents indicated some level of support for a merger • 47% were against a merger, of which about half were 'strongly opposed', and • 73% of respondents supported a shared services model. When asked to choose, surveyed residents showed a preference for a merger with Ku-ring-gai (40%) over either The Hills Shire (27%) or a 3-council merger with Ku-ring-gai and The Hills (24%).
Water and/or sewer	The council does not have a water/sewer business.
Submissions to IPART	We received four submissions relating to Hornsby's submission, all opposed to the council merging. Reasons include: • loss of representation • reduced attention to local issues and services • lack of community consultation.

HUNTER'S HILL COUNCIL - CIP



NOT FIT

Area (km^2)	6	Population 2011	13,900
OLG Group	2	(2031)	17,500
ILGRP Group	Sydney Metro	Merger 2011	286,867
		(2031)	376,150
Operating revenue ($2013-14)	$12.6m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options (preference in bold)	**Merge with Lane Cove, Mosman, North Sydney, Ryde (part), Willoughby** (yellow) or combine as a JO.		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity - does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 17,500 by 2031 compared with the forecast merger population of 376,150. Our analysis suggests that the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case which showed that a merger of Lane Cove, Hunter's Hill, Mosman, North Sydney, Willoughby and part of Ryde produces net benefits. Based on this model, our analysis suggests the merger produces net benefits of $280 million over 20 years (including the Government grant).
- In addition, our independent consultants Ernst & Young estimated gains from the merger of $187m over 20 years using public data (not including the Government grant).
- These analyses showed large gains to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- As an alternative to a merger, Hunters Hill, Ryde and Lane Cove councils submitted a common proposal to create a Joint Regional Authority (JRA). According to the councils, this would provide the benefits of shared services and centralised planning and development without the disruption of a merger. It would generate net benefits over 15 years of $0.5m, or $3.4m if it also included Mosman, North Sydney and Willoughby. The proposal does not fully quantify any efficiency savings that may also eventuate under the JRA. The preferred merger is likely to provide a higher level of efficiency savings than the JRA.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a permanent special variation in 2017-18 of 11.2% cumulative (8.7% above the rate peg).

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council states the municipality is a very contained community with a strong identity. We consider this is due the council's residents living on a peninsular and note this would help to create a cohesive community.
Community consultation	The council undertook telephone polling and an online survey. The number of respondents in both cases was around 400. According to the telephone survey, 81% of respondents support the council standing-alone and exploring the JRA, while 59% support standing alone. According to the online survey, 56% of respondents support the council standing-alone and exploring the JRA while 53% support standing alone.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 23 submissions for Hunters Hill. Ten oppose merging citing potential risks such as the loss of local focus, more high-rise, greater distance to council chambers, less representation, higher rates, and a lack of evidence that mergers will produce benefits. Eight support merging citing that the current council is mismanaged, not meeting the needs of its residents and that merged councils are less wasteful, have less duplication and will enable access to facilities in other LGAs. Four support the JRA citing reasons including the support of the community, the benefits of shared services while retaining a local focus. One submission states the council is not meeting current needs and believes Gladesville should be managed by Lane Cove. A few submissions supported Gladesville being under one LGA. Another submission noted the community consultation meetings were not balanced.

HURSTVILLE CITY COUNCIL - CIP

	NOT FIT			
Area (km^2)	23	Population	2011	87,200
OLG Group	3		(2031)	104,950
ILGRP Group	Metropolitan Sydney	Merger	2011	390,300
			(2031)	497,500
Operating revenue (2013-14)	$66.1m	TCorp assessment	Moderate FSR Neutral Outlook	

ILGRP options (preferences in bold).

Merge with Canterbury, Kogarah and Rockdale (blue and yellow) or combine as a strong Joint Organisation, also including Sutherland (grey) **and** adjust Rockdale boundary at airport.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits such as delivering infrastructure in accordance with the South Subregion plan, and managing the Georges River catchment.
- The council's population is forecast to be 104,950 by 2031 compared with the forecast merger population of 497,500. Our analysis suggests that the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case which showed that a merger of Canterbury, Kogarah, Hurstville and Rockdale produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $280m over 20 years (including the Government grant).
- In addition, our independent consultants Ernst and Young estimated net benefits from the merger of $172m over 20 years using publically available data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Hurstville to merge with neighbouring councils.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

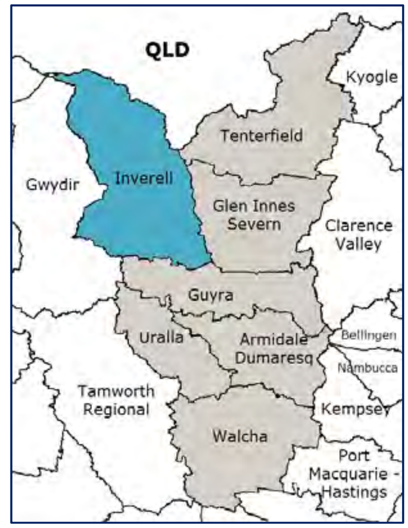
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Hurstville has a culturally diverse population. Around 40% of its residents were born overseas and 50% of its residents speak a language other than English at home, which is broadly consistent with the ILGRP preferred merger councils.
Community consultation	The council circulated a brochure about the ILGRP preferred merger option in March 2015. The brochure requested submissions about the preferred merger option. Around 64% preferred the council to remain independent.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	IPART did not receive any submissions relating to the council's proposal.

INVERELL SHIRE COUNCIL – CIP



	FIT			
Area (km^2)	8,606	Population	2011	16,600
OLG Group	11		(2031)	18,600
ILGRP Group	G			
Operating revenue (2013-14)	$25m	TCorp assessment		Moderate FSR Neutral Outlook
ILGRP option	Council in New England JO (all shaded).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- The council's forecast population of 18,600 in 2031 is above the level (10,000) the ILGRP considers appropriate for a non-metropolitan council.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmark for the operating performance ratio by 2020-21 and the benchmarks for the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council's forecasts rely on a number of assumptions including the successful application for and adoption of a special variation from 2016-17 of 23.4% cumulative over 3 years (15.7% above the rate peg).

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on a forecast decline in real opex per capita over the outlook period.

Other relevant factors	
Social and community context	The LGA's community of interest centres on the town of Inverell, which is reasonably remote. The closest major centre is Glen Innes, which is 50 minutes to the east. The council does not wish to reduce service levels as a way of meeting financial benchmarks.
Community consultation	The council's consultation process consisted of advertising the proposal and inviting the community to comment. The public was also invited to comment on the council's proposed Operational Plan.
Water and/or sewer	Inverell Council states its water and sewer businesses break even and do not have an infrastructure backlog net of cash reserves.
Submissions	There were no submissions received in relation to Inverell's proposal.

JERILDERIE SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

NOT FIT

Area (km^2)	3,352	Population:	2011	1,550
OLG Group	8		(2031)	1,250
ILGRP Group	B	Merger	2011	9,850
			(2031)	9,050
Operating revenue (2013-14)	$6.5m	TCorp assessment		Moderate FSR Negative Outlook

ILGRP options (preference in bold): **Merge with Berrigan** (yellow) or Rural Council in Mid-Murray JO (all shaded).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management criterion, it does not satisfy the sustainability and efficiency criteria.
- The council does not satisfy the sustainability criterion based on its forecast for continuing operating deficits.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all FFTF councils should meet, therefore the council is not fit.

Scale and capacity– does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is as good an option to achieve the scale and capacity objectives for the region.
- The proposed Rural Council Proposal is not as good as the ILGRP's preferred option to merge with Berrigan. When compared to the merger, the council's small and declining population of 1,250 in 2031 means it is unlikely to cost-effectively provide services to the local communities.
- The council submitted a business case assessing the costs and benefits of merging Jerilderie with Berrigan. The business case showed the merger of Jerilderie and Berrigan could deliver benefits to the local community of between $1.4m and $12.5m over 10 years (using a discount rate of 5.5%, not including the $5m Government funding).

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability based on its continuing operating deficit. The operating performance ratio was -11.5% in 2014-15 and is forecast to reach -5.7% by 2024-25, which is below the benchmark of break-even.
- The council's figures include a previously approved and adopted special variation of 21.0% over 2 years from 2015-16 (15% above the rate peg).
- The council's own source revenue ratio was 49.1% in 2014-15 and is forecast to reach 52.0% by 2019-20 without the inclusion of FAGs, which is below the benchmark. The inclusion of FAGs increases the ratio to 80.7% by 2019-20.
- The building and infrastructure asset renewal ratio was 74.2% in 2014-15 and is forecast to reach 97.2% by 2019-20. This is close to the benchmark of 100%.

Infrastructure and service management - satisfies

- The council satisfies the infrastructure and service management criterion. It is forecast to meet the benchmark for the infrastructure backlog, asset maintenance and debt service ratios over the outlook period to 2019-20.

Efficiency – does not satisfy

- The council does not meet the criterion for efficiency based on its forecast to maintain its level of service for a declining population. Real opex per capita was $5,170 in 2014-15 and is forecast to be $5,580 in 2019-20.
- The increase in real opex per capita is 8% over the period, compared with a forecast decline in population of 1.2% over the same period.

Other relevant factors	
Social and community context	While Jerilderie and Berrigan are both agricultural areas, the councils maintain there are differences in their respective focus. Berrigan considers its orientation is to the south of the Murray River, ie, towards Victoria. Berrigan states it collaborates with the Victorian municipality of Moira on tourism and for shared services. Jerilderie has a low rates base which is further impacted by population decline. Berrigan considers its rates base is stronger due to a steady population and increasing property values. It considers this may have implications for rates harmonisation in a merger. Jerilderie is the main town in the Jerilderie LGA and is surrounded by farmland. We note that most of Berrigan and Jerilderie's boundaries would be accessible from Berrigan within 90 minutes.
Community consultation	The council consulted the community over two years in conjunction with its special variation application consultation. It used newsletters, questionnaires, public meetings, Mayoral Columns, newspaper articles and media releases to engage with the community. In general the majority of the community voted for the council to submit a Rural Council Proposal.
Water and/or sewer	The council does not meet all the requirements of the NSW Best Practice Management framework. A section 64 Development Servicing Plan is not in place as there is no new development in the township. It notes with less than 400 residential and 100 non-residential assessments, the ability to obtain the required usage criteria is limited. The Fund is showing a diminishing deficit over the next 10 years which is to be addressed by a 5% annual increase in fees and charges with a review on depreciation. The council will also conduct a service delivery and administrative cost review which it states will remove the deficit earlier than currently predicted. It reports it has no water and sewerage infrastructure backlog.
Submissions	There were no submissions received in relation to Jerilderie's proposal.

JUNEE SHIRE COUNCIL – CIP

NOT FIT

Area (km²)	2,030	Population	2011	6,150
OLG Group	10		(2031)	5,800
ILGRP Group	F	Merger	2011	13,700
			(2031)	12,400
Operating revenue (2013-14)	$10.5m	TCorp assessment		Moderate FSR Neutral Outlook
ILGRP options (no preference)	Council in Riverina JO (all shaded) or merge with Cootamundra.			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – does not satisfy

- The council's population is declining and is forecast to be 5,800 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with Government.
- The council also does not demonstrate it meets the elements of strategic capacity.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- The council rejected a proposal to merge. The council and Cootamundra identify the Bethungra range as a topographical physical barrier between the communities, which they consider reduces the potential scale benefits. The council also cites different regional focuses between the councils.
- The council held meetings with Temora, Coolamon, Wagga Wagga and Gundagai. The council considers the meetings were productive as there was a renewed commitment towards sharing plant and resources, but ultimately each council decided to stand alone.
- We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the stand-alone proposal. However, the merger may enable the provision of more cost-effective services to the local communities, advocating credibly and managing strategic issues in the region.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.

Infrastructure and service management - satisfies

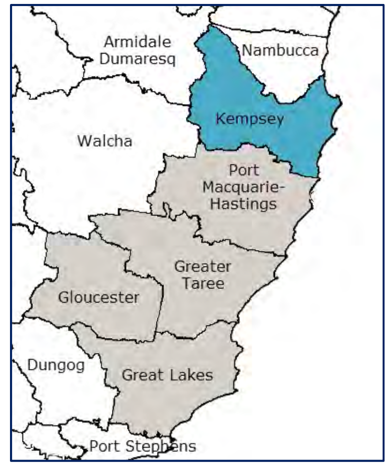
- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	The council and Cootamundra Shire Council identify the Bethungra range as a physical barrier between the communities. Further, the council notes that it has a south and southwest focus compared with Cootamundra Shire Council's north northeast view of the region.
Community consultation	Junee undertook a self-select community survey that was open to the public between March and June 2015. The council provided FFTF information to the public prior to and during the survey period, through various avenues. The council notes the survey questions response (260) was below the number valid for statistical sampling (350), but is unlikely to change with additional respondents. We note that 73% would prefer a JO over a merger, and 69% are opposed to merging.
Water and/or sewer	Goldenfields Water County Council provides potable water to the area. The council is responsible for the sewerage network. The council does not currently achieve the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework. The sewer business does not currently operate on a break-even basis. The council notes that it decided to freeze sewerage charges for its community for the period 2014-15 to 2016-17 to ease the impact of a successful SV for the general fund.
Submissions	There were no submissions received in relation to Junee's proposal.

KEMPSEY SHIRE COUNCIL – CIP



NOT FIT

Area (km^2)	3,371	Population: 2011	29,150
OLG Group	4	(2031)	30,500
ILGRP Group	G		
Operating revenue (2013-14)	$37.7m	TCorp assessment	Weak FSR Negative Outlook
ILGRP option	Council in Mid-North Coast JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. The council does not meet the criterion for sustainability including the benchmark for the operating performance ratio.
- The council does not satisfy the criterion for infrastructure and service management but does meet the efficiency criterion.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council's proposal is consistent with the ILGRP's option.
- As the ILGRP did not propose another option for this council, the council was not required to demonstrate how it met each of the elements of scale and capacity. It therefore did not provide sufficient information on the other elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal.
- The council engages in MIDROC and has investigated further service sharing with neighbouring councils, but its current financial position could limit its capacity for new functions and major projects.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability based on its forecast operating performance ratio not meeting the benchmarks.
- The council's operating performance ratio was -40.4% in 2014-15 and is forecast to reach -3.5% by 2019-20, which is below the benchmark. The council has forecast small negative results to 2024-25.
- Its building and infrastructure asset renewals ratio was 36.8% in 2014-15 and forecast to improve to 85.7 by 2019-20.
- This improvement is largely driven by lower depreciation costs as well as cost reductions.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2017-18 of 36% cumulative over 4 years (25% above the rate peg).
- The council's own source revenue ratio meets the benchmark for all years.

Infrastructure and service management - does not satisfy

- The council does not satisfy the criterion for infrastructure and service management based on its forecast for the infrastructure backlog and asset maintenance ratios not meeting the benchmarks by 2019-20.
- The council's infrastructure backlog was 9.7% in 2014-15 and is forecast to improve to 6.8% in 2019-20, which does not meet the benchmark. The council forecasts continued improvement, but still does not meet the benchmark by 2024-25.
- The council's asset maintenance ratio was 60.1% in 2014-15 and is forecast to improve to 79.5% by 2019-20.
- The council is yet to confirm the appropriate funding level for maintenance, and it is working with other MIDROC councils to develop best practice road asset management. It suggests the asset maintenance benchmark will be met by 2024-25.

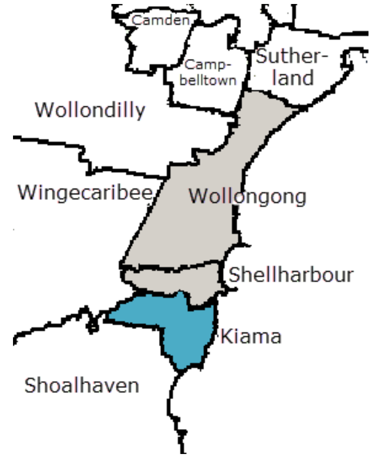
- It meets the debt service ratio benchmark.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors	
Social and community context	The council ranks lower on the SEIFA index than most of its neighbours and other Group 4 councils. As a result, rates historically have been kept low, but the council is phasing in increases to improve its sustainability.
Community consultation	The council has not indicated that it has undertaken community consultation with regard to its Fit For the Future proposal.
Water and/or sewer	The council's annual and user charges for water and sewer have been kept well below sustainable levels, and as such these businesses do not operate at break-even. Recently it began increasing charges and expects the water and sewer services will break even within the ten year financial plan. The businesses mostly meet the requirements of the Best Practice Management Framework, and the council expects it will meet a final target in the future. The infrastructure backlog for these functions is $37.8m but the council considers this is overstated.
Submissions	We did not receive any submissions on Kempsey's proposal.

KIAMA MUNICIPAL COUNCIL – CIP



	NOT FIT		
Area (km²)	258	Population 2011	20,800
OLG Group	4	(2031)	25,450
ILGRP Group	Illawarra		
Operating revenue (2013-14)	48.8m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options (no preference)	Council in Illawarra JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management criterion, it does not satisfy the sustainability and efficiency criteria.
- The council does not satisfy the sustainability criterion based on its forecast for a negative operating performance ratio by 2019-20.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FFTF) councils must meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's option.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements of scale and capacity including effective regional collaboration.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – does not satisfy

- The council does not satisfy the sustainability criterion. It does not meet the operating performance and building and infrastructure asset renewal benchmarks by 2019-20.
- The operating performance ratio was -7.7% in 2014-15 and is forecast to be -6.1% by 2019-20 which does not meet the benchmark. These figures rely on a number of assumptions, including the successful application for and adoption of a special variation from 2018-19 of 17.4% cumulative over 3 years (9.7% above the rate peg).
- The council cites the construction of a $62m Centre of Excellence in Aged Care as contributing to its poor operating performance ratio. While this Centre is forecast to produce revenue from 2018 onwards, our analysis suggests it may be earning a low return on capital. Lower returns on capital are appropriate for councils pursuing social or other objectives supported by the local community.
- The council has forecast it will meet the benchmark for the own source revenue ratio by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the infrastructure and service management criterion based on meeting the infrastructure backlog and debt service ratios by 2019-20. However, the council is close to exceeding the debt service benchmark by 2019-20 due to borrowing needed to fund its Centre of Excellence in Aged Care.
- While the council marginally misses the asset maintenance benchmark, it indicates it has identified optimal asset maintenance based on community expectations, the life of assets and that renewals are accounted for in its Asset Management Plan and Long Term Financial Plan.

Efficiency – does not satisfy

- The council does not meet the efficiency criterion based on an increase in real operating expenditure per capita from $2,200 in 2014-15 to $2,450 in 2019-20.

Other relevant factors	
Social and community context	A Kiama Council Community Survey in 2011 identified that 76% of residents were satisfied or very satisfied with Kiama Council's overall performance and only 3% were dissatisfied (based on 531 phone interviews and a 70% completion rate).
Community consultation	Kiama Council indicates its community expresses a strong desire for it to remain independent. However, it does not identify how it obtained this result.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	No submissions were received in relation to Kiama's proposal.

KOGARAH CITY COUNCIL – CIP

NOT FIT

Area (km^2)	15	Population	2011	58,900
OLG Group	3		(2031)	76,350
ILGRP Group	Metropolitan Sydney	Merger	2011	390,300
			(2031)	497,500
Operating revenue (2013-14)	$46.3m	TCorp assessment	Moderate FSR Neutral Outlook	
ILGRP options (preferences in bold).	**Merge with Canterbury, Hurstville and Rockdale** (blue and yellow) or combine as a strong Joint Organisation, also including Sutherland (grey) **and** adjust Rockdale boundary at airport.			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition, the merger option would provide further benefits such as delivering infrastructure in accordance with the South Subregion plan, and managing the Georges River catchment.
- The council's population is forecast to be 76,350 by 2031 compared with the forecast merger population of 497,500. Our analysis suggests the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case which showed that a merger of Canterbury, Kogarah, Hurstville and Rockdale produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $280m over 20 years (including the Government grant).
- In addition, our independent consultants Ernst & Young estimated net benefits from the merger of $172m over 20 years using publically available data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Kogarah to merge with neighbouring councils.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council's improvement in financial performance is driven by a special variation of 21.8% over four years approved in 2013 for asset renewal purposes.
- The council has also revised its asset management practices to provide more accurate depreciation forecasts, and the required asset renewal expenditures.

Infrastructure and service management - satisfies

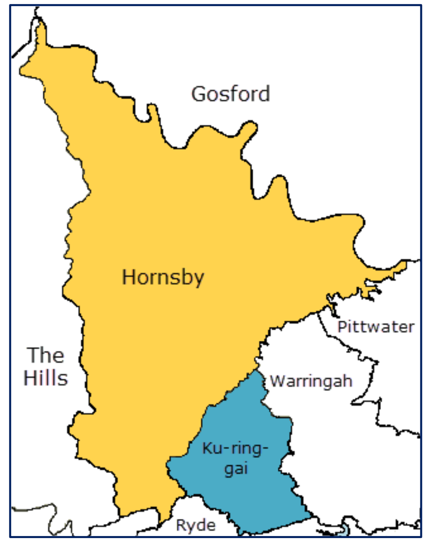
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita by 2019-20.

Other relevant factors	
Social and community context	Kogarah is 14km south of the Sydney CBD and includes four public and private hospitals. The council states the LGA is known for its sporting history, parks and foreshore. In an area of 20km^2 the council states is has 169km of sealed roads, 219km of footpaths, 56 children's playgrounds and 189 hectares of open space. Affordability of housing was cited as a key issue for its community.
Community consultation	The council has conducted a significant amount of consultation for its proposal to stand alone. The council circulated information brochures to all its residents in April 2015, and undertook a telephone survey of around 600 randomly selected residents. The council also conducted two consultation sessions in October 2014 and May 2015. The telephone survey found 90% of residents did not support the ILGRP preferred merger option, and 85% supported Kogarah to stand alone. We note the telephone consultation stated that Kogarah residents would be worse off under any merger proposal because of higher rates and more council debt. This may have had a material impact on the respondents' choice of answers.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received three submissions about Kogarah's proposal. All three submissions stated the merger would lead to a poorer outcome for Kogarah's residents eg, loss of local identity, and higher rates.

KU-RING-GAI COUNCIL – CIP



NOT FIT

Area (km^2)	85	Population 2011	114,600
OLG Group	3	(2031)	151,100
ILGRP Group	Sydney Metro	Merger 2011	278,400
		(2031)	352,850
Operating revenue (2013-14)	$102.4m	TCorp assessment	Sound FSR, Neutral Outlook

ILGRP options (preference in bold): **Merge with Hornsby Council,** (yellow) or combine as a strong JO with Hornsby Council and move the boundary with Parramatta northward to the M2.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 151,100 by 2031 compared with the forecast merger population of 352,850. Our analysis suggests the council does not have sufficient scale to partner effectively with the governments compared to the merger.
- Hornsby Shire Council submitted a business case which showed that a merger of Ku-ring-gai and Hornsby Shire councils produces net benefits. Based on this model, our analysis suggests the merger produces net benefits of $61m over 20 years (including the Government grant).
- In addition, our independent economic consultants Ernst and Young have estimated gains from the merger of $88m over 20 years using public data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Ku-ring-gai to merge.

Sustainability – satisfies

- The council satisfies the sustainability criterion. It is forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure renewal ratio by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately 2.7 percentage points to 2.2% in 2019-20 which is still above the benchmark.

Infrastructure and service management – satisfies

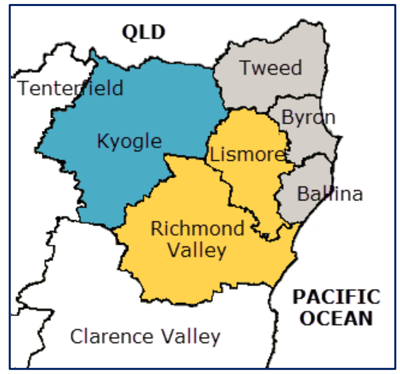
- The council satisfies the infrastructure and service management criterion as it meets the infrastructure backlog, asset maintenance and debt service benchmarks by 2019-20.
- The council implemented a new funding model in June 2015 to address its infrastructure backlog, and is forecasting an infrastructure backlog ratio of 0.2% in 2019-20.
- In its long term financial plan, the council shows it intends to repay all loans and have a zero debt service ratio by 2023-24. While this would not meet the benchmark, it is beyond our assessment period.

Efficiency - satisfies

- The council meets the criterion for efficiency based on the forecast for a reducing real opex per capita ratio for 2014-15 to 2019-20.

Other relevant factors	
Social and community context	Ku-ring-gai Council disagrees with the ILGRP's preferred option, and suggests a better option would be for it to merge with Warringah Council, and for Hornsby Shire Council to merge with The Hills Shire Council due to the closer demographic and economic links. However, Ku-ring-gai submitted a demographic study of the North Sydney councils. This study finds: • similar degrees of economic linkage between Ku-ring-gai and Hornsby councils and between Hornsby and The Hills councils • demographic links between Ku-ring-gai and Hornsby councils, but did not consider demographics in The Hills LGA, and • close economic links and some demographic links between Ku-ring-gai and Willoughby councils. Ku-ring-gai considers there is some misalignment of priorities between the merger councils, eg, it has a larger focus on environmental protection whereas Hornsby has a larger focus on strategic development.
Community consultation	Ku-ring-gai undertook broad community consultation which shows the community largely opposes the merger. This included an information brochure and media advertising showing arguments for and against the merger. In a survey of 402 residents, 77% of respondents preferred to remain stand alone. This increased to 87% after hearing the council's arguments against a merger, which included that the council was already financially sustainable and capable, that rates would increase, the council's financial position would weaken, and Ku-ring-gai residents would have minority representation.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 4 submissions relating to Ku-ring-gai's submission: • two opposed merging the council because the council is already strong • one submission from a community group questioned reliability of the council's infrastructure backlog ratio and raised a local carpark issue • one confidential submission.

KYOGLE COUNCIL – RURAL COUNCIL PROPOSAL



NOT FIT

Area (km^2)	3,639	Population 2011	9,550
OLG Group	10	(2031)	9,600
ILGRP Group	F	Merger with Richmond Valley	
		2011	32,350
		(2031)	35,000
		Merger with Lismore	
		2011	53,900
		(2031)	59,800
Operating revenue (2013-14)	$19.9m	TCorp assessment	Weak FSR Negative outlook

ILGRP options (no preference): Council in Northern Rivers JO (all shaded) or merge with Richmond Valley and Lismore (yellow).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy scale and capacity.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The ILGRP did not include a Rural Council Proposal in its options for Kyogle.
- The council does not meet the majority of rural council characteristics, particularly regarding population and options for mergers.
- The council is located less than 50km from other regional centres (Casino and Lismore). Outlying villages are around 100km from Kyogle, which is consistent with the ILGRP's suggestion that the boundaries of an LGA are 60-90 minutes from a main administration centre in country areas.
- The council's population of 9,550 is significantly higher than Group C councils with populations of less than 5,000 which the ILGRP specifically identified as being suitable for the Rural Council model.
- The council submitted a Rural Council Proposal because it considered it had no other option after merger discussions were rejected by Richmond Valley and Lismore. Its proposal states this is because it does not meet the scale and capacity elements for a stand-alone council.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council's figures include an approved special variation of 38.9% over five years from 2015-16 (23% above the rate peg).

Infrastructure and service management - satisfies

- The council meets the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, asset maintenance ratio and debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its declining real opex per capita over the period.

Other relevant factors	
Social and community context	30% of the LGA population is located in the town of Kyogle. The council has a declining population with a SEIFA ranking of 11, indicating a low socio-economic status.
Community consultation	The council states it included consideration of the FFTF reforms as part of its community engagement process on its Long Term Financial Plan. This included the results of a survey which showed that 88% of respondents agreed that the council needed additional funds to maintain its infrastructure and 54% were in favour of an application for a special variation. 60% agreed that the council should further explore the options around amalgamation.
Water and/or sewer	The council states it achieves the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework. However, the council states it had a backlog of $4.1m in 2013-14.
Submissions	We received one submission regarding Kyogle which questioned the sustainability of the council and raised concerns over the quality of roads in the LGA.

LACHLAN SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	13,744	Population 2011	6,700
OLG Group	10	(2031)	(5,500)
ILGRP Group	F	Merger 2011 (2031)	21,800 (21,000)
Operating revenue (2013-14)	$22.6m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP options (no preference)	Lachlan to merge with Parkes (yellow), or council in Central West JO (all shaded).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council's population is declining and is forecast to be 5,500 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- Parkes Shire Council submitted a business case for a merger with Lachlan Shire Council which suggests the merger could produce net benefits of $14.3m over 9 years (including the Government grant).

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio (with the inclusion of FAGs) and the building and infrastructure asset renewal ratio by 2019-20.
- For councils within OLG groups 8-11 we have assessed the own source revenue ratio with the inclusion of FAGs.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2016-17 of 33.4% cumulative over 4 years (23.2% above the rate peg). This is included in the council's long term financial plan.

Infrastructure and service management – satisfies

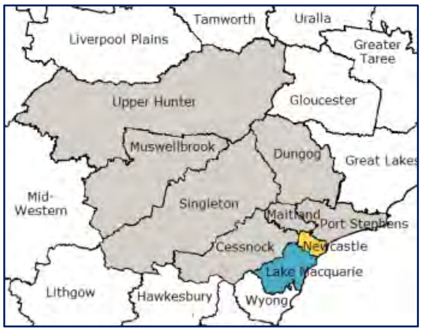
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratio by 2019-20.

Efficiency – satisfies

- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period.
- The council assumes the population will remain static. However, based on DP&E's forecasts of a population decline, we forecast the real opex per capita ratio would decline and then increase modestly after 2015-16.

Other relevant factors	
Social and community context	The proposal did not contain any relevant social and community context information for this criterion.
Community consultation	Lachlan undertook a community survey and forums in relation to the options available to council. The community indicated it was not in favour of a merger with Parkes, but would support a special variation and increased fees and charges in order to secure its long term sustainability.
Water and/or sewer	Lachlan operates water and sewer businesses. The council states it has an infrastructure backlog of $150 million, however Lachlan is undertaking a review of its water and sewer assets in conjunction with Jeff Roorda and Associates over the next 12 months. Lachlan reported deficits for both water and sewer. From 2015-16 Council has resolved to increase water and sewer prices each year over a four year period to ensure it will be at least break-even and have sufficient funds in reserves to meet planned capital works. Lachlan reports the cost to bring water and sewer assets to a satisfactory standard in 2013-14 at $1.6m.
Submissions	There were no submissions received in relation to Lachlan's proposal.

LAKE MACQUARIE COUNCIL – CIP



NOT FIT

Area (km^2)	648	Population 2011	196,800
OLG Group	5	(2031)	217,850
ILGRP Group	Hunter Councils	Merger 2011	352,350
		(2031)	407,900
Operating revenue (2013-14)	$191.8m	TCorp assessment	Sound FSR Negative Outlook

ILGRP options (preference in bold)

The ILGRP did not present a table of options for the Hunter region. Instead, it included a discussion of these councils in its report. The ILGRP indicated “Newcastle and Lake Macquarie should be amalgamated.”

Our approach to Hunter Councils is reflected in the table in our Methodology Paper and indicates the preferred option that Newcastle and Lake Macquarie:

Amalgamate or council in Joint Organisation (possible boundary changes).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity - does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council’s proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council’s population is forecast to be 217,850 by 2031 compared with the forecast merger population of 407,900. Our analysis suggests that a merged council would have enhanced scale to partner effectively with governments compared to the stand alone option.
- Our analysis suggests the merger could generate significant benefits to the local communities over 20 years.
- The council suggested there would be barriers to the merger, such as the two councils having different growth strategies, service models, community characteristics and regional focus, and both having self-contained local transport modes.
- Our analysis and findings are consistent with the ILGRP final report which concluded the preferred option was for Lake Macquarie to merge with Newcastle.

Sustainability - satisfies

- The council meets the criteria for sustainability as it is forecast to meet the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewals ratios by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 reserves would reduce the ratio by approximately 1.2 percentage points to 0.8% in 2019-20, which is still above the benchmark.

Infrastructure and service management - satisfies

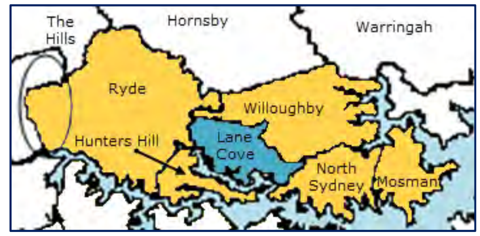
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet or improve close to the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Lake Macquarie submits it and Newcastle have distinct characters, Newcastle being a city and Lake Macquarie a dispersed community with numerous villages. Lake Macquarie also contests the ILGRP's statement that "(Newcastle's) southern suburbs merge seamlessly into the Lake Macquarie area…", stating the boundary is a natural one based on a water catchment divide.
Community consultation	Lake Macquarie City Council undertook community consultation by contacting residents, providing an information leaflet, and taking a survey on their preferences. Majority support was for the council to stand alone. The main reasons for respondents' choices concern: • having a low opinion of Newcastle City Council • reduced attention to local issues • the council's current good performance and appropriate size, and • funding and decision making would be directed from Lake Macquarie to Newcastle.
Water and/or sewer	The council does not have a water/sewer business.
Submissions to IPART	We received 31 submissions relating to Lake Macquarie Council's proposal, including one from the Cooranbong Business and Community Allianz, and one from a netball association. The majority were opposed to a merger. The main reasons were: • a loss of identity and local focus • the council is currently performing well, and • the merged councils would be financially weaker. Two submissions supported the suggested merger whilst one preferred a merger with Wyong Council. One late submission was received that did not support a merger. In a meeting the council discussed a number of issues from implementing a merger with Newcastle along the lines of the ILGRP's preferred options. It considered there would be significant impacts from a merger, which would include: • Financial impact on ratepayers from rate harmonisation in a merger with Newcastle. It considered rate harmonisation would result in Lake Macquarie ratepayers facing rate increases to meet Newcastle rate levels. • Social impact due to the differing service delivery model in Lake Macquarie compared to Newcastle due to the geography of the area. The council noted that Lake Macquarie has a number of communities surrounding a central lake and delivers services through local boards while Newcastle has a more urban delivery model with Newcastle as the centre.

LANE COVE COUNCIL - CIP



NOT FIT

Area (km^2)	11	Population	2011	33,250
OLG Group	2		(2031)	45,250
ILGRP Group	Sydney Metro	Merger	2011	286,867
			(2031)	376,150
Operating revenue (2013-14)	$37.2m	TCorp assessment		Sound FSR Negative Outlook
ILGRP options (preference in bold)	**Merge with Hunter's Hill, Mosman, North Sydney, Ryde (part), Willoughby** (yellow) or combine as a JO.			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity - does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 45,250 by 2031 compared with the forecast merger population of 376,150. Our analysis suggests that the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case which showed that a merger of Lane Cove, Hunter's Hill, Mosman, North Sydney, Willoughby and part of Ryde produces net benefits. Based on this model, our analysis suggests the merger produces net benefits of $280 million over 20 years (including the Government grant).
- In addition, our independent consultants Ernst & Young estimated net benefits from the merger of $187m over 20 years using public data (not including the Government grant).
- These analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- As an alternative to a merger, Hunters Hill, Ryde and Lane Cove councils submitted a common proposal to create a Joint Regional Authority (JRA). According to the councils, this would provide the benefits of shared services and centralised planning and development without the disruption of a merger. It would generate net benefits over 15 years of $0.5m, or $3.4m if it also included Mosman, North Sydney and Willoughby. The proposal does not fully quantify any efficiency savings that may also eventuate under the JRA. The preferred merger is likely to provide a higher level of efficiency savings than the JRA.
- Our analysis is consistent with the ILGRP's preferred option for Lane Cove to merge with neighbouring councils.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

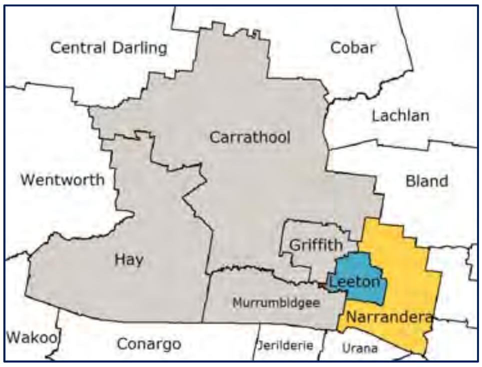
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratios by 2019-20.
- The council does not meet the debt service ratio benchmark. The council has a "no debt" policy.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council states the area has a strong sense of community. Morrison Low noted Lane Cove's community is quite contained with a strong village identity, due to its boundaries ie, foreshore and main arterial roads.
Community consultation	According to consultation results, 35% of survey respondents support a stand-alone council while 47% support the JRA proposal. The council states that survey respondent's support continuing to stand alone due to the council's high levels of performance.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions received in relation to Lane Cove's proposal.

LEETON SHIRE COUNCIL – CIP



	FIT			
Area (km^2)	1,132	Population	2011	11,400
OLG Group	11		(2031)	11,300
ILGRP Group	G	Merger	2011	17,500
			(2031)	16,250
Operating revenue (2013-14)	$15.7m	TCorp assessment		Moderate FSR Negative Outlook
ILGRP options (no preference)	Council in Murrumbidgee JO (all shaded) or merge with Narrandera (yellow).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although the council does not satisfy the infrastructure and service management criterion, the council satisfies the sustainability and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal to stand alone in a JO is consistent with the ILGRP's options for this council.
- The council has proposed process improvements to further enhance its capacity to stand alone.
- Based on the Morrison Low business case submitted on a merger, our analysis suggests the merger could produce benefits of $16m over 20 years (including the Government grant).
- While this evidence suggests a merger may be a better alternative to the council's proposal to stand alone, our finding is based on the proposal being consistent with the ILGRP option for no change.
- Morrison Low noted there is little difference in scale and capacity between the existing councils and the merger with Narrandera, particularly for Leeton.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, building and infrastructure asset renewal ratio and own source revenue ratio by 2019-20.
- The Morrison Low business case commissioned by the council noted that a merged Leeton/Narrandera council would only meet two of the financial benchmarks.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management, as it is forecast to meet the asset maintenance and debt service benchmarks by 2019-20.
- The infrastructure backlog ratio was 4.8% in 2014-15 and is forecast to be 5.6% by 2019-20, which does not meet the benchmark.

Efficiency - satisfies

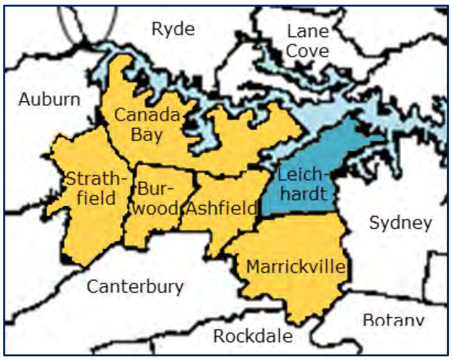
- The council satisfies the criterion for efficiency based on declining real operating expenditure per capita.

Other relevant factors

Social and community context	The council did not address any social or community issues.
Community consultation	Two public meetings were held to outline to the community the options available to council. Both meetings were unanimous in the desire by the community for the council to stand alone, whilst undertaking process improvement to improve its long term sustainability.

Other relevant factors	
Water and/or sewer	Leeton operates water and sewer businesses and has achieved the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework Guidelines. Leeton's water and sewer businesses reported a surplus (before capital) of $536,000 and $596,000 respectively in 2013-14. It reported a current (2013-14) water and sewerage infrastructure backlog of $16.6m based on special schedule 7, but notes the methodology of 'bring to satisfactory' has undergone substantial modifications over the last three years and considers this figure will be significantly reduced as a result.
Submissions	There were no submissions received in relation to Leeton's proposal.

LEICHHARDT MUNICIPAL COUNCIL – CIP



NOT FIT

Area (km^2)	10	Population 2011	55,650
OLG Group	2	(2031)	67,550
ILGRP Group	Sydney Metro	Merger 2011	331,800
		(2031)	433,000
Operating revenue (2013-14)	$78.8m	TCorp assessment	Sound FSR, Neutral Outlook
ILGRP options (preference in bold)	**Merge with Ashfield, Burwood, Canada Bay, Marrickville and Strathfield** (yellow) or combine as strong Joint Organisation.		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria overall:	**Satisfies**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 67,550 by 2031 compared with the forecast merger population of 433,000. Our analysis suggests the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case which showed a merger of Strathfield, Ashfield, Burwood, Canada Bay, Leichhardt and Marrickville produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $396m over 20 years (including the full Government grant).
- In addition, our independent economic consultants have estimated net benefits from the merger of $194m over 20 years using public data (not including the Government grant).
- The council resolved its preferred amalgamation would be between Leichhardt, Ashfield and Canada Bay Councils in the event of an amalgamation. It carried out internal modelling of this option, which showed this merger would be the best option for its residents.
- All analyses showed large gains to the local community from a merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP preferred option for Liechhardt to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the sustainability criterion. It is forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management – satisfies

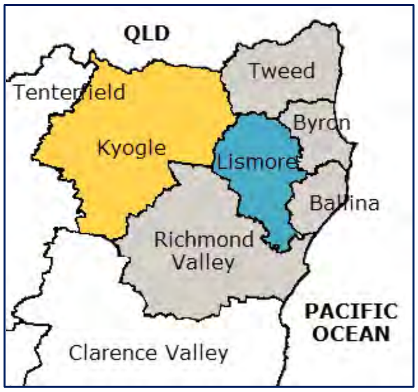
- The council satisfies the infrastructure and service management criterion based on its forecast to meet the benchmarks for the infrastructure backlog ratio, asset maintenance ratio and debt service ratio by 2019-20.

Efficiency – satisfies

- The council meets the efficiency criterion based on a decline in real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Leichhardt Municipal Council indicates the merged council will lead to a loss of: • representation with 2.5 councillors representing the LGA, rather than 12 • sense of identity and place, since there is no shared community of interest particularly with respect to Leichhardt's built form and open space heritage, and • local culture, local values and prioritisation of local issues.
Community consultation	Leichhardt Municipal Council consulted on two options (stand-alone or Inner West council). Every household and business was hand delivered information. 1,378 survey responses were received with 76% of respondents not supportive of an amalgamated council. The advice in the information pack promotes the stand-alone case. In addition, a random phone survey had 304 respondents with 61% of respondents not supportive of an amalgamated council. According to Leichhardt Municipal Council the structure of the random phone survey meets industry requirements put forward by Piazza Research to avoid any perception or accusation of "push polling".
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 191 submissions (including one early submission) relating to Leichhardt's proposal of which 178 rejected the merger. The main reasons for opposition included satisfaction with council's performance, loss of local identity and focus, reduced representation and services, and the absence of evidence that residents will be better off under a merger. The remainder supported the merger for reasons including the council was not meeting the needs of residents and a merged council would provide economies of scale and consistency of policies across wider areas.

LISMORE CITY COUNCIL – CIP



	FIT		
Area (km^2)	1,289	Population 2011	44,350
OLG Group	4	(2031)	50,200
ILGRP Group	G	Merger with Kyogle	
		2011	53,900
		(2031)	59,800
Operating revenue (2013-14)	$81.8m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP options (no preference)	Council in Northern Rivers JO or merge with Kyogle (yellow).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although it does not satisfy the infrastructure and service management criterion, it satisfies the sustainability and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- The council has a robust revenue base and has demonstrated some effective regional collaboration.
- The council is home to Lismore, a large regional centre. Our analysis suggests this population is sufficient to enable the council to have the strategic capacity to meet the future needs of its community and be a capable partner in the regional area with governments.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone. Hence the council has been assessed as satisfying the scale and capacity criterion.
- The council investigated a merger with Kyogle but decided against it on the basis that it would not bring benefits to Lismore Council residents or communities. We do not have sufficient evidence to evaluate the costs and benefits of the merger option relative to the stand alone proposal.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance and own source revenue ratios by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately 1.1 percentage points to 2.2% in 2019-20, which is still above the benchmark.
- The building and infrastructure asset renewal ratio was 106% in 2014-15 and is forecast to reach 88.4% by 2019-20. This does not meet the benchmark.
- The council's proposal assumes savings of $1.3m from service reviews and the successful application for and adoption of a special variation in 2018-19 of 5.5% cumulative (3.0% above the rate peg).

Infrastructure and service management – does not satisfy

- The council does not satisfy the criterion for infrastructure and service management based on its forecast that it will not meet the benchmarks for the infrastructure backlog ratio and asset maintenance ratio by 2019-20. The council has forecast it will meet the benchmark for the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its reducing real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Lismore is a growing regional services hub within the Northern Rivers area. 63% of its population lives in urban areas, while 33% live in rural areas. The council is the centre for Southern Cross University and Lismore Base Hospital which contribute education and health services to the region.
Community consultation	The council consulted with its community through the 'Imagine Lismore' process to identify key priorities for its strategic plan. There is insufficient information on consultation regarding the Fit For The Future process.
Water and/or sewer	Lismore is not currently compliant with the best practice management framework, due to its waste charges and tariff structure. These will be reviewed to prepare compliant strategy in 2017-18.
Submissions	We received one submission regarding Lismore's proposal which does not support the council standing alone, citing high rates and lack of support for the proposed special variation. It also suggested alternative mergers as options.

LITHGOW CITY COUNCIL – CIP

NOT FIT

Area (km^2)	4,464	Population 2011	20,850
OLG Group	4	(2031)	20,600
ILGRP Group	G		
Operating revenue (2013-14)	$22.1m	TCorp assessment	Sound FSR Negative outlook
ILGRP option	Council in Central West JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. While it satisfies the infrastructure and service management criterion, it does not satisfy the sustainability and efficiency criteria.
- The council does not satisfy the sustainability criterion as a result of its forecast for a negative operating performance ratio by 2019-20.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – does not satisfy

- The council does not satisfy the sustainability criterion based on its forecast for an operating performance ratio of -9.0% by 2019-20, which does not meet the benchmark.
- The council's building and infrastructure asset renewal ratio is forecast to be 69.0% by 2019-20 which is below the benchmark.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency – does not satisfy

- The council does not meet the efficiency criterion based on its forecast increase in real opex per capita over the period to 2019-20.

Other relevant factors

Social and community context	Lithgow City Council stated it undertook meetings with neighbouring councils including Bathurst Council, Blayney Council, and Oberon Council. However, Lithgow City Council notes that these councils were not interested in pursuing potential mergers, rather options to increase productivity through bulk purchasing and other cost saving areas were discussed.
Community consultation	Lithgow City Council indicates that it informed the community about the Fit for the Future process as part of public meetings. However, no details were provided in its proposal in relation to the feedback provided by the community.
Water and/or sewer	Lithgow City Council operates water and sewer businesses. Both funds reported a surplus (before capital) for 2013-14. The council reports that the cost to bring the water and sewer assets to satisfactory standard is $24.1m. Lithgow City Council does not meet the requirements of the NSW Government's Best Practice Management of Water Supply and Sewerage Framework.
Submissions	We received one submission in relation to Lithgow's proposal. It expresses concerns about the accounting treatment of particular assets and the subsequent effect on financial information provided by the council in its Fit for The Future submission.

LIVERPOOL CITY COUNCIL – CIP

NOT FIT

Area (km^2)	305	Population 2011	188,100
OLG Group	7	(2031)	288,950
ILGRP Group	Sydney Metro	Merger 2011	384,600
		(2031)	528,850
Operating revenue (2013-14)	$142.1m	TCorp assessment	Sound FSR, Negative Outlook
ILGRP options (preference in bold)	**Merge with Fairfield** (yellow) or Council in JO with Bankstown, Camden, Campbelltown, Fairfield and Wollondilly (shaded area).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under a merger option. In addition a merger option would provide significant further benefits.
- The council's population is forecast to be 288,950 by 2031 compared with the forecast merger population of 528,850. Our analysis suggests that a merged council will have enhanced scale to better partner effectively with state and Federal governments compared to the stand alone option.
- Our analysis suggests the council does not have sufficient size to effectively manage the high growth corridor in south western Sydney.
- The council did not provide a merger business case to demonstrate its proposal to stand alone was as good as or better than the preferred merger option.
- Our independent consultants Ernst and Young estimated net benefits from the merger of $131m over 20 years using public data (not including the Government grant).
- The council suggested that its growth profile may make it well placed to consider a merger with a council in the South West Growth Centre (ie, Camden and/or Campbelltown).
- Our analysis is consistent with the ILGRP's preferred option for Liverpool to merge and for a council of greater scale to manage the Liverpool region.
- Liverpool's proposal notes in the event it is required to merge, its preferred option is to merge with council(s) in the South West Growth Centre (Camden and/or Campbelltown). Its proposal noted a number of benefits from such a merger. The council commissioned analysis from SGS Economics & Planning which calculated (using the 'lead council' model):
  - o a merger with Campbelltown and Camden produces cost savings of $243m in net present value terms over 10 years, or 6.7% of the combined cost base, whereas
  - o a merger with Fairfield produces cost savings of $64m in net present value terms over 10 years, or 2.3% of the combined cost base.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

- The council's operating performance ratio was -1.3% in 2013-14 and is forecast to reach 0.3% by 2019-20 which meets the benchmark. We estimate adjusting this ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately two percentage points to -1.7% in 2019-20, which is below the benchmark, but close to meeting it. We consider the council has sufficient scope to adjust its revenue strategy to meet the benchmark.
- The building and infrastructure renewal ratio was 79.8% in 2013-14 and is forecast to reach 108.3% by 2019-20. The council states it has aligned its Asset Management Plan with its Long Term Financial Plan and increased renewal funding to achieve the benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criteria for efficiency based on its declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council's proposal outlines the Liverpool City LGA is considered the regional city for South Western Sydney. It is a well-connected transport hub with significant growth of nearly 100,000 additional residents by 2031.
Community consultation	The council conducted a community survey in 2015 through an independent research company. Of the 1,884 responses received, 53% were opposed to a merger, 33% supported a merger and 22% supported a merger with Fairfield. The council notes Fairfield's community consultation indicated that 91% opposed a merger with Liverpool.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions received in relation to Liverpool City's proposal.

LIVERPOOL PLAINS SHIRE COUNCIL – CIP

	NOT FIT			
Area (km^2)	5,002	Population	2011	7,750
OLG Group	10		(2031)	7,950
ILGRP Group	F	Merger	2011	20,250
			(2031)	21,250
Operating revenue (2013-14)	$15.1m	TCorp assessment		Weak FSR Negative Outlook
ILGRP options (no preference)	Council in Namoi JO (all shaded area) or merge with Gunnedah (yellow).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the criteria for sustainability, infrastructure and service management and efficiency.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The population is small and is forecast to grow slowly to be 7,950 in 2031.
- The council does not have a robust revenue base, and its resources to cope with complex and unexpected change appear to be limited.
- Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- Liverpool Plains was required to explore the merger option. While Liverpool Plains held merger discussions with Gunnedah, it does not appear to have fully explored the merger option. In its proposal, Gunnedah indicated it was willing to undertake a study into a merger, but Liverpool Plains resolved to remain a stand-alone council.
- Instead of a merger, Gunnedah and Liverpool Plains have established a formal resource sharing strategy to improve the capacity of both councils.
- The council is participating in the Namoi pilot JO.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio and the own source revenue ratios by 2019-20.
- The building and infrastructure asset renewal ratio improves from 94.8% in 2014-15 to 99.8% in 2019-20, which is very close to the benchmark.
- The council's forecasts for the operating performance ratio are contingent on assumed efficiency improvements and the successful application for and adoption of a special variation from 2017-18 of 19.1% cumulative over 3 years (11.4% above the rate peg).

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency – satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors	
Social and community context	Factors affecting the council's decision to reject a merger include a strong sense of local identity, community opposition, its emerging mining resource sector, its positive population growth, and its competitive advantages of being located close to Tamworth and major road and rail networks.
Community consultation	A survey was undertaken by Liverpool Plains, with 1,102 responses received representing 25% of the eligible participants. 87% of total respondents indicated they would prefer to stand-alone. Liverpool Plains also undertook other consultation activities including meetings with business owners, presentations to local organisations, and a Fit for the Future hotline. The council notes it developed its proposal on the basis of the community's preference to stand alone. This consultation appears to have been relatively extensive.
Water and/or sewer	Liverpool Plains provides water and sewer services. The council does not currently meet the NSW Government's Best Practice Management of Water Supply and Sewerage Framework. It operates its water and sewer services on a break-even basis.
Submissions	There were no submissions received in relation to Liverpool Plains' proposal.

LOCKHART SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

FIT AS A RURAL COUNCIL

Area (km²)	3000	Population	2011	3,100
OLG Group	9		(2031)	2,550
ILGRP Group	C	Merger	2011	64,900
			(2031)	75,600
Operating revenue (2013-14)	$9m	TCorp assessment		Sound FSR Neutral Outlook
ILGRP options (no preference)	Rural Council in Riverina JO (all shaded) or merge with Wagga Wagga City Council (yellow).			

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall as the council meets the criteria for sustainability, infrastructure and service management and efficiency.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include resource sharing within the Riverina Eastern Regional Organisation of Councils. REROC demonstrates its success in increasing the scale and capacity of its member organisations on a range of measures and plans to become the pilot JO for the region.
- Other strategies for improvement identified by the council include sharing administrative functions with neighbouring councils and an internal governance restructure.
- The council rejected a proposal to merge and did not submit a merger business case. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the Rural Council proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on the Government adopting a Rural Council model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmark for the operating performance ratio by 2024-25 and the benchmarks for the building and infrastructure asset renewal and own source revenue ratios by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2016-17 of 56.8% cumulative over 10 years (28.8% above the rate peg). Nonetheless, our analysis indicates the council would meet the operating performance ratio in the absence of this special variation.

Infrastructure and service management – satisfies

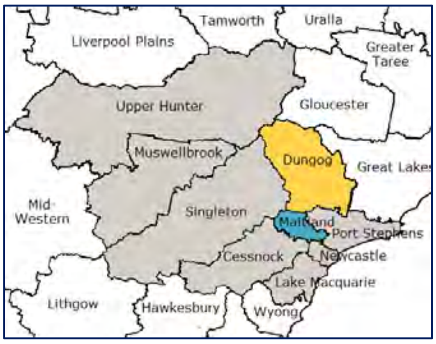
- The council satisfies the criterion for infrastructure and service management based its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	Lockhart is the major town in the local government area with a population of 800. It is a predominantly agricultural region with some additional light industry. The council distinguishes itself from Wagga Wagga City Council, which is a large regional centre with more urban issues. The closest regional centres for Lockhart are Wagga Wagga (65km) and Albury (106km).
Community consultation	The council updated residents on its plans through its newsletter and website. The council held 5 public meetings to inform the community of its improvement plan. A total of 118 community members attended the meetings with 79% voting in favour of the plan.
Water and/or sewer	The council has no backlog for its sewerage infrastructure. Water is supplied and managed by Riverina Water which is based in Wagga Wagga. The council indicates compliance with 78% of the NSW Government Best Practice Management of Water Supply and Sewerage Framework.
Submissions	No submissions were received in relation to Lockhart's proposal.

MAITLAND CITY COUNCIL – CIP



	NOT FIT		
Area (km²)	392	Population 2011	69,900
OLG Group	5	(2031)	100,500
ILGRP Group	Hunter	Merger 2011	78,450
		(2031)	109,300
Operating revenue (2013-14)	$72.9m	TCorp assessment	Moderate FSR Neutral Outlook

ILGRP option (preference in bold)

The ILGRP report includes a map which indicates that Maitland and Dungog are a preferred merger option. We have therefore approached the assessment of these councils as if the merger was the ILGRP's preferred (ie bolded) option.

Our approach to Hunter Councils is reflected in the table in our Methodology Paper and indicates the preferred option that Maitland and Dungog:

Merge or council in Hunter JO (all shaded).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council meets the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity - does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- Our analysis is consistent with the ILGRP's preferred option for Maitland to merge with neighbouring councils.
- The council submitted a business case which showed a net cost of $6.1m over 10 years. Based on this model, our analysis of the business case suggests that the merger generates benefits of $5.3m over 20 years which includes the $5m Government grant.

Sustainability – satisfies

- The council satisfies the sustainability criterion. It is forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately 2.4 percentage points to -0.7% in 2019-20, which is below the benchmark. However, we consider the council has sufficient scope to adjust its revenue strategy to meet the benchmark.

Infrastructure and service management - satisfies

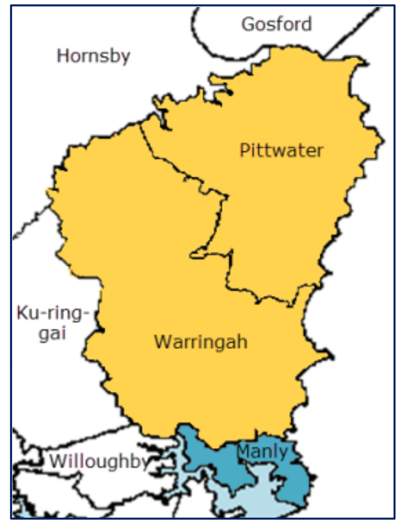
- The council satisfies the infrastructure and service management criterion as it meets the infrastructure backlog, asset maintenance and debt service benchmarks by 2019-20.

Efficiency - satisfies

- The council satisfies the efficiency criterion based on a decrease in real operating expenditure per capita from $890 in 2014-15 to $850 in 2019-20.

Other relevant factors	
Social and community context	The business case indicates that the corporate values of both Maitland and Dungog councils are largely shared between the organisations and have adopted very similar styles in expressing their respective vision and associated themes. The report also notes that different service levels exist between the two councils.
Community consultation	Maitland Council states it made a deliberate decision not to undertake any community consultation in relation the CIP, confident that its position had been determined using extensive consultation on community expectations for services and service levels as part of its recent special variation application.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	No submissions have been received in response to Maitland's proposal.

MANLY COUNCIL – CIP



NOT FIT

Area (km^2)	14.4	Population	2011	42,800
OLG Group	2		(2031)	53,600
ILGRP Group	Sydney Metro	Merger	2011	251,650
			(2031)	307,000
Operating revenue (2013-14)	$61.6m	TCorp assessment		Sound FSR Neutral Outlook

ILGRP options (preference in bold): **Merge with Pittwater and Warringah Councils** (yellow) or combine as a strong JO with Pittwater and Warringah councils.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

:

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- Manly Council did not demonstrate its improvement proposal was at least as good as the ILGRP merger option. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 53,600 by 2031 compared with the forecast merger population of 307,000. Our analysis suggests that the council does not have sufficient scale to partner effectively with governments compared to the merger.
- Manly Council and Pittwater Council jointly commissioned a business case which showed a merger of Manly, Pittwater and Warringah produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $116m over 20 years.
- Warringah Council also commissioned a separate business case of the merger. Based on this model, our analysis suggests the merger would produce net benefits of $265m over 20 years (including the Government grant).
- In addition, our independent economic consultants Ernst and Young estimated net benefits from the merger of around $116m over 20 years using publically available data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Manly Council noted its preference is the creation of two new councils (Greater Manly and Greater Pittwater) from the existing three councils if a merger was forced. Warringah Council does not support this alternative proposal.
- Community consultation by Manly and Pittwater Councils indicated opposition to the ILGRP merger. Warringah's community consultation, which was undertaken across the three LGAs, indicated almost 70% of responses supported the ILGRP merger.
- Our analysis is consistent with the ILGRP's preferred option for Manly to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a special variation in 2017-18 of 4.7% cumulative (2.2% above the rate peg).

Infrastructure and service management - satisfies

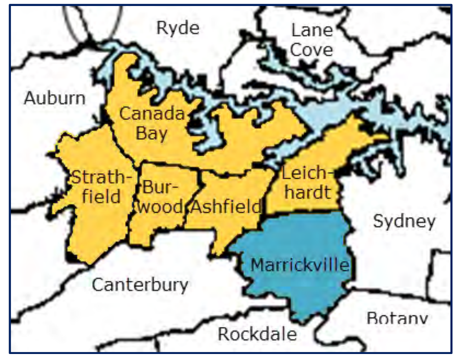
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on the Real Operating Expenditure per Capita showing a declining trend from 2014-15 to 2019-20.

Other relevant factors	
Social and community context	Tourism is important for Manly (it has 8 million visitors annually), providing a major source of income and employment for local businesses and demand for increased expenditure by the council. In comparison to Pittwater and Warringah Councils, the council has a higher population density and a younger population with a higher income.
Community consultation	In a survey of Manly residents, with 1,963 respondents, conducted in June 2015, to determine attitudes to a "forced merger", 76% supported a merger to create two councils and 24% supported merging all three councils. A stand-alone option was not provided in the survey.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	Four submissions were received on Manly Council's proposal. Two submissions argued against the ILGRP merger option, citing concerns related to loss of local identity and representation and increases in rates. One submission received from Warringah Council was in favour of merging with Pittwater and Manly councils, which noted there would be economies of scale and greater benefits for the Northern Beaches region from the merger. We also received one confidential submission.

MARRICKVILLE COUNCIL - CIP



NOT FIT

Area (km²)	16	Population 2011	81,100
OLG Group	3	(2031)	102,300
ILGRP Group	Sydney Metro	Merger 2011	331,800
		(2031)	433,000
Operating revenue (2013-14)	$92.5m	TCorp assessment	Moderate FSR, Neutral Outlook

ILGRP options (preference in bold): **Merge with Ashfield, Burwood, Canada Bay, Leichhardt and Strathfield** (yellow) or combine as strong Joint Organisation.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria overall:	**Satisfies**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 102,300 by 2031 compared to the forecast merger population of 433,000. Our analysis indicates the council does not have sufficient scale and capacity to effectively partner with governments compared to the merger.
- The council submitted a business case which showed a merger of Strathfield, Ashfield, Burwood, Canada Bay, Leichardt and Marrickville produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $396m over 20 years (including the full Government grant).
- In addition, our independent economic consultants Ernst & Young estimated gains to the local communities from the merger of $194m over 20 years using publically available data (not including the Government grant).
- The council submitted another business case which showed a merger of Marrickville, Botany Bay and Rockdale produces net benefits. Based on this model, our analysis suggests a merger between Marrickville, Botany Bay and Rockdale could produce net benefits of $251m over 20 years. However, the council did not wish to pursue this option and it was not an option identified by the ILGRP. We did not investigate the further regional impacts of this proposed merger.
- All analyses showed large gains to the local community from a merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Marrickville to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the sustainability criterion. It is forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management – satisfies

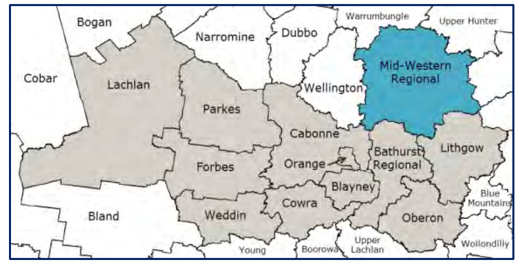
- The council satisfies the infrastructure and service management criterion as it meets the infrastructure backlog, asset maintenance and debt service benchmarks by 2019-20.

Efficiency – satisfies

- The council meets the efficiency criterion based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	Marrickville Council states that loss of identity is a risk in a merger with councils that do not share a similar sense of community, eg, it has a high percentage of artists, cultural workers, arts industries and same-sex couples.
Community consultation	Marrickville Council consulted the community on two options (stand alone or Inner West merger). It received 3,685 survey responses as a result of an information brochure provided to all rate payers with 72% of respondents opposed to the Inner West merger and 78% supporting Marrickville as a stand-alone council. We consider its information pack presents an incomplete assessment of costs and benefits.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 40 submissions relating to Marrickville's proposal. Among these submissions, 35 rejected the merger. The main reasons for opposition included satisfaction with council's performance, loss of local identity and focus, reduced representation and services, and that there is no evidence residents will be better off under a merger. One submission was in support of merging based on operational improvements. Three submissions were in support of alternative mergers, eg, with the City of Sydney. We also received one confidential submission.

MID-WESTERN REGIONAL COUNCIL – CIP



NOT FIT

Area (km^2)	8,722	Population 2011	23,000
OLG Group	4	(2031)	25,050
ILGRP Group	G		
Operating revenue (2013-14)	$39.7m	TCorp assessment	Sound FSR Negative Outlook
ILGRP option	Council in Central West JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Whilst it satisfies the efficiency criterion, it does not satisfy the sustainability and infrastructure and service management criteria.
- The council does not satisfy the sustainability criterion as a result of its forecast for a negative operating performance ratio by 2019-20.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FFTF) councils should meet, therefore the council is not fit.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's option to stand alone.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- The council has demonstrated effective regional partnerships.

Sustainability – does not satisfy

- The council does not satisfy the sustainability criterion based on its forecast for an operating performance ratio of -1.9% by 2019-20.
- This council's operating performance ratio is forecast to be below the benchmark by 2019-20. The council recognises its current asset management systems and procedures are inadequate and need to improve so that accurate and reliable data can be used to monitor and improve the council's performance against the indicators for sustainability and infrastructure service management.
- The council's forecast for the own source revenue ratio and the building and infrastructure asset renewal ratio meet the benchmarks by 2019-20.

Infrastructure and service management – does not satisfy

- The council does not satisfy the infrastructure and service management criterion based on its forecast for a large infrastructure backlog and insufficient asset maintenance by 2019-20.
- The infrastructure backlog ratio was 11% in 2014-15 and is forecast to be 7% by 2019-20. This does not meet the benchmark.
- The council states its current asset management data is unreliable and places low confidence in its estimates (ie, estimates are based on engineering assessments and do not reflect community expectations or council's priorities). The council also states it has inherited duplicate assets and assets in varying conditions as a legacy of two previous amalgamations.
- The council expects improvements in the quality of asset management data will reduce the 'estimated cost to bring assets to a satisfactory condition' by at least 10% and it plans to redirect 20% of its renewal expenditure to reduce its backlog.

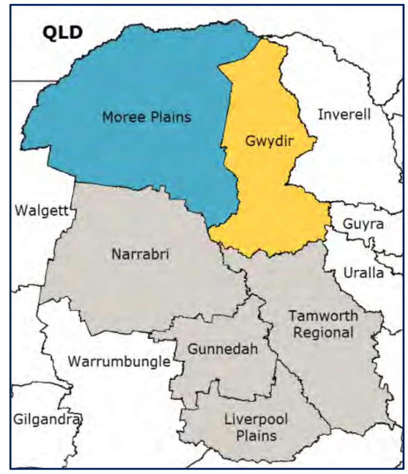
- The council has calculated the infrastructure backlog ratio using the current replacement cost as the denominator, instead of the written down value. This is arguably a valid measurement of the infrastructure backlog. The results of this method are more favourable but still do not meet the benchmark, showing an 8% backlog in 2013-14 and 5% backlog in 2019-20.
- The asset maintenance ratio was 89% in 2014-15 and is forecast to be 84% by 2019-20. This is below the benchmark. As noted above, the council's estimates are unreliable due to inadequate asset management systems and procedures. The council states its large network of unsealed roads is a major cause of this result and acknowledges the need to consult with the community to set realistic service levels.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period.

Other relevant factors	
Social and community context	The proposal did not contain any relevant social and community context information for this criterion.
Community consultation	The proposal did not provide any details of community consultation.
Water and/or sewer	Mid-Western Regional Council operates water and sewer businesses. It does not achieve the requirements of the NSW Government's Best Practice Management of Water Supply and Sewerage Framework. The council indicates its water and sewer infrastructure backlog is $39.1m. The council reported surplus results for water and sewer (before capital) of $847,000 and $146,000 respectively for 2013-14.
Submissions	There were no submissions received in relation to Mid-Western's proposal.

MOREE PLAINS SHIRE COUNCIL – CIP



FIT

Area (km^2)	17,930	Population	2011	14,050
OLG Group	11		(2031)	11,750
ILGRP Group	G	Merger	2011	19,150
			(2031)	15,950
Operating revenue (2013-14)	$52.2m	TCorp assessment		Moderate FSR Neutral Outlook
ILGRP options (no preference)	Council in Namoi JO (all shaded) or merge with Gwydir (yellow).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council currently meets or partially meets most of the elements of scale and capacity. In particular, it has undertaken a number of large regional projects and has contributed to the development of a Melbourne to Brisbane inland rail link, which is a nationally significant project.
- The council's proposal is consistent with the ILGRP's option to stand alone in the Namoi JO.
- Moree Plains notes discussions were held with Gwydir Council in relation to a merger. However, a merger was not pursued by Moree Plains due to community opposition, the potential for a merger to hinder Moree Plains' ability to meet benchmarks and differences in the communities and strategic priorities.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.
- The council's performance against this criterion is fairly strong, particularly for a OLG Group 11 council, as it intends to generate operating surpluses in every year out to 2024-25 and exceeds the own source revenue ratio without the inclusion of FAGs from 2015-16 onwards.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

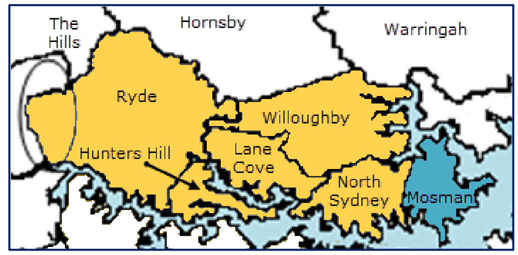
Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors

Social and community context	Moree Plains states it has different community and strategic priorities compared to Gwydir. For example, Moree Plains is opposed to coal seam gas and coal mining, while Gwydir supports these activities. Moree Plains also has a large indigenous population representing 22% of its population; while Gwydir's indigenous population is 4% of its population. Moree Plains considers that a merger with Gwydir could dilute its focus on indigenous reconciliation.
Community consultation	Moree Plains undertook a community survey in 2013. Respondents rated the following options with an 'Agree' or 'Strongly Agree' position: continuation as a stand-alone council (60%), strengthening shared services (48%), merger with Gwydir Council (23%). No further community consultation was indicated.
Water and/or sewer	Moree Plains provides water and sewer services. The council is compliant with the NSW Government's Best Practice Management of Water Supply and Sewerage Framework. However, it has not paid a dividend for its water and sewer services for 2013-14 and 2012-13.
Submissions	There were no submissions received in relation to Moree Plains' proposal.

MOSMAN MUNICIPAL COUNCIL - CIP



NOT FIT

Area (km^2)	9	Population	2011	29,350
OLG Group	2		(2031)	35,350
ILGRP Group	Sydney Metro	Merger	2011	286,867
			(2031)	376,150
Operating revenue ($2013-14)	$41.3m	TCorp assessment		Weak FSR, Positive Outlook
ILGRP options (preference in bold)	**Merge with Hunter's Hill, Lane Cove, North Sydney, Ryde (part), Willoughby** (yellow) or combine as a JO.			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity - does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 45,250 by 2031 compared with the forecast merger population of 376,150. Our analysis suggests the council does not have sufficient scale to partner effectively with governments compared to the merger option.
- The City of Ryde Council, Hunter's Hill City Council and Lane Cove City Council submitted a business case which showed that a merger of Lane Cove, Hunter's Hill, Mosman, North Sydney, Willoughby and part of Ryde produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $280 million over 20 years (including the Government grant).
- In addition, our independent consultants Ernst & Young estimated net benefits from the merger of around $187m over 20 years using publically available data (not including the Government grant).
- These analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Mosman to merge with neighbouring councils.

Sustainability - satisfies

- The council meets the criteria for sustainability as it is forecast to meet the benchmarks for the operating performance, own source and building and infrastructure asset renewals ratios by 2019-20.

Infrastructure and service management - satisfies

- The council meets the criteria for infrastructure and service management as it forecasts meeting the benchmarks for the infrastructure backlog ratio and debt service ratio by 2019-20.
- The council forecasts its asset maintenance ratio will be 100% by 2019-20 which is close to the benchmark of 'greater than' 100%.

Efficiency - satisfies

- The council meets the criterion for efficiency based on a forecast decline in real opex per capita from 2014-15 to 2019-20.

Other relevant factors	
Social and community context	Mosman considers it has built a strong sense of local identity that is recognised within and outside the boundaries of the LGA. During the consultation process, residents argued against mergers for reasons including: a desire to maintain a local identity, the risk of reduced democracy and community spirit and concerns about whether a merged council would be as attuned to local issues as Mosman Municipal Council. Mosman is bounded on three sides by harbour; however it contains the main thoroughfare between the city and the northern beaches.
Community consultation	Mosman's community consultation shows its community strongly opposes merging. The most recent poll in 2012 found 81% of respondents opposed a merger. However, it is not clear whether balanced information on the merger options was provided as part of the poll. A submission to IPART also notes the council's survey on community preferences for standing-alone appears unbalanced.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	Nine submissions were received in relation to Mosman's proposal (including one early submission). Six oppose merging citing potential risks such as the loss of local focus, less representation, reduced services, financial weakness, threat to democracy, reduced oversight, reduced community engagement, a failure to address the social dimension of local government, a lack of evidence that mergers will produce benefits and the risk of increased rates. Two submissions note the council's good performance. One submission supports a merger citing potential benefits including a stronger voice, better calibre councillors and reduced influence of special interest groups. This submission supports merging with North Sydney. We also received one confidential submission.

MURRAY SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	4,256	Population	2011	7,200
OLG Group	10		(2031)	8,750
ILGRP Group	D	Merger Deniliquin/Conargo	2011 (2031)	16,100 16,150
		Merger Deniliquin/Wakool	2011 (2031)	18,550 17,650
Operating revenue (2013-14)	$14.1m	TCorp assessment	Neutral FSR, Moderate Outlook	
ILGRP options (preference in bold)	**Merge with Deniliquin/Conargo** (yellow) and Wakool or council in Mid-Murray JO with Deniliquin, Conargo, Wakool, Jerilderie and Berrigan (all shaded).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- The council has not demonstrated its proposal to stand alone is as good as the ILGRP's merger option. When compared to a merger, the council's forecast population of 8,750 in 2031 means it is unlikely to provide services cost-effectively to the local communities, advocate credibly and partner effectively with governments.
- The council submitted a business case by LKS Quaero for a merger between Wakool, Murray and Deniliquin Councils, but did not identify an NPV estimate. Based on this model, our analysis suggests a merger could produce net benefits of $26m over 20 years (including the full government grant of $11m).
- Our analysis also suggests a potential Murray and Deniliquin merger could produce net benefits of $16m over 20 years (including a government grant of $5m).
- All analyses show large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council has proposed a special variation of 3% above the rate peg, but has not specified which year this may occur. Consultation has not yet been undertaken.
- The council states it will improve its operating position through the implementation of the Murray Shire Plan, including service reviews, efficiency reviews and rating base reviews.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period to 2019-20.

Other relevant factors	
Social and community context	The largest township in the Murray Shire is Moama, which is situated on the Murray River and forms a ‘twin city’ with Echuca, which is located in Victoria. The council is 800km from Sydney and 200km from Melbourne and therefore many of its residents are employed and access services to the south.
Community consultation	The council undertook consultation which it states supported a stand-alone proposal. It has not provided further information on its process for consultation.
Water and/or sewer	The council’s proposal states it is compliant with best practice for water and sewer and has a zero infrastructure backlog.
Submissions	IPART received four submissions (including one late submission) regarding Murray’s proposal. Two submissions were against a merger, stating that the council was performing well and a merger would result in a loss of local focus and identity. One submission supported a merger and argued that the council only meets the FFTF benchmarks with accounting adjustments and rate increases and is mismanaged. We also received one confidential submission.

MURRUMBIDGEE SHIRE COUNCIL - RURAL COUNCIL PROPOSAL

	NOT FIT			
Area (km^2)	3,506	Population	2011	2,350
OLG Group	9		(2031)	1,800
ILGRP Group	B	Merger	2011	27,750
			(2031)	27,250
Operating revenue (2013-14)	$5.2m	TCorp assessment		Moderate FSR Neutral Outlook
ILGRP options (preference in bold)	**Merge with Griffith** (yellow) or Rural Council in Murrumbidgee JO (al shaded).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council meets the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is as good an option to achieve the scale and capacity objectives for the region.
- The proposed Rural Council Proposal is not as good as the ILGRP's preferred option to merge with Griffith. When compared to the merger, the council's small and declining population of 1,800 in 2031 means it is unlikely to cost-effectively provide services to the local communities and advocate and partner with government.
- Our analysis indicates the merger is a superior outcome for managing strategic issues along the Murrumbidgee River, such as agriculture and other primary industries. We also observe the merger will further promote the close economic and social ties between the two councils.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2023-24 and the building and infrastructure asset renewal ratios by 2019-20.
- The own source revenue ratio is forecast to increase from 48% in 2014-15 to 56% by 2019-20. Although just below the benchmark, the council meets the requirement for it to demonstrate improvement by 2019-20. With FAGs, the ratio increases from 70% in 2014-15 to 82% by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2017-18 of 15.6% cumulative over 2 years (10.5% above the rate peg).
- The improvement in operating performance is also driven by a $0.5m reduction in depreciation based on an external assessment by Jeff Roorda and Associates.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The reduction in its infrastructure backlog is driven by a recent revaluation (by Jeff Roorda and Associates) using more accurate condition assessments of council assets and levee bank works.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	There are two town centres (Darlington Point and Coleambally) to support its rural-based and agricultural industries. The impact of drought conditions has led to population decline in the past.
Community consultation	The council held community meetings in May 2013 (when the draft ILGRP report was released) and further meetings in April and May 2015. The council used online and paper based media to inform its community. The council stated the community feedback was for the council to stand alone.
Water and/or sewer	The council's compliance with the NSW Government Best Practice Management frameworks is 60% for water and 33% for sewerage. The council proposes to adopt strategies, which would increase compliance to 90% for water and 75% for sewerage, by 2019-20.
Submissions	There were no submissions received in relation to Murrumbidgee's proposal.

MUSWELLBROOK SHIRE COUNCIL – CIP

	FIT		
Area (km^2)	3,415	Population 2011	16,350
OLG Group	11	(2031)	19,350
ILGRP Group	Hunter		
Operating revenue (2013-14)	26.7m	TCorp assessment	Moderate FSR, Neutral Outlook
ILGRP option	Council in Hunter JO.		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's option to stand alone.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- The council is part of an effective regional collaboration of Hunter Councils demonstrating effective shared resource management.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building infrastructure and asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

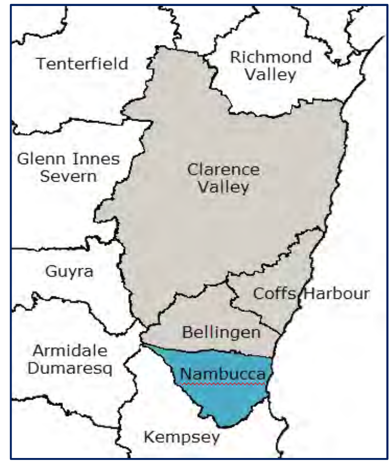
Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real operating expenditure per capita to reduce over the period to 2019-20.

Other relevant factors	
Social and community context	As the ILGRP suggests the council stand alone in a JO, the CIP does not address social or community concerns.
Community consultation	Aside from stating that consultation will occur prior to any future application for a Special Variation to Rates, there is no evidence that the council has conducted consultation relating to the Fit For The Future Process.
Water and/or sewer	The council has not provided evidence its water and sewer businesses currently pay, or would be able to pay, dividends. Consequently, the existence of these businesses only affect the councils' scale and capacity insofar as they allow the council to hire staff with a wider range of skills.
Submissions	No submissions were received on Muswellbrook's proposal.

NAMBUCCA SHIRE COUNCIL – CIP

	FIT		
Area (km^2)	1,491	Population 2011	19,529
OLG Group	11	(2031)	20,650
ILGRP Group	G		
Operating revenue (2013-14)	$21.4m	TCorp assessment	Weak FSR Negative Outlook
ILGRP option	Council in North Coast JO (all shaded).		



Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future - FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option.
- Our analysis has not identified evidence for a better alternative to the council's proposal.
- The council currently meets or partially meets most of the elements of scale and capacity.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio and the own source revenue ratios by 2019-20.
- The council's improvement in operating performance includes a $2.8m pa reduction in expenses due to changes in accounting policy, which we consider to be reasonable.
- The building and infrastructure asset renewal ratio was 70.4% in 2014-15 and improves to be 78.7% in 2019-20, peaking during the period at 106.8%. The 2019-20 result remains below the benchmark.
- In its proposal, the council relies on the successful application for and adoption of a special variation in 2017-18 of 3.5% cumulative (2.5% above the rate peg). This is in addition to an approved special variation from 2014-15 of 15% cumulative over three years (7.3% above the rate peg).

Infrastructure and service management - satisfies

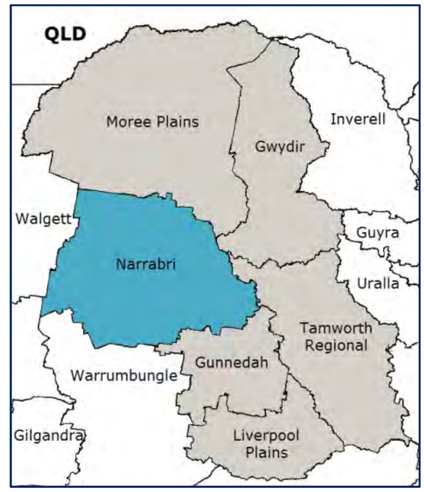
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council states it has revised the methodology for calculating the backlog ratio from the 2014-15 year onwards, which we consider to be reasonable.

Efficiency - satisfies

- The council meets the criterion for efficiency based on the real operating expenditure per capita showing a declining trend.

Other relevant factors	
Social and community context	Nambucca is located on the mid north coast of New South Wales. The council's main towns are Nambucca Heads, Macksville and Bowraville, in addition to key coastal settlements. It has an ageing population, with 32% over 65 years old. It is a lower income area with 38% earning less than $32,000 per year. The economy is driven by agriculture, forestry and fishing, with construction and retail also contributing significantly.
Community consultation	No details of community consultation were included in the proposal.
Water and/or sewer	Nambucca Shire Council operates water and sewerage utilities in the shire. The water supply infrastructure backlog is $14.0m. The sewerage infrastructure backlog is $27.7m.
Submissions	We received one confidential submission relating to the council's proposal.

NARRABRI SHIRE COUNCIL – CIP



	FIT			
Area (km^2)	13,000	Population	2011	13,450
OLG Group	11		(2031)	12,600
ILGRP Group	G			
Operating revenue ($2013-14)	$35.2m	TCorp assessment		Moderate FSR Negative Outlook
ILGRP option	Council in Namoi JO (all shaded).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not propose another option for this council, the council was not required to demonstrate how it met each of the elements of scale and capacity. It therefore did not provide sufficient information on the other elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- The council appears to have a limited ability to undertake new functions and major projects and acknowledges it has a shortage of skilled workers. However, it appears to have plans in place to improve its fiscal responsibility and improve the skills of the local community.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance and the own source revenue ratios, and is close to meeting the building and infrastructure asset renewal ratio by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2017-18 of 26.0% cumulative over 3 years (16.7% above the rate peg).
- The council's performance against this criterion is fairly strong particularly for an OLG Group 11 council, as it exceeds the own source revenue ratio from 2017-18 without the inclusion of FAGs and forecasts operating surpluses from 2016-17 onwards.

Infrastructure and service management - satisfies

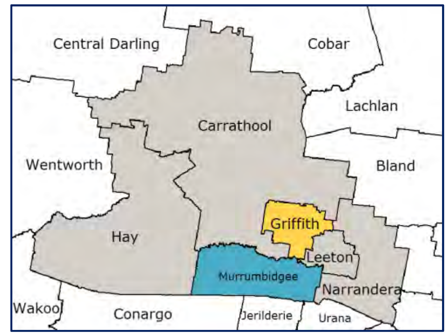
- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the asset maintenance and debt service ratios by 2019-20, and will be close to meeting the infrastructure backlog benchmark.
- The council has not detailed the strategies relating to the forecast changes in these measures.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.
- The council identified a range of annual recurrent efficiency savings which will total $1.35m from 2018-19, which contribute to improvement in this measure.

Other relevant factors	
Social and community context	Narrabri's main industries are agriculture and primary industries. The 2011 census indicated that sheep, beef cattle and grain farming, other crop growing, and agriculture and fishing support services were the largest sources of employment (20% of all responses).
Community consultation	In developing its proposal, the council conducted eight community consultation meetings, exhibited its draft improvement plan for public consultation, and interacted with the community via its Facebook page. All community submissions were reported to the council. However, we note no information was provided in the council's proposal in relation to the community's views on its proposal.
Water and/or sewer	Narrabri provides water and sewer services. The council currently does not meet the requirements of the NSW Government's Best Practice Management of Water Supply and Sewerage Framework. It is managing its water and sewer services on a break even basis. The council does not have any water or sewerage infrastructure backlog.
Submissions	We received four submissions related to Narrabri's proposal, which raised concerns about the council's management, financial performance, and poor community consultation.

NARRANDERA SHIRE COUNCIL – CIP



NOT FIT

Area (km^2)	4,175	Population 2011	6,100
OLG Group	10	(2031)	4,950
ILGRP Group	F	Merger 2011	17,500
		(2031)	16,250
Operating revenue (2013-14)	$15.1m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP options (no preference)	Council in Murrumbidgee JO (all shaded) or merge with Leeton (yellow).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy in order to be assessed as Fit for the Future.
- The council satisfies the financial criteria overall. Whilst it does not satisfy the efficiency criterion, it satisfies the sustainability and infrastructure and service management criteria.

Scale and capacity - does not satisfy

- The council did not sufficiently demonstrate how it would achieve scale or strategic capacity.
- The council is currently a participant in RAMROC which it indicated would be similar to a JO.
- The council's population is declining and is forecast to be 4,950 by 2031. Our analysis suggests the council has insufficient scale to deliver services for its community and to partner effectively with Government.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- The council opposed a merger with Leeton. Based on the business case submitted on a merger with Leeton Council, our analysis suggests the merger could produce benefits to the local communities of $16m over 20 years (including the $5m Government grant).
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, own source revenue ratio (with the inclusion of FAGs) and the building and infrastructure asset renewal ratio by 2019-20.
- For councils within OLG groups 8-11 we have assessed the own source revenue ratio with the inclusion of FAGs.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - does not satisfy

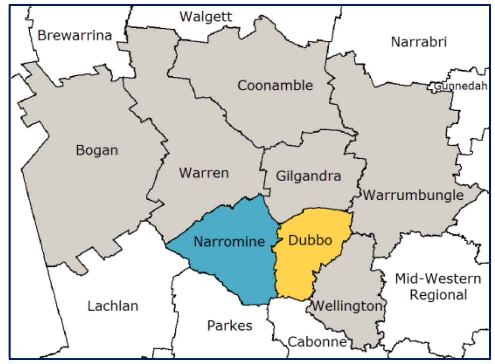
- The council does not meet the efficiency criterion based on its forecast for an increasing real operating expenditure per capita from $2,610 in 2014-15 to $2,640 in 2019-20.
- The council states it will be reviewing its provision of aged care (including a possible sale of the facility) and out of school care services in December 2015, as this may be the reason for the increase in the ratio.

Other relevant factors	
Social and community context	The council resolved to stand alone and did not address any social or community issues.
Community consultation	Narrandera conducted a community engagement process about the local government reform in 2013-14, lodging a submission to the ILGRP in March 2014. The submission noted the Narrandera community did not support a merger with Leeton.
Water and/or sewer	Narrandera operates water and sewer businesses and does not meet the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework Guidelines. Narrandera's water and sewer businesses reported a surplus (before capital) of $756,000 and $177,000 respectively in 2013-14. However, it reported a $450,000 backlog for each of its water and sewerage businesses. It states it has sufficient funds in reserve to fund these works and is undertaking further work to assess asset conditions.
Submissions	We received one submission in relation to Narrandera's proposal, in support of standing alone.

NARROMINE SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	5,224	Population	2011	6,850
OLG Group	10		(2031)	6,300
ILGRP Group	E	Merger	2011	47,100
			(2031)	52,800
Operating revenue (2013-14)	$13.0m	TCorp assessment	Moderate FSR Neutral outlook	
ILGRP options (no preference)	Council in Orana JO (all shaded) or merge with Dubbo (yellow).			



Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - does not satisfy

- The council's population is declining and is forecast to be 6,300 by 2031. Our analysis suggests the council has insufficient scale to deliver service for its community and to partner effectively with Government. Our findings are consistent with analysis by the ILGRP, which suggests councils with populations below 10,000 are unlikely to be of a sufficient size to deliver local council services effectively and efficiently.
- The council did not meet most of the elements of strategic capacity, because it did not demonstrate its proposal to stand alone was as good as or better than the merger with Dubbo, which would produce benefits for its community.
- Our analysis suggests the potential merger with Dubbo City Council would promote the existing economic and social ties between the two councils, and generate efficiencies. Given the council's relative size, its community is likely to be better off under a merger. We note Dubbo City Council's infrastructure and assets services surrounding councils and the broader Orana region.
- Given its small and declining population, the council is unlikely to be able to credibly advocate for its community.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.
- The council identified revenue and cost-saving opportunities (including $0.5m in depreciation based on more accurate assessments) which would help generate small surpluses from 2017-18 onwards.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency – satisfies

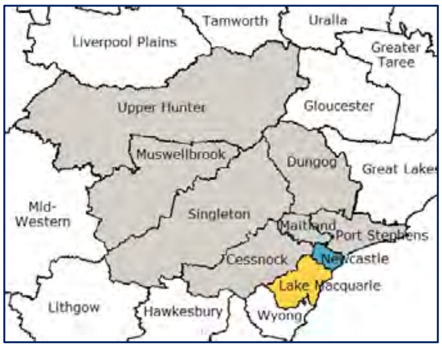
- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors

Social and community context	Narromine's economy is mostly based on agriculture. Around 21% of the residential population are indigenous Australians. The LGA is ranked as the 25th most disadvantaged LGA in NSW (out of 152 councils for SEIFA).

Other relevant factors	
Community consultation	The council has undertaken a reasonable amount of community consultation for its proposal. The council issued newsletters, held public meetings, released online and media publications and conducted an online survey. The results from the online survey showed that 53% of respondents supported the stand-alone council proposal and 47% did not (based on 59 completed surveys).
Water and/or sewer	The council is 100% compliant with the NSW Best Practice Management Framework. The council does not have any capital works greater than $1m. The utility businesses operate on a full cost recovery basis, and the council has identified around 30 initiatives to improve its performance. We note the council has a backlog of around $0.75m for its water and sewer business.
Submissions	There were no submissions received in relation to Narromine's proposal.

NEWCASTLE CITY COUNCIL – CIP



	NOT FIT		
Area (km^2)	187	Population 2011	155,550
OLG Group	5	(2031)	190,050
ILGRP Group	Hunter Councils	Merger 2011	352,350
		(2031)	407,900
Operating revenue (2013-14)	$223.6m	TCorp assessment	Moderate FSR, Negative Outlook

ILGRP options (preference in bold)

The ILGRP did not present a table of options for the Hunter region. Instead, it included a discussion of these councils in its report. The ILGRP indicated that "Newcastle and Lake Macquarie should be amalgamated."

Our approach to Hunter Councils is reflected in the table in our Methodology Paper and indicates the preferred option that Newcastle and Lake Macquarie:

Amalgamate or council in Joint Organisation (possible boundary changes).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity - does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 190,050 by 2031 compared with the forecast merger population of 407,900. Our analysis suggests the merger would have enhanced scale to partner effectively with governments compared to the merger option.
- Our analysis suggests the merger could generate significant benefits to the local communities over 20 years.
- The council suggests there would be barriers to the merger, such as the two councils having different growth strategies, service models, community characteristics and regional focus, and both having self-contained local transport modes.
- Our analysis and findings are consistent with the ILGRP final report which concluded the preferred option was for Newcastle to merge with Lake Macquarie.

Sustainability – satisfies

- The council satisfies the criteria for sustainability based on its forecast to meet the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewal ratios by 2019-20.
- The projected improvement is based on an approved special rate variation, efficiency improvements, increased revenue from commercial operations and asset sales.

Infrastructure and service management - satisfies

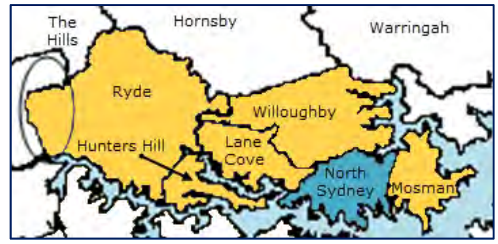
- The council meets the criteria for infrastructure and service management based on its forecast to meet the benchmarks for the asset maintenance ratio and debt service ratio by 2019-20.
- The council forecasts a significant improvement in its infrastructure backlog ratio to 3.0% by 2019-20 which is close to the benchmark.

Efficiency - satisfies

- Newcastle meets the criterion for efficiency based on a forecast decline in real opex per capita.

Other relevant factors	
Social and community context	Newcastle submits it and Lake Macquarie are distinct because Newcastle's LGA is based around a city while Lake Macquarie's LGA consists of a dispersed community with numerous villages.
Community consultation	Newcastle did not undertake community consultation specific to its Fit for the Future Proposal. It has analysed results from consultation undertaken during the ILGRP's review process, some of which was focused on the Hunter region. This research shows that, broadly, the majority of respondents from the Hunter region are opposed to council mergers.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received two submissions relating to Newcastle City Council's proposal. One referred to financial robustness being achieved through diversity. We also received one confidential submission. We received one late submission generally supporting larger councils and in particular a Hunter Coast Council for reasons including economies of scale and political significance.

NORTH SYDNEY COUNCIL – CIP



NOT FIT

Area (km²)	1	Population 2011	66,750
OLG Group	2	(2031)	85,750
ILGRP Group	Sydney Metro	Merger 2011	286,867
		(2031)	376,150
Operating revenue (2013-14)	$108.7m	TCorp assessment	Moderate FSR, Neutral Outlook

ILGRP options (preference in bold): **Merge with Hunter's Hill, Lane Cove, Mosman, North Sydney, Willoughby** (yellow) or combine as a JO.

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although it does not meet the efficiency criterion, the council satisfies the sustainability and infrastructure and service management criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 87,750 by 2031 compared with the forecast merger population of 376,150. Our analysis suggests the council does not have sufficient scale to partner effectively with the governments compared to the merger option.
- The City of Ryde Council, Hunter's Hill Council and Lane Cove Council submitted a business case which showed that a merger of Lane Cove, Hunters Hill, Mosman, North Sydney, Willoughby and part of Ryde produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $280 million over 20 years (including the Government grant).
- In addition, our independent consultants Ernst and Young estimated net benefits from the merger of around $187m over 20 years using publically available data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for North Sydney to merge with neighbouring councils.

Sustainability - satisfies

- The council meets the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, own source revenue ratio and building and infrastructure asset renewal ratio by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a special variation in 2019-20 of 7.0% cumulative (4.5% above the rate peg).

Infrastructure and service management - satisfies

- The council meets the criterion for infrastructure and service management based on it meeting the infrastructure backlog, asset maintenance and debt service ratio benchmarks by 2019-20.

Efficiency – does not satisfy

- The council does not satisfy the criterion for efficiency based on increasing real opex per capita of $1,240 in 2014-15 rising to $1,410 in 2019-20.

- To meet the benchmark, the council states it would need to reduce real operating expenditure by $32m over the five years to 2019-20. It does not intend to make such a reduction.

Other relevant factors	
Social and community context	The Morrison Low report notes communities are generally identified by suburb rather than LGA.
Community consultation	Polling results repeatedly show most North Sydney residents do not support council mergers. However, the extent of information provided to inform the community about the implications of these mergers is unclear.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received one submission in relation to North Sydney's proposal. It requested North Sydney remain a stand-alone council, noting that it is large enough. One late submission was received from a councillor, which included a petition with over 1,000 signatures opposed to the merger.

OBERON COUNCIL – CIP

	NOT FIT		
Area (km²)	3,594	Population 2011	5,200
OLG Group	10	(2031)	4,950
ILGRP Group	F	Merger 2011	45,150
		(2031)	56,500
Operating revenue (2013-14)	$12.0m	TCorp assessment	Sound FSR Negative Outlook
ILGRP options (no preference)	Merge with Bathurst (yellow) or council in Central West JO (all shaded).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- Oberon Council discussed merger options and boundary changes with Bathurst, Lithgow, and Blayney Shire Councils. Oberon found there were no advantages associated with these options and has opted to stand alone as part of the Central West JO.
- The council's population is declining and is forecast to be 4,950 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio by 2024-25 and the building and infrastructure asset renewal ratio based on its forecasts by 2019-20.

Infrastructure and service management – satisfies

- The council meets the criterion for infrastructure and service management based on its forecasts to meet the benchmarks for the asset maintenance ratio and debt service ratio by 2019-20.
- The council forecast its infrastructure backlog would reduce to 4.5% by 2019-20 which is close to the benchmark.

Efficiency - satisfies

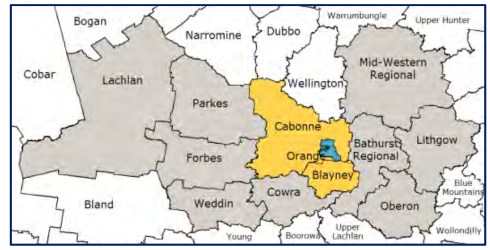
- The council meets the efficiency criterion based on a decrease in real operating expenditure per capita over the period.

Other relevant factors

Social and community context	Oberon considers itself to have closer links to the Blue Mountains, rather than western towns such as Bathurst.
Community consultation	Oberon undertook community consultation in April 2015 through a community information session based on a detailed Fit for the Future information package. Oberon's proposal notes its community is clearly of the view that it is better served by an independent, efficient local council.

Other relevant factors	
Water and/or sewer	Oberon’s Strategic Business Plan for Water Supply and Sewerage Services was completed in 2013 and it complies with the Best Practice Guidelines. Further, Oberon forecasts it will break even on its water and sewer operations by 2018-19 as a result of efficiencies. In addition, ongoing capital upgrades are scheduled as part of its improvement strategy along with increasing revenues.
Submissions	We received seven submissions in relation to Oberon’s proposal. Six oppose merging citing risks such as the loss of local focus and identity; reduced services; job losses, the lack of community support and increased factionalism associated with large councils. One submission notes the council’s good performance. One submission is neither for nor against merging and points out that the challenges facing the local area would not change if the council merges.

ORANGE CITY COUNCIL – CIP



	NOT FIT		
Area (km^2)	285	Population 2011	39,400
OLG Group	4	(2031)	46,250
ILGRP Group	E	Merger 2011	52,600
		(2031)	62,700
Operating revenue (2013-14)	$59.3m	TCorp assessment	Sound FSR, Negative Outlook
ILGRP options (preference in bold)	Council in Central West JO (all shaded) or **merge with Cabonne** and/or Blayney (yellow).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- Based on the business case submitted by Orange on a merger with Cabonne, our analysis suggests the merger could produce benefits of $27m over 20 years (including the Government grant). Morrison Low noted that the inclusion of Blayney in this merger would be expected to generate even higher benefits, although it did not research this option.
- Our analysis is consistent with the ILGRP's preferred option for Orange to merge.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio and the own source revenue ratio by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately 1.9 percentage points to -0.8% in 2019-20, which is below the benchmark. However, we consider the council has sufficient scope to adjust its revenue strategy to meet the benchmark.
- The council has forecast its building and infrastructure asset renewal ratio will be 60.3% by 2019-20, which is below the benchmark. We consider this is acceptable in the context of its performance against the other ratios.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency – satisfies

- The council meets the criterion for efficiency based on its forecast for declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The East Cabonne Ratepayers Association has been campaigning for boundary changes since 2011 to move the eastern parts of Cabonne into Orange Council. The Association supports a Cabonne-Orange merger
Community consultation	Blayney Shire and Cabonne Council resolved to submit stand-alone proposals, prior to Orange completing its community engagement. This meant the only option available to Orange was to stand-alone. Its survey found 63% believed Orange should merge with Cabonne and or Blayney Councils.
Water and/or sewer	Orange's water and sewer business is substantial with $500m of assets. Orange meets the NSW Government's Best Practice Management of Water and Sewerage Framework. The current infrastructure backlog is estimated at $1.8m. The large size of these businesses contributes to Orange's capacity and scale.
Submissions	We received one late submission in relation to Orange's proposal which opposed the merger option.

PALERANG COUNCIL – CIP

	NOT FIT			
Area (km^2)	5,147	Population	2011	14,850
OLG Group	11		(2031)	20,550
ILGRP Group	E	Merger	2011	54,850
			(2031)	79,050
Operating revenue (2013-14)	$25.5m	TCorp assessment		Moderate FSR Negative outlook
ILGRP options (preference in bold)	**Merge with Queanbeyan Council** (yellow) or council in South East JO (all shaded).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal would be at least as good at achieving the scale and capacity objectives for the region.
- The council's proposal to stand alone is not as good as the ILGRP's preferred option to merge with Queanbeyan. When compared to the merger, the council's population of 20,550 in 2031 means it is unlikely to provide services cost-effectively to the local communities and advocate credibly and partner with government.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- Our analysis of the business case jointly commissioned by Palerang and Queanbeyan Councils calculates the merger could provide benefits to the local communities of $51m (including a Government grant of $5m) over 20 years.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, building and infrastructure asset renewal and own source revenue ratios by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2016-17 of 40.0% cumulative over 5 years (24.0% above the rate peg).

Infrastructure and service management - satisfies

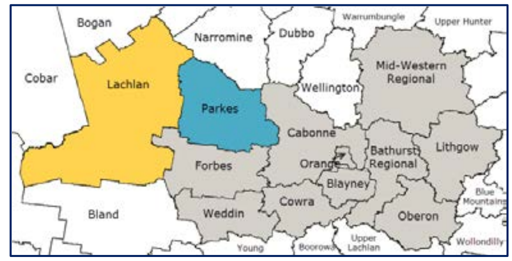
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Palerang notes it has two largely distinct socioeconomic groups - one which is within commuting distance of Canberra and has high levels of income and education, and the other which is predominately based on dispersed farming communities. The council's consultant noted a sense of identity may be a challenge to achieve under a merger due to the contrast between Queanbeyan City Council's large and prosperous regional centre and Palerang's largely dispersed rural population.
Community consultation	Palerang has undertaken the following community consultation: a web-based survey, random telephone survey, and community forums. Of its telephone survey of 1,100 respondents, 55% supported remaining a stand-alone council and 21% supported merging with Queanbeyan, with the remaining respondents preferring to merge with other councils. While this consultation appears to have been extensive, we note the flyer provided to the community did not acknowledge any potential benefits of a merger.
Water and/or sewer	Palerang notes it has been operating its water and sewer businesses on a cost recovery basis since 2007. A dividend was not paid for these services for 2013-14 and 2012-13. It notes it has no infrastructure backlog for these businesses following considerable work over the last 10 years.
Submissions	We received seven submissions on Palerang's proposal. Four of these submissions did not support the ILGRP merger, as they considered the council was performing well, the merger was unlikely to result in benefits for Palerang residents and would result in a loss of focus on rural issues and reduced representation. Of these submissions, two submissions indicated they more closely identified with other neighbouring councils (Yass Valley and Goulburn-Mulwaree). Two submissions supported the merger as they considered the consultation undertaken by Palerang was poor and the council was not financially viable. We also received one confidential submission.

PARKES SHIRE COUNCIL – CIP



FIT

Area (km^2)	6,021	Population	2011	15,100
OLG Group	11		(2031)	15,500
ILGRP Group	G	Merger	2011	21,800
			(2031)	21,000
Operating revenue (2013-14)	$22.6m	TCorp assessment		Sound FSR Moderate Outlook
ILGRP options (no preference).	Council in the Central West JO (all shaded) merge with Lachlan (yellow).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although it does not satisfy the efficiency criterion, it satisfies the sustainability and infrastructure and service management criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- The council has demonstrated skills in strategic planning, policy development and credibility to advocate.
- As the ILGRP did not have a preferred option for the council, the council was required to explore the merger option. The business case submitted by Parkes on a merger with Lachlan, suggests the merger could produce net benefits of $14.3m over 9 years (including the Government grant).
- While this evidence suggests a merger may be a better alternative to the council's proposal to stand alone, our finding is based on the proposal being consistent with the ILGRP option to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, the asset maintenance ratio and the debt service ratio by 2019-20.

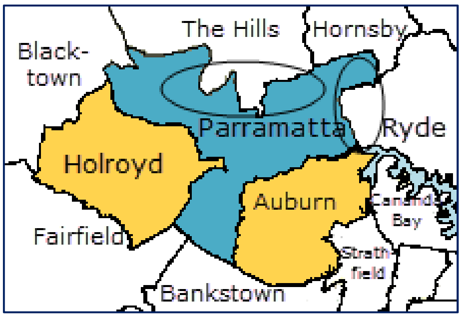
Efficiency – does not satisfy

- The council does not meet the criterion for efficiency based on its forecast for increasing real opex per capita over the period to 2019-20.

Other relevant factors

Social and community context	The proposal did not contain any relevant social and community context information for this criterion.
Community consultation	Parkes met with Lachlan to consider a merger, however, Lachlan decided against a merger due to its strong community opinion and public campaign against forced amalgamations.
Water and/or sewer	Parkes Shire states it has a large capital works program to be undertaken over the next 10 years in its water and sewer businesses. The works will be funded from existing cash reserves, government grants and borrowings. Parkes LTFP shows the water and sewer businesses will achieve a positive operating performance ratio of around 5% for water and around 15% for sewer by 2024-25.
Submissions	There were no submissions received in relation to Parkes' proposal,

PARRAMATTA CITY COUNCIL – CIP



	NOT FIT		
Area (km^2)	61	Population 2011	174,800
OLG Group	3	(2031)	253,900
ILGRP Group	Metro Sydney	Merger 2011	356,700
		(2031)	520,500
Operating revenue (2013-14)	$181.5m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP option (preference in bold)	**Merge with Auburn (yellow), Holroyd (yellow), Ryde** (part) and **The Hills** (part) and move northern boundary of Parramatta to M2 (balance The Hills to remain an individual council) **or** adjust Parramatta's boundaries to include parts of Ryde and The Hills and combine Auburn, Holroyd and Parramatta as a strong Joint Organisation.		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- Holroyd City Council submitted a business case by Morrison Low which showed a merger of Parramatta, Holroyd, Auburn, part of Ryde and part of The Hills produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $254m over 20 years (including the Government grant).
- In addition, our independent consultants Ernst & Young estimated net benefits from the merger of around $150m over 20 years using public data (not including the Government grant).
- All analyses showed large gains to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Parramatta to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 reserves would reduce the ratio by approximately 0.8 percentage points to 0.3% in 2019-20, which is still above the benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog and the asset maintenance ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council did not address this issue in its proposal.
Community consultation	Parramatta City Council undertook community consultation, including a phone survey in relation to the ILGRP proposed merger. Survey results indicate that respondents are satisfied with the performance of the council in its current form. A majority of respondents are somewhat supportive (27%), supportive (23%) or completely supportive (12%) of the merger proposal.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received four submissions relating to Parramatta's proposal. Three submissions were against council's alternative proposal to create a new 'global' city including areas such as Macquarie Park Shopping Centre, Macquarie University, Sydney Olympic Park and Epping and one supported mergers within the metropolitan area. In addition we received one late submission that did not support the merger.

PENRITH CITY COUNCIL – CIP

FIT

Area (km²)	405	Population 2011	184,600
OLG Group	7	(2031)	(261,450)
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$178m	TCorp assessment	Weak FSR Neutral Outlook
ILGRP options (preference in bold)	**No change** or combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, Blacktown, Hawkesbury, The Hills, Blue Mountains (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option for no change.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity. We note it has a robust revenue base and scope to undertake new functions and major projects.
- Our analysis has not identified evidence for a better alternative to the council's proposal.
- The council has entered into an agreement to form a strategic alliance with Blue Mountains City Council and Hawkesbury City Council. The agreement is aimed at sharing expertise in project management and design and improving economies of scale.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio and own source revenue ratio by 2019-20.
- The council meets the benchmark for the operating performance ratio based on a number of assumptions including the successful application for and adoption of a special variation from 2016-17 of 27.6% cumulative over 4 years (17.2% above the rate peg).
- The council forecasts improvement in the building and infrastructure asset renewal ratio over the period to 2019-20 but does not meet the benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20. These improve using funds from the assumed special variation.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on an improvement in its real opex per capita ratio through targeted efficiencies and projected population growth.

Other relevant factors

Social and community context	The council states it has a large youth population and growing older population. It states it is growing more culturally diverse, with more people speaking languages other than English at home. In 2011, the council had the third highest number of Aboriginal and Torres Strait Islander residents in NSW.
Community consultation	The council states it consulted with the community in 2014 as part of its capacity review. Although not focussed on the FFTF benchmarks, its states the capacity review addresses the same issues.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions received in relation to Penrith's proposal.

PITTWATER COUNCIL – CIP

NOT FIT

Area (km^2)	90	Population 2011	60,450
OLG Group	2	(2031)	(77,600)
ILGRP Group	Sydney Metro	Merger 2011	251,650
		(2031)	(307,000)
Operating revenue (2013-14)	$72.8m	TCorp assessment	Sound FSR Neutral Outlook
ILGRP options (preference in bold)	**Merge with Manly and Warringah Councils** (yellow) or combine as a strong JO with Manly and Warringah Councils.		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its improvement proposal was at least as good as the ILGRP merger option. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 77,600 by 2031 compared with the forecast merger population of 307,000. Our analysis suggests the council does not have sufficient scale to partner effectively with governments compared to the merger.
- Manly Council and Pittwater Council jointly commissioned a business case which showed that a merger of Manly, Pittwater and Warringah produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $116 million over 20 years (including the Government grant).
- Warringah Council also commissioned a separate business case of the merger. Based on this model, our analysis suggests the merger would produce net benefits of $265 million over 20 years (including the Government grant).
- In addition, our independent economic consultants Ernst and Young estimated net benefits from the merger of around $116m over 20 years using publically available data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Pittwater Council notes it held merger discussions with Manly and Warringah Councils but resolved to stand-alone because it considered it has strategic capacity. It also decided to not pursue a merger due to community opposition, the diverse socio-economic profiles of the merger councils, and concern that local priorities and financial sustainability would not be improved under a merger.
- We note community consultation undertaken by Pittwater and Manly councils indicated opposition to the ILGRP merger. However, Warringah's community consultation, which was undertaken across the three LGAs, indicated almost 70% of responses supported the ILGRP merger.
- Our analysis is consistent with the ILGRP's preferred option for Pittwater to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

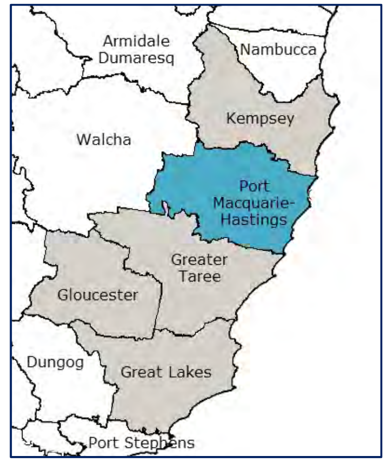
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the outlook period to 2019-20.

Other relevant factors	
Social and community context	Pittwater considers the merger councils have diverse socio-economic profiles and there is no evidence of a strong joint community of interest. Pittwater has a higher median age and lower population density than Manly and Warringah. The council also considers it has a stronger focus on the environment.
Community consultation	The council conducted a survey of 405 people, 58% did not support a “forced merger”, 28% supported the creation of two new councils (Greater Manly and Greater Pittwater), and 14% supported a merger with Manly and Warringah. We note the wording of the questions in the survey may have affected the results.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 47 submissions in relation to Pittwater’s proposal. Two of these were in favour of the ILGRP preferred option, as they considered the council’s management was poor and the merger would provide greater benefits. The majority of submissions opposed the ILGRP merger as they considered: the council was performing well, the merger is unlikely to lead to assumed efficiencies and is likely to be costly, and the merger would lead to a loss of local identity. Two late submissions were received, one which did not support the ILGRP merger and one which raised other issues. We also received four confidential submissions.

PORT MACQUARIE-HASTINGS COUNCIL – CIP



	FIT		
Area (km²)	3,682	Population: 2011	75,250
OLG Group	5	(2031)	90,800
ILGRP Group	G		
Operating revenue (2013-14)	$89.8m	TCorp assessment	Weak FSR Negative Outlook
ILGRP option	Council in Mid-North Coast JO (all shaded).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not propose another option for this council, Port Macquarie-Hastings Council was not required to demonstrate how it met each of the elements of scale and capacity. It therefore did not provide sufficient information on the other elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- The council participates in regional collaboration through MIDROC, and has partnered other levels of government and Charles Sturt University.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmark for the operating performance and own source revenue ratios by 2019-20.
- The council's forecast financial position relies in part, on the successful application for and adoption of a special variation from 2017-18 of 52.4% cumulative over 5 years (38.6% above the rate peg). This includes the continuation of an existing levy of 4.4%. It appears the council has not yet consulted its community on this proposal.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately one percentage point to 1.3% in 2019-20, which is still above the benchmark.

Infrastructure and service management – does not satisfy

- The council does not meet the criterion for infrastructure and service management based on its forecast of the infrastructure backlog ratio being 9.6% in 2014-15 and is forecast to improve to 7.1% in 2019-20, which does not meet the benchmark.
- The asset maintenance ratio was 49.8% in 2014-15 and is forecast to improve to 96.7% in 2019-20 which does not meet the benchmark.
- The council changed its asset condition assessment methodology to a risk-based approach. This led to a significant improvement in the backlog ratio from 2013-14 to 2014-15.

Efficiency - satisfies

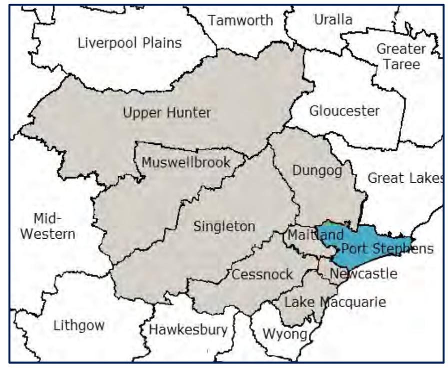
- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors

Social and community context	The council has submitted the area has a relatively high level of retirees. The main employment sectors are retail and hospitality with the area accommodating 1.6 million visitors annually.
Community consultation	Port Macquarie-Hastings has not indicated it has undertaken community consultation with regard to its Fit for the Future proposal.

Other relevant factors	
Water and/or sewer	Port Macquarie-Hastings stated its water and sewerage businesses meet the Best Practice Management Framework, and generally achieve an operating profit. The exceptions are in the year following an asset revaluation because of an associated increase in depreciation expense. The businesses have no infrastructure backlog in 2014-15.
Submissions	There were no submissions received in relation to Port Macquarie-Hastings' proposal.

PORT STEPHENS COUNCIL – CIP



FIT

Area (km²)	979	Population 2011	67,200
OLG Group	4	(2031)	88,900
ILGRP Group	Hunter		
Operating revenue (2013-14)	$98.9m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options	Council in JO (shaded area); further consideration of a possible transfer of some land to a merged Dungog Maitland LGA in the shorter term.		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- The council has a robust revenue base and has demonstrated effective regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council states it has revised the methodology for calculating the backlog ratio from the 2014-15 year onwards, which we consider to be reasonable.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real operating expenditure per capita reducing over the period to 2019-20.

Other relevant factors

Social and community context	The council's proposal does not address social or community concerns.
Community consultation	The council has not indicated it conducted community consultation for the FFTF proposal.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions received in relation to Port Stephen's proposal.

QUEANBEYAN COUNCIL – CIP

NOT FIT

Area (km^2)	172	Population	2011	40,000
OLG Group	4		(2031)	58,500
ILGRP Group	E	Merger	2011	54,850
			(2031)	79,050
Operating revenue (2013-14)	$48.9m	TCorp assessment		Moderate FSR Neutral Outlook

ILGRP options (preference in bold): **Merge with Palerang Council** (yellow) or council in South East JO (shaded area).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is as good as or better to achieve the scale and capacity objectives for the region.
- The council did not demonstrate its improvement proposal was at least as good as the ILGRP merger option. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- Queanbeyan's proposal is based on a Regional Services Model, which would involve the provision of back office functions for Palerang Council and a coordinating leadership role for neighbouring councils. This model generated better operating results for Queanbeyan than the merger, but limited details about how this model would work in practice and the impacts for Palerang were provided.
- A high level business case was provided for this model, but we were unable to calculate an NPV based on the information provided. We also note Palerang did not provide support for this shared services model in its proposal.
- Our analysis of the business case jointly commissioned by Palerang and Queanbeyan Councils calculates the merger could provide benefits of $51m (including a Government grant of $5m) over 20 years.
- Our analysis is consistent with the ILGRP's preferred option for Queanbeyan to merge.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, building and infrastructure asset renewal and own source revenue ratios by 2019-20.

Infrastructure and service management - satisfies

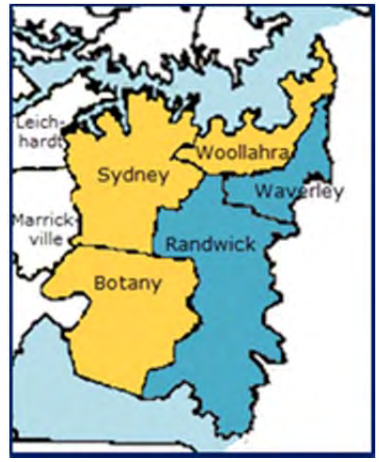
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on its forecast for a decline in real operating expenditure per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Queanbeyan notes Palerang Council has a more dispersed community, which identifies more closely with the Goulburn and Cooma council areas for shopping, schooling and health services than Queanbeyan. There is a contrast between Queanbeyan's prosperous regional centre and Palerang's largely dispersed rural population.
Community consultation	Queanbeyan notes there was overwhelming community support for remaining a stand-alone council under the Regional Service Provider model, compared to remaining stand-alone or a merger with Palerang Council. However, no further details of the outcome or process for consultation were provided.
Water and/or sewer	Queanbeyan provides water and sewer services. These services are not currently being managed on a break-even basis. It is currently not meeting the Best Practice Management of Water Supply and Sewerage Framework, but it expects to over 2015-16. No dividend was paid for these services for both 2012-13 and 2013-14. A number of significant capital projects for water and sewer will also need to be undertaken out to 2020-21, including a $100m sewer treatment plant upgrade.
Submissions	We received two submissions on Queanbeyan's proposal from two community groups based in Palerang. These submissions did not support the ILGRP's merger as they considered the merger was unlikely to result in benefits for Palerang residents and would result in a loss of focus on rural issues. One submission also noted it was unclear if any council would purchase services from Queanbeyan under its Regional Services Model and Queanbeyan faced financial risks due to its large infrastructure backlog and population growth pressures.

RANDWICK CITY COUNCIL AND WAVERLEY COUNCIL – MERGER PROPOSAL



	FIT	
	Waverley Council:	Randwick City Council:
Area (km^2)	9.2	36.3
OLG Group	2	3
ILGRP Group	Sydney Metro	Sydney Metro
Population 2011	68,700	137,800
(2031)	82,150	174,300
Proposed merger 2011	206,500	206,500
(2031)	256,450	256,450
ILGRP merger 2011	487,600	487,600
(2031)	653,250	653,250
Operating revenue (2013-14)	$113.2m	$128.5m
TCorp assessment	Moderate FSR Positive Outlook	Sound FSR Positive Outlook
ILGRP options (preference in bold)	**Merge with Randwick, Botany Bay, Woollahra and Sydney** (yellow) or combine as strong JO.	**Merge with Waverley, Botany Bay, Woollahra and Sydney** (yellow) or combine as strong JO.
Assessment summary	Scale and capacity	**Satisfies**
	Financial criteria:	**Satisfies overall**
	• Sustainability	Satisfies
	• Infrastructure and service management	Satisfies
	• Efficiency	Satisfies

Fit for the Future – FIT

- The merger proposal for Randwick City Council (Randwick) and Waverley Council (Waverley) meets the scale and capacity criterion.
- The councils' merger proposal also satisfies the financial criteria overall. It satisfies the criteria for sustainability, infrastructure and service management and efficiency.

Scale and capacity – satisfies

- We have assessed the merger of Randwick and Waverley as fit because:
  - It does not preclude the ILGRP's preferred option of a Global Sydney Council, should the Government wish to pursue this option at some point in the future.
  - It was the best available option for these councils given neighbouring councils did not wish to join the merger proposal.
  - It builds on existing collaborations between Waverley and Randwick, which share communities of interest and similar geography.
  - It would deliver substantial benefits to their local communities when compared to the councils standing alone, including estimated cost savings of $16m per annum according to council data, and an improvement in the operating performance ratio (OPR) from 1.7% in 2014-15 to 11.4% in 2019-20, mainly driven by efficiencies from the merger. The improvement in the OPR is significant.
- The councils submitted a business case which showed a merger of Randwick and Waverley produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $139 million over 20 years (including the Government grant).
- Our analysis suggests there could be significantly higher benefits if neighbouring councils were included in the merger proposal.
- In particular, under the Randwick-Waverley business case, our analysis suggests:
  - including Woollahra and Botany Bay councils in the merger proposal could produce net benefits of $384 million over 20 years (including the Government grant), and
  - including Woollahra, Botany Bay and City of Sydney in the merger proposal could produce net benefits of $416 million over 20 years (including the Government grant).

- Waverley and Randwick have indicated they would prefer not to have the City of Sydney included in the merger proposal.
- Both Randwick and Waverley have also indicated they each have a preference for merging with only one neighbouring council.
- We note Woollahra submitted research papers that questioned the achievability of the benefits modelled for a merger including them and argued a merger could entail additional wage costs.

Sustainability - satisfies

- The proposed merger satisfies the criterion for sustainability as the councils' forecast they will be above the benchmarks for:
  - the operating performance ratio (improving from 1.7% in 2014-15 to 11.4% by 2019-20), and
  - the own source revenue ratio and building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

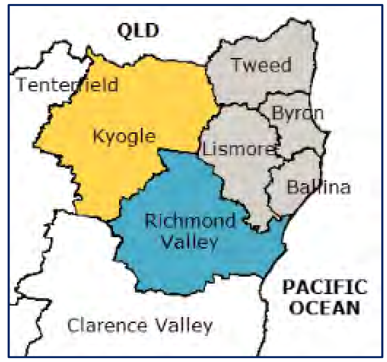
- The proposed merger satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The proposed merger satisfies the criterion for efficiency based on declining real opex per capita over time.

Other relevant factors	
Social and community context	Randwick and Waverley share similar demographics and economic, social and environmental characteristics. Both councils receive many tourists as well as recreational visitors to key health and education centres. For example, the councils indicate that 9.7m people visited beaches in the area of Randwick in 2013-14. Bondi Junction and the Randwick Health and Education precinct are key strategic centres and would likely benefit from more coordinated management under a merger.
Community consultation	The councils informed their communities of the FFTF process and proposed merger through advertisements, social media, websites, briefing sessions, pop-up stalls, and newsletters and mailed information packs. Feedback from surveys and focus groups indicates that most respondents preferred their councils to stand alone as a first preference. However, if amalgamations were to occur, 90% of Randwick respondents preferred an Eastern suburbs council rather than Global Sydney. Similarly, 32% of Waverley residents would choose a merger with Randwick should amalgamations need to occur. We note the preamble to Randwick's survey did not identify any benefits for the Global Sydney merger although the information pack did.
Water and/or sewer	The councils do not have a water/sewer business.
Submissions	We received 17 submissions in relation to the Randwick and Waverley proposal including one submission on behalf of 5 councillors from Waverley. We also received one late submission and three early submissions. Most submissions indicated they were not supportive of the merger with Waverley, nor of the Global Sydney merger. Varied reasons were given including lack of consultation, a loss of local focus and identity, reduced services and higher rates. The submissions also indicated the councils were performing well.

RICHMOND VALLEY COUNCIL – CIP



	FIT			
Area (km^2)	3,058	Population	2011	22,700
OLG Group	4		(2031)	25,150
ILGRP Group	G	Merger	2011	32,350
			(2031)	35,000
Operating revenue (2013-14)	$27.6m	TCorp assessment		Moderate FSR Neutral Outlook
ILGRP options (no preference)	Council in Northern Rivers JO (shaded area) or merge with Kyogle.			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- We consider the council currently meets or partially meets most of the elements of scale and capacity.
- The council's proposal is consistent with the ILGRP's option to stand alone.
- The council considered a merger with Kyogle but rejected it on the basis that it would not improve its financial strength. We have been unable to assess this alternative because the councils did not prepare a business case or provide any detailed information for the merger.
- While a merger with Kyogle may benefit the system of Local Government as a whole, given its relative size, further work is needed to determine if Richmond Valley residents would be better off under a merger. We do not have sufficient evidence to evaluate the costs and benefits of the merger option for Richmond Valley compared to the stand alone proposal.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.
- The council indicates several strategies which assist its improvement against the benchmarks, including holding operating expenses constant in nominal terms over the past three years and a 2% salary and wages efficiency dividend since 2013-14. However it is not clear how this dividend would work in relation to existing award wage rates.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council has completed a review of its asset base and implemented an updated asset condition model based on revaluations. This has resulted in a reduction in the infrastructure backlog ratio since 2012.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on its reducing real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Richmond Valley's largest town is Casino, which accommodates 50% of the population. The area's demographics are changing, with growth in younger, higher socio-economic groups. The council has a strong agricultural base but diversification is occurring with the proposed development of an intermodal rail freight handling facility.
Community consultation	The council's improvement plan is based on previous consultation undertaken with the community in development of its IP&R documents and special variation application.
Water and/or sewer	Richmond Valley is currently compliant with the best practice management framework. Its infrastructure backlog was $7.5m in 2013-14 and expected to reduce to $5m in 2014-15. The council has achieved full cost recovery for both local water utility businesses since 2004.
Submissions	We received seven submissions (including 4 late submissions) relating to Richmond Valley's proposal. These raised issues including questioning the evidence that merging two financially weak councils (Richmond Valley and Kyogle) would lead to better outcomes for the State and ratepayers. They also questioned the lack of community consultation by the State in developing the criteria for councils to be Fit For the Future.

ROCKDALE CITY COUNCIL – CIP

NOT FIT

Area (km^2)	28	Population	2011	103,500
OLG Group	3		(2031)	134,350
ILGRP Group	Metropolitan Sydney	Merger	2011	390,300
			(2031)	497,500
Operating revenue (2013-14)	$75m	TCorp assessment	Moderate FSR Neutral Outlook	
ILGRP option (preference in bold)	**Merge with Canterbury, Kogarah and Hurstville** (blue and yellow) or Combine as strong JO, also including Sutherland (grey) **and** adjust Rockdale boundary at airport.			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits such as delivering infrastructure in accordance with the South Subregion plan, and managing the Georges River catchment.
- The council's population is forecast to be 134,350 by 2031 compared with the forecast merger population of 497,500. Our analysis suggests that the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The council submitted a business case which showed that a merger of Canterbury, Kogarah, Hurstville and Rockdale produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $280m over 20 years (including the Government grant).
- In addition, our independent consultants Ernst and Young estimated net benefits from the merger of $172m over 20 years using public data.
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Rockdale to merge with neighbouring councils.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council's improvement is based on the continuation of a special variation in 2013 (3% above the rate peg) for asset renewals, and lower depreciation costs arising from an external review of the council's asset management practices by Morrison Low.

Infrastructure and service management - satisfies

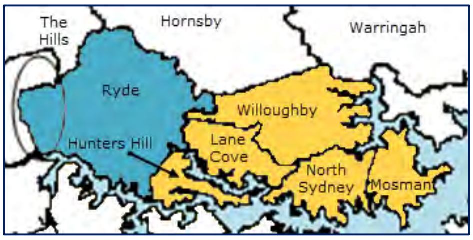
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the outlook period to 2019-20.

Other relevant factors	
Social and community context	Rockdale has a culturally diverse population. Around 50% of its residents were born overseas and 60% of its residents speak a language other than English at home.
Community consultation	The council consulted on merger options with its community. This included four merger options with different combinations of the ILGRP preferred merger councils, the Airport Councils merger (with Botany Bay and Marrickville councils), and its proposal to be a stand-alone council. There were almost an equal number supporting the stand alone proposal (35%) and a St George council merger (but with Hurstville and Kogarah only).
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received four submissions about Rockdale's proposal. Three submissions objected to the boundary change proposal to exclude the Sydney Airport area. We also received one confidential submission.

CITY OF RYDE COUNCIL – CIP



NOT FIT

Area (km^2)	40	Population 2011	108,700
OLG Group	3	(2031)	153,600
ILGRP Group	Sydney Metro	Merger 2011	286,867
		(2031)	376,150
Operating revenue (2013-14)	$96.1m	TCorp assessment	Sound FSR Negative Outlook

ILGRP options (preference in bold): **Merge with Hunters Hill, Lane Cove, Mosman, North Sydney, Willoughby** (yellow) or combine as a JO

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal for a JRA can be realised under the merger option, and the merger option could provide further benefits.
- The council's population is forecast to be 153,600 by 2031 compared with the forecast merger population of 376,150. Our analysis suggests that the council does not have sufficient scale to partner effectively with the governments compared to the merger option.
- The council submitted a business case which showed that a merger of Lane Cove, Hunters Hill, Mosman, North Sydney, Willoughby and part of Ryde produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $280 million over 20 years (including the Government grant).
- In addition, our independent consultants Ernst & Young estimated net benefits from the merger of around $187m over 20 years using publically available data.
- These analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- As an alternative to a merger, Hunters Hill, City of Ryde and Lane Cove councils submitted a common proposal to create a Joint Regional Authority (JRA). According to the councils, this would provide the benefits of shared services and centralised planning and development without the disruption of a merger. It would generate net benefits over 15 years of $0.5m, or $3.4m if it also included Mosman, North Sydney and Willoughby. The proposal does not fully quantify any efficiency savings that may also eventuate under the JRA. The preferred merger is likely to provide a higher level of efficiency savings than the JRA.
- Our analysis is consistent with the ILGRP's preferred option for Ryde to merge.

Sustainability - satisfies

- The council satisfies the sustainability criterion based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

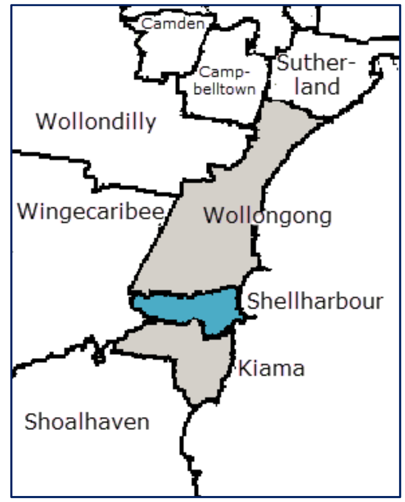
- The council satisfies the infrastructure and service management criterion based on its forecast to meet the benchmarks for the infrastructure backlog ratio, asset maintenance ratio and debt service ratio by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based its forecast for a decline in real operating expenditure per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council states its community of interest is with northern Sydney rather than Parramatta and its community supports retaining the Ryde identity. Ryde has a highly multicultural community and this creates identity and communities of interest around culture which is not reported as evident to the same extent in neighbouring local government areas.
Community consultation	The council states it engaged with residents over 24 months and that residents strongly oppose forced merger or the proposal to split the LGA. According to the council, the community supports the need for local representation, decision makers' knowledge of local needs and council being accessible and accountable. The council states that 80% of its residents support the JRA proposal. Recent surveys show 83% of respondents oppose splitting the council into two new councils.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received five submissions in relation to Ryde's proposal. Two oppose merging because of the council's good performance, the absence of a mandate for merging, the lack of evidence that a merger would produce benefits, concern about the effect on land values if Ryde merges with Parramatta and because the FTFF process did not prioritise ecological sustainability. One supports a merger and one questions the performance of the council. We also received one confidential submission. One late submission was received stating mergers overseas have been disastrous.

SHELLHARBOUR CITY COUNCIL – CIP



NOT FIT

Area (km^2)	147	Population 2011	66,200
OLG Group	4	(2031)	84,250
ILGRP Group	Illawarra		
Operating revenue (2013-14)	$69.3m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP option	Council in Illawarra JO (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion based on its forecast for a negative operating performance ratio by 2019-20.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FFTF) councils must meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements of scale and capacity. In particular, the council has a robust revenue base and has demonstrated effective regional partnerships.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – does not satisfy

- The council does not satisfy the sustainability criterion. It does not meet the benchmarks for the operating performance ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council's operating performance ratio was -12.2% in 2014-15 and is forecast to be -0.8% by 2019-20. We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately 2.6 percentage points to -3.4% in 2019-20, which is further below the benchmark.
- The building and infrastructure asset renewal ratio was 50.9% in 2014-15 and is forecast to be 70.5% in 2019-20. However, this does peak at a relatively high ratio of 131.14% in 2016-17.
- The council has forecast it will meet the benchmark for the own source revenue ratio by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the infrastructure and service management criterion based on its forecast to meet the benchmarks for the infrastructure backlog ratio and debt service ratio by 2019-20.
- The council has forecast improvement close to benchmark in the asset maintenance ratio throughout the period to 2019-20.

Efficiency – satisfies

- The council meets the efficiency criterion based on a decrease in real operating expenditure per capita to 2019-20. However, we note this decrease is relatively small and the council's performance is inconsistent over the outlook period.

Other relevant factors	
Social and community context	Shellharbour is a growing LGA with a 27% population increase forecast over the next 20 years. It is close to major port facilities at Port Kembla and within 100km of major metropolitan areas at Wollongong, Sydney and Canberra. The council has actively collaborated with neighbouring councils Wollongong, Shoalhaven and Kiama and has formed a JO with them.
Community consultation	The council's proposal notes its community engagement strategy included elements of its action plan in response to Fit for the Future. There is no further information on how these elements were addressed.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received one confidential submission regarding the council's proposal.

SHOALHAVEN CITY COUNCIL – CIP

	FIT			
Area (km²)	4,660	Population	2011	96,200
OLG Group	5		(2031)	108,150
ILGRP Group	G			
Operating revenue (2013-14)	$138.4m	TCorp assessment		Sound FSR Negative Outlook
ILGRP option	Council in South East JO (shaded area).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, the council has demonstrated the ability to undertake major regional projects and effective regional collaboration with the Illawarra councils and the Southern Council Group.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance and own source revenue ratios by 2019-20.
- The council relies on the successful application for and adoption of a special variation from 2017-18 of 21.0% cumulative over 2 years (15.9% above the rate peg).
- Our analysis shows that the operating performance ratio is overstated since $2.4m in interest on section 94 reserves has been included in the operating result. If the operating performance ratio is adjusted for Section 94 interest income, the revised ratio is approximately 1.3 percentage points lower each year than the council's forecasts (based on 2012-13 data). Shoalhaven may not meet the benchmark in 2019-20 based on this analysis. However, we consider the council has sufficient scope to adjust its revenue strategy to enable it to meet the benchmark.
- The building and infrastructure asset renewal ratio was 64.9% in 2014-15 and is forecast to be 66.5% in 2019-20, which is below the benchmark. The council claims depreciation is occurring faster than renewals are required and its current level of expenditure is appropriate.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management, as it is forecast to meet the infrastructure backlog and debt service benchmarks by 2019-20.
- The asset maintenance ratio was 95.8% in 2014-15 and is forecast to fall to 83.7% in 2019-20, which is below the benchmark.

Efficiency – satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the outlook period to 2019-20.

Other relevant factors	
Social and community context	Shoalhaven notes that if it were to merge with adjoining councils, the distances for effective management would be excessive and the social and economic mixes would be quite different. No further relevant detail was provided in its proposal in relation to this factor.
Community consultation	The proposal did not provide any details of community consultation.
Water and/or sewer	Shoalhaven Water is one of the largest local government water authorities in NSW. Its water and sewer funds achieve operating surpluses. The amount of dividend paid to the General Fund is approximately $2.5m per annum. A dividend was paid for Shoalhaven's water and sewer businesses in 2011-12, 2012-13 and 2013-14.
Submissions	There were no submissions were received in relation to Shoalhaven's proposal.

SINGLETON COUNCIL – CIP

	FIT		
Area (km^2)	4,893	Population 2011	23,500
OLG Group	4	(2031)	27,350
ILGRP Group	Hunter		
Operating revenue (2013-14)	$32.2m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP option	Council in Hunter JO (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building infrastructure and asset renewal ratio by 2019-20.
- The council's proposal relies in part on the successful application for and adoption of a special variation from 2016-17 of 45.1% cumulative over 4 years (34.7% above the rate peg).
- The council has also proposed shared services such as library management systems, companion animal activities and health and building inspection services which contribute to the improvement in its sustainability.
- The council's approved special variation in 2014-15 of 7.3% (5% above the rate peg) permanently has assisted in this improvement.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council has been active in reducing the backlog by securing additional loan funding through the Local Infrastructure Renewal Scheme (LIRS) program ($4m), as well as the SV approved in 2014-15 for transport infrastructure.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real operating expenditure per capita reducing over the period to 2019-20.
- The council's declining result appears to be in line with it stating that no new services are being considered and the forecast for a low population increase.

Other relevant factors	
Social and community context	As the ILGRP option was for the council to be in the Hunter JO, its CIP does not address any social or community concerns.
Community consultation	The council has undertaken community consultation over the prior years in relation to council's provision of services, policies and strategies, but there appears to have been little consultation in relation to FFTF. The council states it has undertaken a 5 day workshop with the councillors in relation to the FFTF.
Water and/or sewer	Singleton Council operates water and sewer businesses. Water and sewer funds reported a surplus for 2013-14 of $704k and $1.2m respectively. The estimated cost to bring assets to a satisfactory standard is reported to be $5.7m, however, it states that it has sufficient restricted funds to cover this cost. The shortfall of annual maintenance is reported to be $3.6m.
Submissions	There we no submissions received in relation to Singleton Council's proposal.

SNOWY RIVER SHIRE COUNCIL – CIP

NOT FIT

Area (km²)	6,029	Population	2011	7,750
OLG Group	10		(2031)	8,650
ILGRP Group	D	Merger (3 councils)	2011	20,400
			(2031)	21,600
Operating revenue (2013-14)	$21.1m	TCorp assessment		Moderate FSR Negative Outlook
ILGRP options (no preference)	Council in South East JO (shaded area) or merge with Bombala/Cooma-Monaro.			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, the council does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion because its forecast to meet the operating performance ratio benchmark includes the assumed approval of a large proposed special variation which may be unreasonable.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all FFTF councils should meet, therefore the council is not fit.

Scale and capacity - does not satisfy

- The council's population is forecast to be 8,650 by 2031 based on DP&E data and slightly higher with council forecasts. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments. Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- Most of the efficiency strategies from the council improvement proposal could be realised in addition to the merger gains under the merger alternative.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- Our analysis of a business case for a merger of Snowy River, Cooma-Monaro and Bombala Councils and commissioned by these three councils suggests the merger could generate benefits to the community of $22m over 20 years (including the Government grant). This represents larger benefits than the three councils' share services arrangement and suggests merging is likely to be better than Snowy River's proposal to stand-alone.
- Our analysis is consistent with the ILGRP, which suggested there would be benefits from the option of Snowy River merging with Cooma-Monaro and Bombala councils.

Sustainability – does not satisfy

- The council does not satisfy the sustainability criterion. The council's operating performance ratio was -14% in 2014-15 and is forecast to reach 3% by 2024-25. The council relies on the successful application for and adoption of two large special variations from 2016-17. Together these are 95.8% cumulative over 10 years (67.8% above the rate peg).
- Our analysis suggests this assumption may not be reasonable. As the council is limited to seven years of increases, we note the first seven years would accumulate to 69% (50% above the rate peg). In addition, the council's average residential rates in 2013-14 were 23% higher than the OLG group average.
- The council has forecast it will meet the benchmark for the own source revenue ratio and the forecast shows improvement in the building and infrastructure asset renewal ratios by 2019-20.

Infrastructure and service management - satisfies

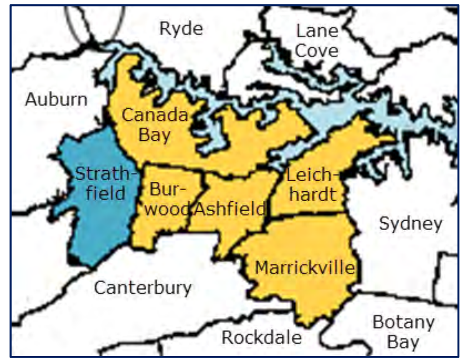
- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the asset maintenance and debt service ratios by 2019-20.
- The infrastructure backlog was 9.7% in 2014-15 and is forecast to reach 7.1% by 2019-20. While this result shows improvement, it remains above the benchmark in 2019-20.
- The council changed its approaching to measuring the infrastructure backlog. This caused the backlog to fall significantly. Nevertheless, the forecast for the infrastructure backlog ratio does not meet the benchmark and there is relatively minor improvement in this ratio over the outlook period.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	The Snowy River LGA is on the eastern slopes of the Snowy Mountains ranges and Kosciuszko National Park, and extends over hilly farmland. The median age is 38 and the accommodation industry is the main employer. Sheep, beef and grain farming constitutes 6.7% of employment.
Community consultation	The council consulted with the community via fliers, community meetings and media releases. It completed a phone survey, which shows: • 66% of respondents preferred the stand-alone option, and • 31% of respondents preferred the merger option. The reasons provided for wanting to stand alone include a desire for locally provided services, better representation and responsiveness to local issues. The council also conducted an online survey. Of the 506 respondents, 60% preferred the stand-alone option. Community forums in four towns indicated around 82% of attendees also supported this option. We note these types of survey are subject to self-selection bias.
Water and/or sewer	Snowy River Shire Council states its water and sewerage business meets the NSW Government Best Practice Management Framework and at break-even, and currently has an infrastructure backlog of $16.3m. We consider the water and sewerage operations may affect the council's scale and capacity insofar as it allows the council to employ specialist staff.
Submissions	We received one submission from the Eucumbene Chamber of Commerce, opposing Snowy River Council's intention to close the Adaminaby pool because this would be economically inefficient, ineffective and inequitable. In a meeting, the council made the following points: • The council would prefer to stand-alone and emphasised the community's support for this preference. • In a merger scenario, the council is concerned the performance of the stronger council would trend towards that of the weaker council. Accordingly, if the council is required to merge, it would prefer to be the lead party in any such merger. • If the council is required to merge with just one council, its first preference would be to merge with Bombala Council.

STRATHFIELD MUNICIPAL COUNCIL – CIP



	NOT FIT		
Area (km^2)	14	Population 2011	37,250
OLG Group	2	(2031)	50,900
IGLRP	Metro	Merger 2011	331,800
		(2031)	433,000
Operating revenue (2013-14)	$30.9m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP options (preference in bold)	**Merge with Ashfield, Burwood, Canada Bay, Leichhardt and Marrickville** (yellow) or combine as strong Joint Organisation (JO).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria overall:	**Satisfies**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although it does not meet the efficiency criterion, the council satisfies the sustainability and infrastructure and service management criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 50,900 by 2031 compared with the forecast merger population of 433,000. Our analysis suggests the council does not have sufficient scale to partner effectively with governments compared to the merger.
- The other Inner West councils submitted a business case which showed a merger of Strathfield, Ashfield, Burwood, Canada Bay, Leichardt and Marrickville produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $396m over 20 years (including the full Government grant).
- In addition, our independent economic consultants have estimated net benefits from the merger of around $194m over 20 years using publically available data.
- All analyses showed large gains to the local community from a merger. Variances in calculations result from different inputs and underlying methodologies.
- The council is subject to an OLG performance improvement order due to evidence of serious deficiencies in its procurement and purchasing systems.
- Our analysis is consistent with the ILGRP's preferred option for Strathfield to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the sustainability criterion. It is forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council's forecasts rely on a number of assumptions, including the successful application for and adoption of a special variation in 2017-18 of 10.0% cumulative (7.5% above the rate peg).

Infrastructure and service management – satisfies

- The council satisfies the infrastructure and service management criterion as it meets the infrastructure backlog and asset maintenance benchmarks by 2019-20.
- The council does not meet the debt service ratio benchmark. The council has a "no debt" policy.

Efficiency – satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the outlook period to 2019-20.

Other relevant factors	
Social and community context	Strathfield notes there is a perception in the local community there would be significant loss of identity in the case of a merger. Strathfield notes a merger would involve a significant reduction in representation of its area in a larger merged council and make it much harder to effectively engage with councillors.
Community consultation	'Local identity' was identified as being important by over 70% of respondents to a telephone and online survey. Strathfield Municipal Council conducted a number of surveys on two options (stand-alone or Inner West merger). 81.4% (164) of respondents supported Strathfield as a stand-alone council in a telephone survey and 85.4% (687) in an online survey. Flyers were sent to residents regarding the outcomes of Morrison Low's analysis. This drew 701 responses with over 95% opposing an Inner West merger. The information pack and flyers focused more on the negative impacts of the merger and this is reflected in the higher level of opposition to the Inner West merger than the previous two surveys.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 204 submissions in relation to Strathfield's proposal. Of these submissions, 60 rejected the merger. The main reasons for opposition included satisfaction with council's performance, loss of local identity and focus, reduced representation and services, increased rates and that there is no evidence residents will be better off under a merger. Two submissions were in support of merging based on Strathfield Council's merger campaign being self-serving and the need for new councillors and council staff. One late submission was received which did not support the merger. The majority of submissions were from letters submitted by Strathfield residents opposed to Bankstown's proposal of a boundary adjustment to take over the southern portion of Strathfield Council. The form letter (and variations of the form letter) raised issues including: • lack of consultation on the boundary change • satisfaction with Strathfield Council's performance • do not identify with Bankstown • reduced representation, and • rate increases and declines in services/facilities. Strathfield Council made a submission regarding the boundary change raising issues including no justification to alter boundaries, no benefit for residents and businesses, loss of representation for residents, not supported by the community, different demographics and rate increases.

SUTHERLAND SHIRE COUNCIL – CIP

FIT

Area (km^2)	334	Population 2011	220,250
OLG Group	3	(2031)	267,750
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$195m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options (preference in bold)	**No change** or combine as strong Joint Organisation with Canterbury, Rockdale, Kogarah, Hurstville (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, it has a robust revenue base and scope to undertake new functions and major projects.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio and the own source revenue ratio by 2019-20. The building infrastructure and asset renewal ratio is forecast to be slightly below the benchmark by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 reserves would reduce the ratio by approximately 1.7 points to -1.4% in 2019-20 which is below the benchmark. However, we consider the council has sufficient scope to adjust its revenue strategy to meet the benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

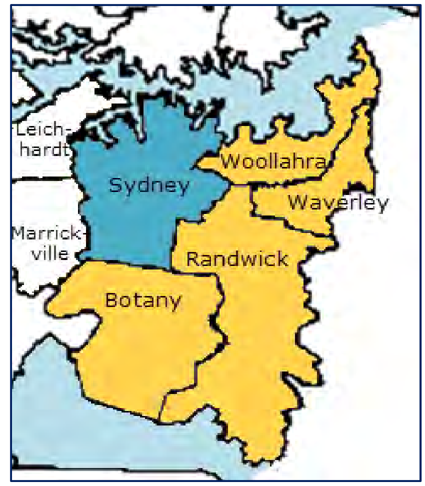
Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the outlook period to 2019-20.

Other relevant factors

Social and community context	Sutherland is south of the Sydney central business district. About half the area is national parks and bushland while the urban area is around $180km^2$. The council receives 1.1m visitors annually. Its population is the second largest of all NSW local government areas.
Community consultation	The council's proposal did not outline its community consultation process for Fit For The Future.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received one submission relating to Sutherland's submission, indicating general support for mergers, providing numbers of councillors and staff were reduced to realise savings.

THE COUNCIL OF THE CITY OF SYDNEY – CIP



NOT FIT AS A GLOBAL CITY COUNCIL

Area (km^2)	27	Population 2011	183,300
OLG Group	1	(2031)	273,500
ILGRP Group	Sydney Metro	Merger 2011	487,600
		(2031)	653,250
Operating revenue (2013-14)	$501.6m	TCorp assessment	Strong FSR Positive Outlook
ILGRP options (preference in bold)	**Merge with Randwick, Waverley, Woollahra and Botany** (all shaded) or combine as strong JO.		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT AS A GLOBAL CITY COUNCIL

- The council does not satisfy the scale and capacity criterion when compared to the ILGRP's option of a Global City Council.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management, and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.
- Should the Global City Council option not be adopted by Government, the council meets the scale and capacity criterion as a stand-alone council and would be fit as a stand-alone council.

Scale and capacity – does not satisfy

- The ILGRP preferred option for City of Sydney was the Global City Council. City of Sydney was required to show its stand-alone option was at least as good the preferred merger option.
- City of Sydney did not submit a business case comparing its stand-alone option to the Global City Council. As such it has not demonstrated its stand-alone option is at least as good as the Global City Council.
- The stand-alone council's residential population is forecast to be 273,500 by 2031 compared with the forecast merger population of 653,250. The Global City Council will have enhanced scale and capacity to effectively partner with governments on key infrastructure such as the Sydney Light Rail Project and the second Sydney Harbour rail crossing, compared to remaining a stand-alone council.
- The larger council may also better integrate planning and development as the CBD expands.
- Our independent economic consultants Ernst and Young estimated net benefits from the Global City Council merger of $283m over 20 years using public data. The business case shows additional benefits to society from joining City of Sydney to Woollahra, Waverley, Randwick and Botany.
- In order to realise the objectives and optimise the benefits of the Global City Council, the Government might need to consider the following issues:
    - The extent to which the Global City Council should be given control over key infrastructure such as the Sydney Opera House, Barangaroo, Port Botany, Circular Quay and Darling Harbour to enable it to operate effectively as a Global City Council, as this infrastructure is currently administered by bodies separate to local councils.
    - How to ensure the development and growth of the CBD and surrounding areas continues. This may require changes and enhancements to the *City of Sydney Act 1988*. In addition, the implications for business voting within the Global City Council may need to be considered, as the *City of Sydney Act 1988* will allocate two votes to businesses in local council elections in the City of Sydney from 2016.
    - Measures to ensure the significant council revenues generated from businesses ($189m in 2012-13) in the Sydney CBD are spent efficiently to realise the key objectives of the Global City Council.
- City of Sydney argues it has sufficient scale and capacity because it accommodates 1.2m people daily in its area and produces approximately 25% of the state's GDP.

- It also argues there would be a disconnect joining a primarily CBD-based business council with neighboring residential councils.
- Other data also suggests City of Sydney is a well-run council with significant scale and capacity. It has pro-actively partnered with governments, undertaken significant CBD-based urban renewal, and approved a large range of development projects to grow the CBD.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio and the own source revenue ratio by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately 0.7 percentage points to 0.1% in 2019-20 which would still meet the benchmark.
- The council does not meet the building and infrastructure asset renewal ratio benchmark by 2019-20 based on its current method for calculating this ratio. The council has indicated it is renewing assets in accordance with its Asset Management Plan. The council relies on an alternative measure in its Asset Management Plan focusing on "Required Annual Maintenance". This is forecast to be above the benchmark in 2024-25.

Infrastructure and service management - satisfies

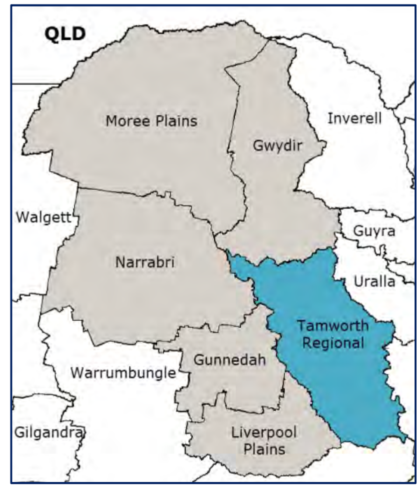
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the asset maintenance ratio by 2019-20, and forecasts the infrastructure backlog to be close to the benchmark by 2019-20.
- The council does not meet the debt service ratio benchmark. The council considers debt financing has not been required to meet its current expenditure outlays. However, the council is developing a policy framework to determine when borrowing is appropriate and needed.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Residents in the City of Sydney are culturally and linguistically diverse, and there are areas of significant socio-economic disadvantage. The City of Sydney is unique in that it is Australia's major finance and business centre. There are approximately 1.2m people in the area daily including residents, workers, students and visitors.
Community consultation	The council informed its community of the FFTF process through information stalls, surveys, online consultation hubs and mail-outs. Feedback from surveys indicates that most respondents preferred their council to stand alone. However, we observe the council did not provide a balanced assessment of the proposed FTFF reforms in the information provided to residents.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 520 submissions in relation to the City of Sydney. This is the largest number of submissions for any council region and approximately a third of all submissions received. All submissions (except 8) opposed a merger of the City of Sydney with any other council. The main reasons provided stated the council is performing well; the Global City Council would be too large and would not be able to meet or adequately represent the needs of residents. We also received three late submissions and one early submission. In a meeting the council made the following points: • A merger with residentially focused councils could reduce its strategic capacity in the short-term and distract it from the implementation of key infrastructure projects such as the Green Square development and the Sydney Light Rail Project. • As most of the council's rating income comes from business rates and contributions, businesses in the CBD will likely subsidise the entire merged local government area under the Global City Council model, rather than their rates and contributions funding urban renewal and other services to the CBD. • Other councils did not agree to merge with it in part, due to the council's legislated business voting rights. From September 2016, corporations will be entitled to two votes in the local council elections in the City of Sydney, which differs from other local council areas. The council noted in discussions with other councils that none of the surrounding councils wanted to voluntarily merge with City of Sydney. • The long term effectiveness of a Global City Council would be limited as it does not have responsibility for key infrastructure. Whilst the ILGRP said a Global City Council would incorporate key Sydney icons, City of Sydney said this made no difference because it did not currently control any of them, for example, the Sydney Opera House, Circular Quay, Darling Harbour, Barangaroo, Port Botany, or inner-city train stations. The council noted this differs from councils the ILGRP indicated the Global City Council model could be based on such as City of Brisbane, which owns Brisbane Transport and Brisbane Water, and Auckland Council, which manages water, transport and port facilities.

TAMWORTH REGIONAL COUNCIL – CIP



	FIT			
Area (km^2)	9,650	Population	2011	58,250
OLG Group	4		(2031)	67,750
ILGRP Group	G			
Operating revenue (2013-14)	$85.1m	TCorp assessment		Moderate FSR Neutral Outlook
ILGRP option	Council in Namoi JO (shaded area).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- As the ILGRP did not propose another option for this council, Tamworth Council was not required to demonstrate how it met each of the elements of scale and capacity. It therefore did not provide sufficient information to make an assessment against most of the elements of scale and capacity.
- We note, however, the council is financially sustainable with a robust revenue base and has a relatively high population growth rate. We consider the council's strategic capacity is supported by its relative size in the region.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio and the own source revenue ratios by 2019-20.
- The council does not forecast meeting the benchmark for the building and infrastructure asset renewal ratio, and shows a decline in the ratio. The council explains there is a disconnect between required asset renewals and depreciation and says it will renew assets as per its Asset Management Plan.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the outlook period to 2019-20.

Other relevant factors	
Social and community context	Three quarters of the council's population live in Tamworth. The council notes there is a migration of older people from smaller towns to regional centres, which will require further infrastructure to support this change.
Community consultation	The proposal did not provide any details of community consultation.
Water/sewer	Tamworth provides water and sewer services. The council is not currently compliant with the NSW Government's Best Practice Management of Water Supply and Sewerage Framework. The council's current water and sewerage infrastructure backlog is $25.8m. However, it has $16.1m of capital works for its water and sewer operations planned out to 2019-20.
Submissions	We received one submission in relation to Tamworth's proposal, which noted that the council's strategies to achieve its financial benchmarks are questionable.

TEMORA SHIRE COUNCIL – CIP

NOT FIT

Area (km²)	2,799 km²	Population 2011	5,950
OLG Group	10	(2031)	5,100
ILGRP Group	D		
Operating revenue (2013-14)	$14.5m	TCorp assessment	Sound FSR Neutral Outlook
ILGRP options (no preference)	Council in Riverina JO (shaded area) or merge with Coolamon and/or Bland.		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy in order to be Fit for the Future (FFTF), therefore the council is not fit.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – does not satisfy

- The council only meets one element of scale and capacity (Effective Regional Collaboration). The council either fails to meet or partially meets all other elements.
- The council does not have a robust revenue base or sufficient scale to undertake new functions or major projects. Its financial position means it would not have the resources to cope with complex and unexpected change.
- The council's population is declining and is forecast to be 5,100 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.
- Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- The council opposed a merger with either Coolamon or Bland. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the stand alone proposal. However, the merger may enable the provision of more cost-effective services to the local communities, more credible advocacy, and better management of strategic issues in the region.

Sustainability –satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios in the benchmark year.
- The council assumes depreciation will remain constant in nominal terms over the outlook period. However, even if depreciation increases at the same rate as income, the council would still produce a modest operating surplus in 2024-25.

Infrastructure and service management - satisfies

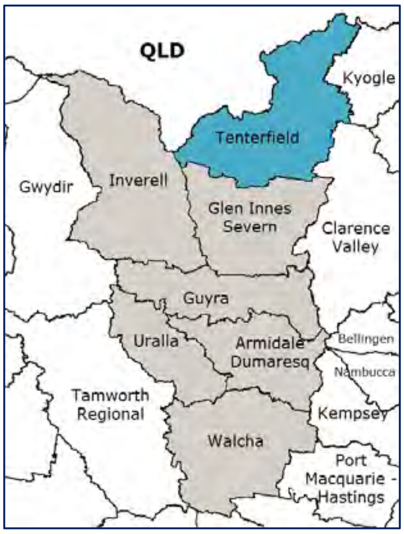
- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- While the council's forecasts for the infrastructure backlog ratio are optimistic, they are consistent with historical data from 2009 to 2014.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the period to 2019-20.

Other relevant factors	
Social and community context	While Temora's community of interest centres on Temora, residents may have a reasonably high level of affinity with towns such as Cootamundra (40 minutes from Temora).
Community consultation	Temora sought the community's views on whether it should stand alone. Over 96% of respondents believe the best option is for their council to stand alone. It has also obtained community views on FFTF issues in forums and meetings.
Water and/or sewer	Temora plans to undertake a $500,000 sewer relining project in 2015-16. Another $1m may be spent on the project, subject to the outcome of a review.
Submissions	There were no submissions were received in relation to Temora's proposal.

TENTERFIELD SHIRE COUNCIL – CIP



NOT FIT

Area (km^2)	7,024	Population 2011	7,000
OLG Group	10	(2031)	7,150
ILGRP Group	F		
Operating revenue (2013-14)	$10m	TCorp assessment	Weak FSR Negative Outlook
ILGRP option	Council in New England JO (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. While it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion based on its forecast for a negative operating performance ratio by 2019-20.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all Fit for the Future (FFTF) councils should meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's option.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- Hence we have assessed the council as meeting the scale and capacity criterion.
- Notwithstanding this, Tenterfield's population is below the level the ILGRP considers appropriate for a non-metropolitan council. The council's forecast for an ongoing, albeit reducing, infrastructure backlog reflects weak revenue, limits discretionary spending and circumscribes the council's ability to undertake new projects and respond to complex change.
- Our analysis suggests the council may have insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.

Sustainability – does not satisfy

- The council does not satisfy the sustainability criterion since its forecast to meet the benchmark for the operating performance ratio assumes a successful application for and adoption of a large special variation. We consider this assumption may not be reasonable.
- In 2014, Tenterfield received approval for a special variation of 53.1% (43.0% above the rate peg) over 4 years. On expiry, the council intends to seek approval for another special variation from 2018-19 of 50.4% (31.5% above the rate peg) over 7 years. Combined, the special variations would increase rates by 130.2% (99.3% above the rate peg) over 11 years.
- Given the approved special variation in 2014, the magnitude of this additional special variation is significant. Accordingly our analysis indicates the council's assumption of subsequent special variations is not reasonable. As a result, its forecasts do not meet the benchmark for the operating performance ratio.
- The council forecasts its own source revenue ratio (including FAGs) will meet the benchmark by 2019-20. We have assessed all councils in OLG Groups 8-11 with the inclusion of FAGs for this ratio.
- The council forecasts the building and asset renewal ratio will be 73.3% by 2019-20, but exceeds 100.0% during the period to 2019-20. These figures include the assumption of the approved special variation and we have therefore assessed the council does not meet this benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet or improve close to the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period.

Other relevant factors	
Social and community context	The community of interest for the LGA focuses on the town of Tenterfield, which is distant from other regional centres such as Glen Innes (60 minutes to the south). The council states it is more closely aligned with communities to the north east than communities in the New England area.
Community consultation	The council conducted community engagement sessions about the Fit for the Future process. Proposed improvement actions were made available for public comment. Further consultation will occur about expected service levels and measures to improve the council's financial position.
Water and/or sewer	The council operates water and sewer businesses. The infrastructure backlog for these businesses is around \$3.8m.
Submissions	We received one submission relating to Tenterfield's proposal, suggesting boundary changes to include towns affected by dual border problems.

TUMBARUMBA SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

FIT AS A RURAL COUNCIL

Area (km^2)	4,391	Population	2011	3,500
OLG Group	9		(2031)	3,300
ILGRP Group	C	Merger	2011	18,500
			(2031)	17,400
Operating revenue (2013-14)	$18.0m	TCorp assessment		Strong FSR Negative Outlook
ILGRP options (no preference)	Rural Council in Riverina JO or merge with Tumut/ Gundagai.			

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall as the council meets the criteria for sustainability, infrastructure and service management and efficiency.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include resource sharing within the Riverina Eastern Regional Organisation of Councils. REROC demonstrates its success in increasing the scale and capacity of its member organisations on a range of measures and plans to become the pilot JO for the region.
- The council has submitted a number of improvement strategies including a shared administration agreement with Wagga Wagga City Council which will result in expenditure savings, a contract with Division of Crown Land to provide walking track maintenance services, rationalisation of some assets and plans to reduce the number of councillors from eight to seven.
- The council states it issued three formal invitations to Tumut for a meeting regarding merger issues, after Tumut had indicated support for a merger with Tumbarumba and Gundagai in submissions to the ILGRP. However, Tumut refused to meet with Tumbarumba Council and no merger discussions were pursued. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the Rural Council proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on Government adopting a Rural Council model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2024-25 and own source revenue ratio by 2019-20.
- The building and infrastructure asset renewal was 90.4% in 2014-15 and is forecast to reach 99.4% by 2019-20.

Infrastructure and service management - satisfies

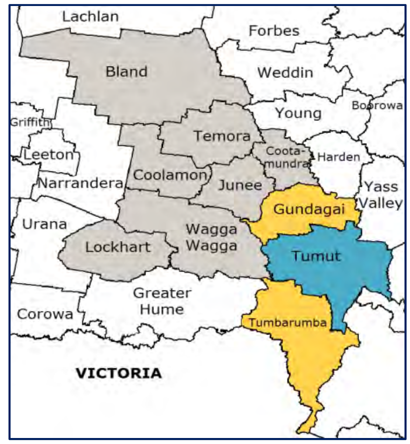
- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Tumbarumba Shire has the Snowy Mountains range to the east and the Murray River to the south. Towns in the Tumbarumba Shire Council area include Tumbarumba (population of 1,455 according to Census data for 2011), Khancoban (population of 224 according to Census data for 2011), Rosewood and Tooma. Australian Bureau of Statistics data shows 26.2% of employment is in the agriculture, forestry and fishing industry. The manufacturing sector accounts for 12.0% of employment, partly reflecting timber processing, while retail trade accounts for around 8.7% of employment. Residents of Tumbarumba Shire contribute to the workforce for a number of significant industries including the Hyne Timber mill, the Mannus Correctional Centre and the Snowy Hydro electricity generator. Tumbarumba notes local services are delivered from the towns of Tumbarumba and Corryong (Victoria), with residents accessing regional services from Wagga Wagga and Albury rather than Tumut.
Community consultation	Community consultation included the creation of a web page, public meetings held in May 2015 and the distribution of an information bulletin and survey via a letter box drop. There were 434 survey forms completed. The survey found over 90% of respondents were opposed to an amalgamation with Tumut and Gundagai Shire Councils.
Water and/or sewer	Tumbarumba Shire Council has achieved full compliance with the Best Practice Management of Water Supply and Sewerage Guidelines. Tumbarumba had a water and sewerage backlog of $1.9m in 2013-14 but Tumbarumba Council reports this backlog has now been addressed. Tumbarumba's Annual Report for 2013-14 indicated no dividend had been paid from the water and sewerage business.
Submissions	We received two submissions for Tumbarumba. These included a letter and a petition including 264 signatures both requesting Batlow be removed from Tumut Shire and included in Tumbarumba.

TUMUT SHIRE COUNCIL – CIP



	NOT FIT		
Area (km²)	4,567	Population 2011	11,250
OLG Group	11	(2031)	10,650
ILGRP Group	D	Merger 2011	15,000
		(2031)	14,100
Operating revenue (2013-14)	$20.9m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options (preference in bold)	Council in Riverina JO (shaded area) or **merge with Gundagai** and Tumbarumba (yellow).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy in order to be assessed as Fit for the Future.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- The council has not adequately explored the merger option. The council has not provided evidence that the council has undertaken any consultation or analysis in relation to council's stand alone proposal or the possible benefits of mergers.
- The council's proposal to stand alone is not as good as the ILGRP's preferred option to merge with Gundagai. When compared to the merger, the council's population of 10,650 in 2031 means it is unlikely to provide services as cost-effectively to the local communities and advocate credibly and partner with government.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio and the own source revenue ratios by 2019-20.
- The building and infrastructure asset renewal ratio was 142.4% in 2014-15 and is forecast to fall to 62.8% by 2019-20. The council states that these results indicate the cyclical nature of asset renewal.
- The council states it will apply for a special variation of up to 15% from 2020-21, commencing upon expiration of its current two special rate variations.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
- The council is reviewing its standard useful lives for all assets, which has the potential to reduce depreciation by up to 10% by extending the useful lives of assets.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	According to the council, its submission to the ILGRP proposed a new council generally east of the Hume Highway corridor, which would encompass the majority of the major industry sector, the Softwood plantations and processing covering the local government areas of Tumut, Gundagai and Tumbarumba. This merger was proposed on the basis that mergers were required to be implemented.
Community consultation	In Tumut Council's community letter of June 2015 it states Tumut has no other option than submit a stand-alone option given Gundagai and Tumbarumba were proposing to stand alone. The council notes it has not been able to undertake structured and facilitated discussions on the ILGRP proposal as neither Gundagai nor Tumbarumba agreed. There is no evidence submitted that council has undertaken any consultation in relation to council's stand alone proposal or the possible benefits of mergers.
Water and/or sewer	Council operates water and sewer businesses. The water fund reported a deficit before capital of $706,000 and sewer reported a surplus of $227,000 in 2013-14. Tumut reported an infrastructure backlog of $700,000 for the sewer assets.
Submissions	We received two submissions in relation to Tumut. One submission noted the lack of community consultation in relation to the FFTF proposal and council management. The other submission contained a petition for a boundary alteration moving Batlow to Tumbarumba.

TWEED SHIRE COUNCIL – CIP

NOT FIT

Area (km^2)	1,309	Population 2011	88,450
OLG Group	5	(2031)	109,400
ILGRP Group	G		
Operating revenue (2013-14)	$104.7m	TCorp assessment	Moderate FSR, Neutral Outlook
ILGRP option	Council in Northern Rivers JO (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it meets the efficiency criterion, the council does not meet the sustainability or the infrastructure and service management criteria.
- The council does not meet the sustainability criterion based on its operating performance ratio being below the benchmark.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity - satisfies

- We consider the council currently meets or partially meets most of the elements of scale and capacity.
- The council's proposal is consistent with the ILGRP's option to stand alone.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – does not satisfy

- The council does not meet the criterion for sustainability based on its continuing operating deficits and relatively low building and infrastructure asset renewal ratio.
- The operating performance ratio was -8.1% in 2014-15 and is forecast to remain in deficit at -4.9% by 2019-20. We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately one percentage point to -5.9% in 2019-20.
- The building and asset renewal ratio was 54.1% in 2014-15 and is forecast to reach 52.2% by 2019-20. The own source revenue ratio is greater than the benchmark.
- The council expects to achieve operating surpluses in the longer term, following some consultation with the community. This expected improvement is based on revising service levels and increasing revenue. Consultation regarding service reviews is expected to commence in future years.

Infrastructure and service management – does not satisfy

- The council does not satisfy the criterion for infrastructure and service management based on its infrastructure backlog and asset maintenance ratios forecast neither to improve nor meet the benchmarks.
- The council's infrastructure backlog was 7.3% in 2014-15 and is forecast to increase to 8.9% by 2019-20.
- The asset maintenance ratio was 78.5% in 2014-15 and is forecast to be 71.3% in 2019-20.
- The debt service ratio remains within the benchmark range.
- The council states it faces infrastructure and service provision challenges created by a large pensioner population (22%), dispersed populations, frequent flooding, coast erosion and tourism demands. While it has dealt with these to some extent through its large and growing rate base, it is not fully funding its current requirements. It proposes to review services, which may result in reducing the level of service to the community and/or revising the required

condition of assets, which would improve the ratios.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure per capita over the period to 2019-20.

Other relevant factors	
Social and community context	Tweed is expecting significant residential development to occur to meet population growth demands. The area has a growing young population, with 28% under 25 years old. Agriculture is a $58m industry for the local economy, though tourism and commercial activity are large industries and expected to grow with further proposed airport development. Health care and social assistance are major employers. Airport passenger numbers in 2013-14 were 5.7 million. Housing affordability and availability are key challenges for the LGA.
Community consultation	The council's proposal did not include details of its community consultation.
Water and/or sewer	Tweed states it is compliant with the best practice management framework. However, it has a backlog of $37.8m and does not current achieve full cost recovery on its operations. It has taken out significant debt to fulfil capital works obligations in recent years.
Submissions	We received one submission which raised concerns Kings Forest and Cobakai Lakes developments would create issues for current infrastructure and have changed the nature of the community in the LGA.

UPPER HUNTER SHIRE COUNCIL – CIP

	FIT		
Area (km^2)	8,261	Population 2011	14,200
OLG Group	11	(2031)	15,750
ILGRP Group	Hunter		
Operating revenue (2013-14)	$27m	TCorp assessment 2013	Sound FSR, Negative Outlook
ILGRP option	The ILGRP did not present a table of options for the Hunter region. IPART's methodology paper presented the option for Upper Hunter as 'Council in Joint Organisation', based on the discussion in the ILGRP report and a map indicating no suggested merger. There was no specified JO, but Upper Hunter Shire Council currently participates in the Hunter pilot JO.		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council proposal is consistent with the ILGRP's option to stand alone.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- The council is a member of Hunter Councils Inc. and a trial JO that is in pilot phase.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building infrastructure and asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real operating expenditure per capita to reduce over the period to 2019-20.

Other relevant factors

Social and community context	The CIP does not address social or community concerns as the ILGRP's option is for the council to stand alone in the Hunter JO.
Community consultation	The council did not conduct community consultation as the ILGRP's option is for the council to stand alone in the Hunter JO.
Water and/or sewer	The council operates water and sewer businesses. While the water business operates on a break-even basis, the sewerage business does not. At present, there is a $370,000 water and sewerage infrastructure backlog. The council has received grants to undertake proposed water treatment works in 2015-16. It is unclear if this will improve the sewerage infrastructure backlog although there are other strategies in 2017 that are designed to improve the allocation of funds between operating and capital expenses.
Submissions	There was one anonymous submission received in relation to Upper Hunter Shire's proposal. It stated the existence of multiple library branches is a strength for the council, rather than a weakness or duplication. We also received one confidential submission.

UPPER LACHLAN SHIRE COUNCIL – CIP

NOT FIT

Area (km²)	6,829	Population	2011	7,400
OLG Group	10		(2031)	7,500
ILGRP Group	F	Merger	2011	35,750
			(2031)	39,050
Operating revenue (2013-14)	$21.2m	TCorp assessment		Sound Neutral Outlook
ILGRP options (no preference)	Council in Tablelands JO (shaded area) or merge with Goulburn-Mulwaree (yellow).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF).
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – does not satisfy

- When compared to the merger, the council's forecast population of 7,500 in 2031 means it is unlikely to provide services cost-effectively to the local communities, advocate credibly and partner effectively with government.
- The council's relative size means it is unlikely to be able to undertake major projects of regional or state significance.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewal ratios by 2019-20.
- The council considers it may apply for a special variation from 2020-21 of 43.6% cumulative over 5 years (30.4% above the rate peg). This is not included in its forecast for the operating performance ratio or the Long Term Financial Plan. It would increase the operating performance ratio in 2024-25 from 1.5% to 2.9%.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

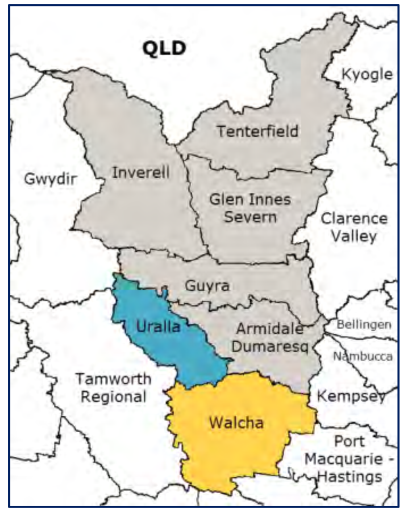
- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors

Social and community context	Upper Lachlan is located on the southern tableland 100km north of Canberra. Agriculture, tourism and retail are the main economic drivers of the LGA.
Community consultation	The council undertook a survey of its community in March 2015. According to the council, 79% of its residents preferred the council to stand alone. The council states it also held meetings in May 2015 to allow feedback and input into decision making. According to the council, 99% of those in attendance preferred the council to stand alone.

Other relevant factors	
Water and/or sewer	Upper Lachlan achieved 89% sewer compliance and 90% water supply compliance with the best practice management framework. It has total backlogs of $1m across water and sewer and manages its operations on a full cost recovery basis. It has generated a surplus before capital grants and contributions for the past 7 financial years.
Submissions	We received six submissions (including five early submissions), one of which indicated that residents in the Gunning area of the LGA would prefer a boundary adjustment that places their localities in the Yass Valley Shire rather than Goulburn-Mulwaree. No information was provided on whether communities of interest exist between these areas. Other submissions did not support a merger, citing no communities of interest, lack of democratic process in forcing a merger and loss of local focus and representation.

URALLA SHIRE COUNCIL – CIP



NOT FIT

Area (km^2)	3,230	Population 2011	6,250
OLG Group	10	(2031)	6,550
ILGRP Group	D	Merger 2011	9,350
		(2031)	9,300
Operating revenue (2013-14)	$15.3m	TCorp assessment	Moderate FSR Negative Outlook

ILGRP options (preference in bold): **Merge with Walcha** (yellow) or a council in New England JO (shaded area).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity - does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- The council's Mayor and General Manager met with Walcha on two occasions and agreed to investigate all possible options including other possible mergers. Following the completion of this process, both councils consider there was no community mandate or will to pursue a voluntary merger between the two councils.
- The council undertook its own quantitative analysis, which identifies recurrent scale economies of about $600,000 from the removal of duplication across management, councillors and systems from a merger with Walcha (and higher for other merger options it considered).
- The council's proposal to stand alone is not as good as the ILGRP's preferred option to merge with Walcha. When compared to the merger, the council's small and static population of 6,550 in 2031 means it is unlikely to efficiently provide services to the local communities and effectively advocate and partner with government.
- A merged council is likely to have improved capabilities, a more robust revenue base, greater scope to undertake new functions and projects, better regional collaboration and integrated planning.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio, the building and infrastructure asset renewal and the own source revenue ratios by 2019-20.
- The council's forecast relies on the successful application for and adoption of a permanent special variation from 2016-17 of 17.4% cumulative (15% above the rate peg).
- The council's Long Term Financial Plan shows this special variation as the preferred option to address long-term infrastructure needs and for sustainability. However, the council's FFTF proposal states that its decision to proceed with the specific special variation increase is contingent on the outcome of its efficiency programs, the success of which may lead to a reduction in the proposed increase.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

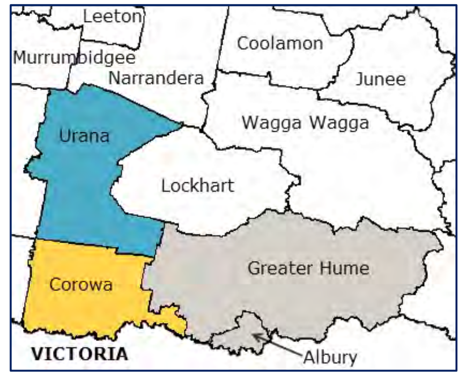
Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast modest decline in real operating expenditure over the period to 2019-20. Real opex per capita was $2,144 in 2014-15 and is forecast to be $2,119 in 2019-20.

Other relevant factors	
Social and community context	The council's proposal did not directly address this factor. Our research has found multiple reviews and reports have been commissioned into amalgamations into the New England area councils. The Vardon review in 2003 recommended the merger of Uralla with Walcha, Guyra and Armidale. The Boundaries Commission report in 2004 supported the view of a four-way merger. However, the four councils reached an agreement to form the New England Strategic Alliance of Councils (NESAC) as an alternative to a merger. NESAC collapsed in 2009 following the withdrawal of Walcha and Uralla. Reviews by OLG and others of the NESAC collapse identify common factors such as lack of: • commitment to the Alliance • robust governance arrangements • adequate planning, and • trust, among other reasons. The Kibble review in 2010 recommended a merger for these councils, but excluded Walcha, based on Kibble's view it was financially sound and did not share communities of interest with Armidale to the same extent as Uralla and Guyra.
Community consultation	The council's engagement program included newsletter inserts, press releases, advertising, web content, a mail-out to all residential addresses, community workshops at Uralla and Bundarra and then a community survey, both on-line and paper based. The council notes, from 400 responses, 92% of respondents did not want a voluntary merger pursued, and 94% committed to some level of special rate variation, with almost 70% of those respondents stating a special variation of between 10- 20% was acceptable. However, as the survey was not randomised, it could be subject to selection bias. In addition, the question asked on merging does not consider the ability for merger efficiencies to partially or fully offset existing operating deficits instead of the alternatives of increased rates and/or reducing services. These two issues should be noted, but given the proportion of respondents against a voluntary merger, it is likely to accurately reflect community sentiment.
Water and/or sewer	Uralla provides water and sewer services to the area. The council notes combined backlogs of about $310,000 for water and sewer infrastructure. Further, it notes it operates it water and sewer operation on a break-even basis, however it does not currently achieve the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework meaning it cannot receive dividends from these operations.
Submissions	We received one confidential submission relating to the council's proposal.

URANA SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

NOT FIT



Area (km^2)	3,356	Population:	2011	1,200
OLG Group	8		(2031)	800
ILGRP Group	B	Merger	2011	12,500
			(2031)	12,050
Operating revenue (2013-14)	$6.8m	TCorp assessment		Weak FSR Neutral Outlook
ILGRP options (preference in bold)	**Merge with Corowa** or Rural Council in Upper Murray JO (all shaded).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is as good an option to achieve the scale and capacity objectives for the region.
- The proposed Rural Council Proposal is not as good as the ILGRP's preferred option to merge with Corowa. When compared to the merger, the council's small and declining population of 800 in 2031 means it is unlikely to cost-effectively provide services to the local communities and advocate and partner with government.
- The business case and qualitative analysis provided by the council did not demonstrate the proposal to become a Rural Council was at least as good as, or better than, a merger with Corowa.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2024-25 and the building and infrastructure asset renewal ratios by 2019-20.
- The own source revenue ratio was 30% in 2014-15 and is forecast to reach 45% by 2019-20 without the inclusion of FAGs, which is below the benchmark. The inclusion of FAGs will increase the ratio to 73% by 2019-20.
- The council's forecasts assume the successful application for and adoption of a special variation from 2016-17 of 63.1% cumulative over 4 years (52.7% above the rate peg).
- Although the proposed special variation is large, the council claims community consultation as part of FFTF shows the community is prepared to pay higher rates.
- On the figures provided, if the council were to adopt a lower real rate increase of about 20%, it would still generate a positive operating performance ratio by 2024-25.

Infrastructure and service management - satisfies

- The council satisfies the infrastructure and service management criterion. It is forecast to meet the benchmark for the infrastructure backlog, asset maintenance and debt service ratios over the outlook period to 2019-20.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real opex per capita to 2019-20.

Other relevant factors	
Social and community context	The council has been a member of both the Riverina East Regional Organisation of Councils (based in Wagga Wagga) and the Riverina and Murray Regional Organisation of Councils (based in Albury). The council believes the area's strongest links are in the direction of Wagga Wagga. The council notes the area's links to the Riverina area include water reticulation (provided by Riverina Water County), membership of REROC, that Urana is within the Riverina Tourism area and that grain harvest forums are usually held in Wagga Wagga.
Community consultation	The council has undertaken an extensive community consultation process and was an advocate for a stand-alone council position. The council informed the community through a series of five public meetings, information provided through the council's newsletter, news releases, and through the council's website. The council undertook a survey of attitudes to a merger, with the survey form mailed to all households and also distributed at community events such as football matches. There were 281 respondents. The survey showed 88% of respondents favoured the option of remaining as a stand-alone rural council with 8% favouring amalgamation with another council.
Water and/or sewer	The council does not provide water services although it does provide sewerage services. The council does not achieve the requirements of NSW Government Best Practice Management of Water Supply and Sewerage and does not pay a dividend. The sewerage system was only installed in 1995-96 and there is no infrastructure backlog.
Submissions	There were no submissions received in relation to Urana's proposal.

WAGGA WAGGA CITY COUNCIL – CIP

FIT

Area (km^2)	4839	Population 2011	61,800
OLG Group	4	(2031)	73,050
ILGRP Group	D	Merger 2011	64,900
		(2031)	75,600
Operating revenue (2013-14)	$88.8m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP options (no preference)	Council in Riverina JO (shaded area) or merge with Lockhart Shire Council.		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although the council does not satisfy the infrastructure and service management criterion, the council satisfies the sustainability and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal to stand alone in a JO is consistent with the ILGRP's options for this council.
- The council has a robust revenue base and is improving its ability to increase its discretionary spending through a range of measures.
- The council is home to Wagga Wagga, a large regional centre. Our analysis suggests this population is sufficient to enable the council to have the strategic capacity to meet the future needs of its community and be a capable partner in the regional area for government.
- The council is a member of the Riverina Eastern Regional Organisation of Councils (REROC). REROC demonstrates its success in increasing the scale and capacity of its member organisations on a range of measures and plans to become the pilot JO for the region.
- The council and Lockhart Shire Council both rejected a proposal to merge and did not submit a merger business case. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the stand alone proposal.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio in 2019-20. In addition, the council meets the benchmark for the own source revenue and building and infrastructure asset renewal ratios.

Infrastructure and service management – does not satisfy

- The council does not satisfy the criterion for infrastructure and service management based on its forecast for an infrastructure backlog of 6.4% in 2019-20 and an asset maintenance ratio of 83.9% in 2019-20, which do not meet the benchmarks for these ratios.
- The council acknowledges its difficulty in maintaining its assets and in its infrastructure backlog, citing its large road network and the damage as a result of floods in 2010 and 2012 as contributing factors.
- In its proposal, the council relies on the successful application for and adoption of a special variation in 2016-17 of 6.6% cumulative (4.1% above the rate peg) to be retained in the rate base for 5 years.
- This special variation is to fund the upgrade of the Main City and North Wagga Levees. This is included in the council's Long Term Financial Plan and the council's ratios. The Long Term Financial Plan also makes reference to a proposed special variation in 2021-22 of 15.9% cumulative for 4 years (26.3% including the rate peg). This is outside of the outlook period and so is not included in the council's ratios.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20. An increase in real opex from 2013-14 to 2014-15 is explained as a result of the restoration to roads following the flood damage from prior years.

Other relevant factors	
Social and community context	Wagga Wagga is a major inland regional centre which includes the main campus of Charles Sturt University, Kapooka Army Recruit Training Base, Wagga Base Hospital, RAAF Base Wagga and TAFE NSW Riverina Institute. Other villages are included in the local government area including Tarcutta and Oura. The local government area is characterised by a youthful and growing population with low unemployment levels.
Community consultation	The council indicates the community was informed about the Fit for the Future process including through public exhibition of the 2015-16 Combined Delivery Program and Operational Plan. In addition, the council informed its community of its plans under Fit for the Future through its online community engagement platform 'yoursaywagga.'
Water and/or sewer	Riverina Water County Council supplies water. The council intends to review its sewerage businesses to determine if a dividend may be payable and to request Riverina Water County Council to pay a dividend to its constituent councils. These funds would be used to reduce the Infrastructure Backlog and Asset Maintenance ratios.
Submissions	There were no submissions received in relation to Wagga Wagga Council's proposal.

WAKOOL SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

FIT AS A RURAL COUNCIL

Area (km^2)	7,549	Population:	2011	4,050
OLG Group	9		(2031)	3,200
ILGRP Group	C			
Operating revenue (2013-14)	$13.5m	TCorp assessment		Weak FSR Negative Outlook
ILGRP options (no preference)	Rural Council in Mid-Murray JO (shaded area) or merge with Murray/ Conargo/ Deniliquin (yellow).			

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall. The council satisfies the criteria for sustainability, infrastructure and service management and efficiency.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include resource sharing within the JO, reviewing services and realising limited opportunities to raise additional revenue.
- A high level business case for a merger between Wakool, Murray and Deniliquin Councils by LKS Quaero was provided, but did not identify an NPV estimate.
- Based on the assumptions used by LKS Quaero, our analysis indicates a merger could provide benefits to society of $26m (including a Government grant of $11m) in NPV terms over 20 years.
- While this evidence suggests a merger may be a better alternative to the council's proposal to stand alone, our finding is based on the proposal being consistent with the ILGRP option to be a Rural Council.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on Government adopting a Rural Council model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2024-25 and the building and infrastructure asset renewal ratios by 2019-20.
- The operating performance ratio was -3.6% in 2014-15 and is forecast to reach 8.4% by 2024-25, which is above the benchmark. The council's operating performance ratio is supported by an approved special variation of 7.0% in 2015-16, which is 2.5% above the rate peg.
- The council undertook a depreciation review in 2014-15 which resulted in reduced depreciation of around $0.64m, which has contributed to an improvement of around 4 percentage points in the operating balance.
- The council's own source revenue ratio including FAGs increases from 62.8% in 2014-15 to 70.0% by 2019-20.

Infrastructure and service management - satisfies

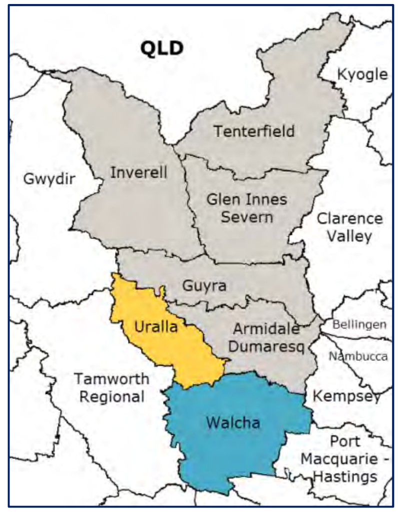
- The council satisfies the infrastructure and service management criterion. It is forecast to meet the benchmark for the infrastructure backlog, asset maintenance ratio and debt service ratio over the period to 2019-20.
- The council conducted a full review of its infrastructure backlog in 2014-15 in accordance with the OLG definitions of backlog and the principles outlined by Jeff Roorda and Associates. As a result its backlog estimate of $44m has reduced to $0.3m in 2014-15. The council has not provided further detail to explain this significant change.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real opex per capita to 2019-20.

Other relevant factors	
Social and community context	The council notes 45% of its population (1,802 people) resides in urban centres of Barham, Moulamein, Murray Downs and Tooleybuc, with the remainder of its population dispersed across its shire. Some of these towns are located relatively close to larger town centres of Deniliquin and Swan Hill (VIC), however we note both Deniliquin and Swan Hill both have populations of less than 10,000. Wakool's economy is based on agriculture, but it notes in recent years employment in agriculture has declined significantly due to drought and policy changes.
Community consultation	Wakool notes it undertook the following consultation: radio interviews, newsletters, pop-up shops (71 attendees), a community group discussion, and invited submissions on the council's draft rural council proposal and alternative merger option. Approximately 45 submissions were received, including 26 submissions opposing the merger with Murray and Deniliquin and having no objection to the rural council proposal, and 10 submissions having no objection to the rural council proposal. The main concerns raised in relation to the merger related to: loss of local identity and representation, higher debt levels in the merger councils, loss of staff and reduced services, and the large size of the merged council. We note no information appears to have been provided in relation to the pros and cons of the different options in the invitation to provide submissions.
Water and/or sewer	Wakool currently manages its water and sewer businesses on a break even basis and considers it has no infrastructure backlog. We note the water utility may provide limited strategic capacity to the council as Wakool has proposed transferring non-operational water utility functions to the JO.
Submissions	There were no submissions were received in relation to Wakool's proposal.

WALCHA SHIRE COUNCIL – RURAL COUNCIL PROPOSAL



NOT FIT

Area (km^2)	6,261	Population	2011	3,100
OLG Group	9		(2031)	2,750
ILGRP Group	B	Merger	2011	9,350
			(2031)	9,300
Operating revenue (2013-14)	$8.8m	TCorp assessment		Weak FSR Negative Outlook

ILGRP options (preference in bold): **Merge with Uralla** or stand alone as Rural Council in New England JO (shaded area).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council was required to consider the ILGRP preferred option and demonstrate its proposal is at least as good to achieve the scale and capacity objectives for the region.
- The council's Rural Council Proposal is not as good as the ILGRP's preferred option to merge with Uralla. When compared to the merger, the council's small and declining population of 2,750 in 2031 means it is unlikely to cost-effectively provide services to the local communities and advocate and partner with government.
- Most of the efficiency strategies proposed by the council could be realised in addition to the merger gains under the merger alternative.
- Our analysis indicates the merger is a better outcome for managing strategic issues in the region. The merger is also likely to further promote closer economic and social ties between the two councils.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio by 2024-25 and the building and infrastructure asset renewal and own source revenue ratios by 2019-20.
- In its proposal, the council relies on the successful application for and adoption of a permanent special variation from 2016-17 of 15.6% cumulative over 2 years (10.5% above the rate peg).
- The council has also altered its approach to asset management, which has resulted in a large reduction in depreciation.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the asset maintenance and debt service ratios by 2019-20.
- The council's infrastructure backlog was 10% in 2014-15 and is forecast to reach 7% in 2017-18 and remain steady at this level until 2019-20. The council plans to reduce its infrastructure backlog through a combination of asset renewals and funding required asset maintenance. However, it is unlikely the council will reach the benchmark of 2% based on its own projections to 2024-25.

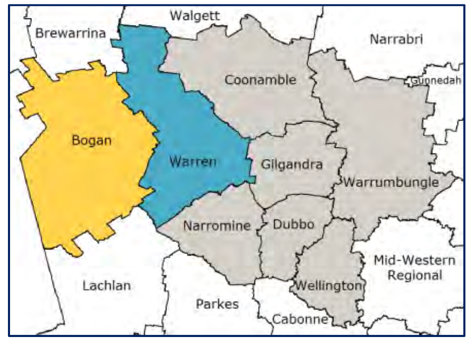
Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	The major town in the council is Walcha, which is home to about 50% of the council's population. Walcha is largely tied to agriculture and timber plantations. There are conflicting views from previous independent reports for government by Vardon in 2003 (and subsequently referred to the Boundaries Commission) and Kibble in 2010 about Walcha's communities of interest, with the latter report by Kibble rejecting the former report's view that Walcha should amalgamate with Armidale, Uralla and Guyra. Walcha appears to be largely self-reliant, with both Tamworth and Armidale providing regional centre services. Further, Walcha services border towns within Tamworth. However, Walcha does have functional relationships with Uralla and shares or is proposing to share resources, eg, a Ranger was hired in 2015 and there are plans to hire a strategic planner by 2016.
Community consultation	Walcha Council consulted its community and other special interest groups (eg, NSW Farmers) to formulate the Council's position. Walcha Council undertook a community survey, general public meetings and information sessions aimed at informing the community on the FFTF process, the council's current position (to stand alone) and obtain community preferences. The council's presentation to the community does not clearly explain the costs and benefits of the alternative options and concentrates on the council's performance relative to the financial benchmarks and its infrastructure challenges. The community survey showed strong support for the council to stand alone at 84%, along with support to reduce the number of councillors and wards. However, the survey also showed that 57% of survey respondent were not in favour of higher rates to pay for improved infrastructure.
Water and/or sewer	Walcha Council provides water and sewerage services to its community, and according to the council also provides critical mass and assists its ability to function and attract staff. The council's water and sewer business achieves 79% compliance in implementing best practice management. Further, Walcha notes it manages its operations on a break-even basis. The council's current water and sewer infrastructure backlog is $1.3m, but no further information is provided about the backlog.
Submissions	We received 18 submissions for Walcha Shire Council's proposal. All submissions supported the council's proposal and were against a merger with Uralla Shire Council. The key themes included a loss of local focus and identity, less representation, a reduction in services or facilities. Further, some submitters noted the council is performing well, and there is no evidence residents would be better off under the proposed merger.

WARREN SHIRE COUNCIL – RURAL COUNCIL PROPOSAL

FIT AS A RURAL COUNCIL



Area (km^2)	9,443	Population: 2011	2,850
OLG Group	9	(2031)	2,400
ILGRP Group	C		
Operating revenue (2013-14)	$9.7m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options (no preference)	Rural Council in Orana JO (shaded) or merge with Bogan (yellow shade).		

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – FIT AS A RURAL COUNCIL

- The council satisfies the scale and capacity criterion as a Rural Council.
- The council satisfies the financial criteria overall as the council meets the criteria for sustainability, infrastructure and service management and efficiency.
- If Government does not adopt a Rural Council model, it is unlikely the council would be Fit for the Future.

Scale and capacity as a Rural Council - satisfies

- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- To achieve scale and capacity, the council proposes extending existing resource sharing arrangements, streamlining services and creating an IT platform via which to share back office services with three other councils.
- The council states it examined the advantages and disadvantages of merging, notwithstanding community opposition to this alternative, but proposes to stand-alone. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the stand alone proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on Government adopting the Rural Council Model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If the Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion, and as a result, not fit.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmark for the operating performance ratio in 2024-25.
- The council also meets the building and infrastructure asset renewal ratio.
- In addition, the council meets the benchmark for the own source revenue with FAGs. The council acknowledges it has limited opportunities to increase revenue and would need a special variation to achieve the benchmark without the support of FAGs.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management as it is forecast to meet the benchmarks for the infrastructure backlog ratio, the debt service ratio and the asset maintenance ratio.

Efficiency – does not satisfy

- The council does not satisfy the criterion for efficiency. The council's forecasts for real opex per capita reflect an unchanged population over the outlook period. Using the DP&E's forecasts, real opex per capita would increase slightly.

Other relevant factors	
Social and community context	The community of interest centres on the town of Warren, which is distant from other regional centres such as Gilgandra and Narromine (both around 50 minutes away).
Community consultation	Warren Shire Council states it consulted via information on its website, meetings with industry and meetings with community groups. The council states it received a petition with 1,770 signatures (62% of the population) requesting that the council stands alone.
Water and/or sewer	According to the council, its water and sewerage business does not break even, although the council maintains this is due to the practice of expensing items that should have been capitalised.
Submissions	There were no submissions received in relation to Warren Shire Council's proposal.

WARRINGAH COUNCIL – CIP

NOT FIT

Area (km^2)	149	Population 2011	148,400
OLG Group	3	(2031)	179,600
ILGRP Group	Sydney Metro	Merger 2011	251,650
		(2031)	310,800
Operating revenue (2013-14)	$156m	TCorp assessment	Sound FSR Positive Outlook
ILGRP options (preference in bold)	**Merge with Pittwater and Manly Councils** (yellow) or combine as a strong JO with Pittwater and Manly Councils.		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the sustainability criterion as a result of its operating performance ratio being above the benchmark.
- The council also satisfies the infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF).

Scale and capacity – does not satisfy

- The council did not demonstrate its improvement proposal was at least as good as the ILGRP merger option. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 179,600 by 2031 compared with the forecast merger population of 307,000. Our analysis suggests that the council does not have sufficient scale to partner effectively with the government compared to the merger.
- Manly Council and Pittwater Council jointly commissioned a business case which showed a merger of Manly, Pittwater and Warringah produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $116 million over 20 years (including the Government grant).
- Warringah Council also commissioned a separate business case of the merger. Based on this model, our analysis suggests the merger could produce net benefits of $265 million over 20 years.
- In addition, our independent economic consultants Ernst and Young estimated net benefits from the merger of around $116m over 20 years using publically available data.
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Warringah Council notes the ILGRP merger is its preferred option and it sought to reach an agreement with Pittwater and Manly Councils to merge via a number of forums. However, it says these councils did not support this merger.
- We note community consultation undertaken by Pittwater and Manly councils indicated opposition to the ILGRP merger. However, Warringah's community consultation, which was undertaken across the three LGAs, indicated almost 70% of responses supported the ILGRP merger.
- Our analysis is consistent with the ILGRP's preferred option for Warringah to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately one percentage point to 3.9% in 2019-20, which is still above the benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The council has a higher population density than Pittwater, but much lower than that of Manly. It also has an aging population compared with Manly, with 26% of residents 55 years or older (2011).
Community consultation	A 2015 survey indicated that 94% of residents in Warringah were satisfied with the council's performance, which suggests the council is already meeting community expectations. The council conducted extensive community consultation across the three northern beaches' LGAs through various media, including submissions, random telephone surveys and social media. The results from this consultation showed almost 70% of responses from across the Northern Beaches and 74% of Warringah responses support the ILGRP merger. We note these results differ from the surveys undertaken by the other two councils, which indicated strong opposition to the merger.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received nine submissions in relation to Warringah Council's proposal. Eight of the submissions did not support the ILGRP preferred option, as they considered the merger was unlikely to lead to efficiencies and they were concerned about a loss of local identity. One of the submissions was in favour of the ILGRP merger, stating that it would result in greater efficiencies and cost savings.

WARRUMBUNGLE SHIRE COUNCIL - CIP

	NOT FIT			
Area (km^2)	14,820	Population	2011	9,900
OLG Group	9		(2031)	8,800
ILGRP Group	C			
Operating revenue (2013-14)	$27.6m	TCorp assessment	Weak FSR Negative Outlook	
ILGRP option	Council in Orana JO (all shaded).			

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall.
- Although the council satisfies the infrastructure and service management criterion, it does not satisfy the sustainability and efficiency criteria.
- The council does not satisfy the criterion for sustainability based on assumptions that are not reasonable. As a result, an adjusted forecast for its operating performance ratio does not meet the benchmark.
- We consider the operating performance ratio is a key measure of sustainability that councils must meet to be Fit for the Future, therefore the council is not fit.

Scale and capacity – satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not propose another option for this council, Warrumbungle Council was not required to demonstrate how it met each of the elements of scale and capacity.
- It provided limited information against the elements of scale and capacity and we consider it meets or partially meets most of them.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability. It meets the building and infrastructure asset renewal ratio by 2019-20. However, it does not meet the operating performance ratio based on our revised calculation.
- The operating performance ratio was -14.7% in 2014-15 and is forecast (by the council) to reach 0.1% by 2024-25, which meets the benchmark.
- However, these ratios include the assumption that FAGs would increase by $1m in 2017-18 onwards, which our analysis indicates is not reasonable. Under more realistic estimates, our analysis suggests the revised operating performance ratio is forecast to be -2.2% in 2024-25.
- For councils within OLG groups 8-11 we have assessed the own source revenue ratio with the inclusion of FAGs. The council meets the own source revenue ratio.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the asset maintenance and debt service ratios by 2019-20.
- The council plans to reduce its backlog from 5% in 2014-15 to 4% in 2019-20, by diverting funding from capital expansion to capital renewals.
- The council revalued much of its asset base in 2012-13 leading to a decrease in the cost to bring assets to satisfactory condition. It is yet to complete its revaluation for structures and stormwater drainage infrastructure and considers the backlogs for these categories to be conservatively high.

Efficiency – does not satisfy

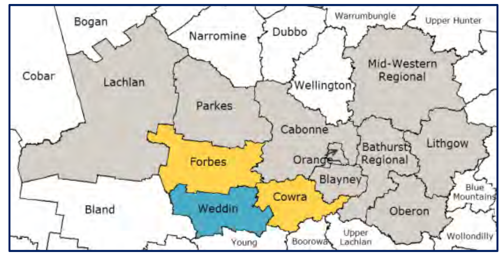
- The council does not satisfy the criterion for efficiency based on our estimate of it increasing real opex per capita over time. We estimate the real operating expenditure is likely to increase from $33.6m in 2014-15 to $34.4m to 2019-20, while the population is forecast to decrease from around 9,900 to 9,800 between 2011 and 2021. This indicates an increasing real operating expenditure per capita ratio.

Other relevant factors	
Social and community context	The LGA covers a large geographic area, comprising 6 towns and 13 villages. The LGA has a predominantly rural-based economy – around 24% of all employed persons were in the sheep, cattle and grain farming industry in 2011. The LGA also has a rich indigenous heritage - Aboriginal or Torres Strait Islander people represented 9.3% of the Shire's population in 2011.
Community consultation	The council conducted a rigorous and broad community consultation program for its Improvement Action Plan (IAP). The council held several internal workshop and community meetings in each of the six towns in the LGA, to inform the content of its IAP. Following public release of the IPA, the council engaged in further public consultation and publicity, including four dedicated town meetings and widespread media coverage. The CIP does not indicate the community feedback.
Water and/or sewer	The council is 90% compliant with the NSW Government Best Practice Management of Water Supply and Sewerage Framework. The council is intending to implement a water consumption charge in 2016-17 to achieve full compliance. The council is reviewing its asset backlogs and is budgeting significant asset renewal expenditure in its 2015-16 Delivery Program.
Submissions	There were no submissions were received in relation to Warrumbungle's proposal.

WAVERLEY COUNCIL

REFER TO RANDWICK CITY AND WAVERLEY COUNCILS - MERGER PROPOSAL

WEDDIN SHIRE COUNCIL – RURAL COUNCIL PROPOSAL



	NOT FIT			
Area (km^2)	3410	Population	2011	3750
OLG Group	9		(2031)	3250
ILGRP Group	C	Merger Forbes	2011	13,200
			(2031)	12,000
		Merger Cowra	2011	16,250
			(2031)	14,450
Operating revenue (2013-14)	$7.8m	TCorp assessment		Moderate FSR Negative Outlook
ILGRP options (no preference)	Weddin Shire Council as a Rural Council in Central West JO (all shaded) or merge with Cowra or Forbes (yellow).			

Assessment summary

Scale and capacity	**Satisfies as a Rural Council**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council meets the scale and capacity criterion as a Rural Council.
- The council does not satisfy the financial criteria overall.
- Although the council satisfies the efficiency criterion, it does not satisfy the sustainability and infrastructure and service management criteria.
- The council does not satisfy the criterion for sustainability based on its unrealistic revenue assumptions. As a result, an adjusted forecast for its operating performance ratio does not meet the benchmark.
- We consider the operating performance ratio is a key measure of sustainability that councils must meet to be Fit for the Future, therefore the council is not fit.

Scale and capacity as a Rural Council - satisfies

- The council satisfies the majority of the characteristics of a Rural Council including having a small and static population.
- The council's proposal to stand alone as a Rural Council in a JO is consistent with the ILGRP's options for this council.
- The council's strategies for improvement include reducing the number of councillors, realising efficiencies from services reviews, and increasing collaboration and shared services through the JO and with the other Rural Councils.
- The council did not explore the costs and benefits of the merger options. We do not have sufficient evidence to evaluate the costs and benefits of the merger option compared to the Rural Council proposal.
- The assessment of Rural Councils as meeting the scale and capacity criterion is contingent on the Government adopting a Rural Council Model. This model is based on reducing the regulatory and compliance burden on Rural Councils, by the JO performing most of the higher level functions of the Rural Council. If a Rural Council model is not adopted, it is likely the council would be assessed as not meeting the scale and capacity criterion.

Sustainability - does not satisfy

- The council does not satisfy the criterion for sustainability. It meets the building and infrastructure asset renewal ratio by 2019-20. However, it does not meet the operating performance ratio on our revised calculation.
- The operating performance ratio was -25.7% in 2014-15 and is forecast to reach 11.4% by 2024-25, which meets the benchmark according to council's numbers
- However, these ratios include the assumption that FAGs would increase by $1.5m in 2017-18 onwards, which our analysis indicates is unrealistic. Under more realistic assumptions, our analysis suggests the revised operating performance ratio is forecast to be -0.4% in 2024-25.

- The own source revenue ratio was 49.3% in 2014-15 and is forecast to reach 40.4% by 2019-20 without the inclusion of FAGs, which is below the benchmark to improve over the period. We note the inclusion of FAGs will increase the ratio to 66.7% by 2019-20.

Infrastructure and service management - satisfies

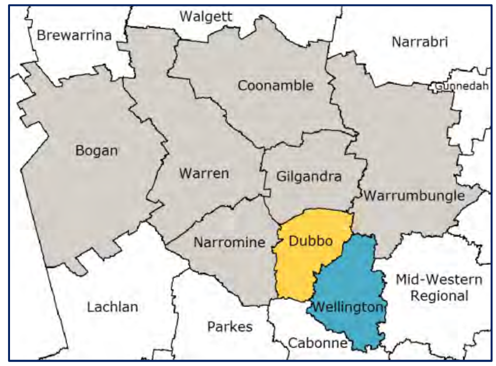
- The council satisfies the criterion for infrastructure and service management.
- The asset maintenance ratio was 94.5% in 2014-15 and is forecast to reach 97.0% by 2019-20 which is close to the benchmark of 100%.
- The debt service ratio is forecast to meet the benchmark.
- The infrastructure backlog is 4.5% in 2014-15 and is forecast to be 4.4% by 2019-20, which does not meet the benchmark.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20.

Other relevant factors	
Social and community context	The major town in the LGA is Grenfell, which supports the surrounding agriculture area. Weddin is located between four other LGA, with the primary community of interest being Young. Health services and shopping are usually undertaken at Orange. The area also provides labour to the surrounding shires for banking and health, mainly for the agriculture industry.
Community consultation	Weddin council has undertaken community consultation in a number of formats including workshops, social media, newsletters and open forums in relation to its FFTF proposal. The council has not indicated if there were any submissions for council's proposal to be a rural council. A community survey was undertaken by council in relation to the special rate variation in 2014 and not the options for FFTF.
Water and/or sewer	The council operates a sewer business and does not meet the requirements of NSW Government Best Practice Management of Water Supply and Sewerage Framework. The council states it has no infrastructure backlog and reported a surplus before capital of $74,000 for the sewer fund. Water supply is provided by Central Tablelands Water County Council.
Submissions	There were no submissions were received in relation to Weddin's proposal.

WELLINGTON COUNCIL – CIP



NOT FIT

Area (km^2)	4,047	Population	2011	8,850
OLG Group	10		(2031)	8,100
ILGRP Group	E	Merger	2011	49,100
			(2031)	54,600
Operating revenue (2013-14)	$15.9m	TCorp assessment	Weak FSR, Neutral Outlook	
ILGRP option (no preference)	Council in Orana JO (all shaded) or merge with Dubbo (yellow).			

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council's population is declining and is forecast to be 8,100 by 2031. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.
- Therefore the council's proposal to stand alone does not satisfy the scale and capacity criterion.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.

Sustainability - satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- The council identified opportunities for significant service level reductions, cost-savings, restructuring and divestment of functions. The council also reduced its depreciation expense and required maintenance expenditure, based on external advice by Morrison Low. Overall, these savings would help the council achieve operating surpluses from 2016-17 onwards.

Infrastructure and service management - satisfies

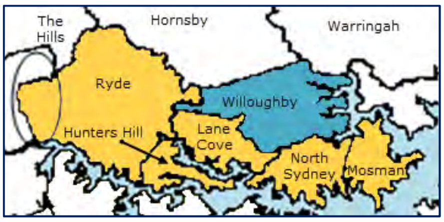
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, the asset maintenance ratio and the debt service ratio by 2019-20.
- The council has changed the threshold for "satisfactory condition" for its assets. This has reduced the backlog, renewal and maintenance requirements for the council to address. As a result, the backlog is forecast to be eliminated by 2015-16.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for declining real opex per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The LGA is primarily based on agricultural industries for cropping, wool, beef and lamb. The council also has key tourist attractions based on its natural geographical features such as the Wellington Caves Reserve and mining attractions.
Community consultation	The council has used a wide range of methods to inform its community between 17 March and 24 April 2014 (after the release of the ILGRP report). The council received 31 written submissions and 628 completed surveys. Survey feedback indicated that 65% expressed concerns that a merger with Dubbo and Narromine councils would impact on local identity and services.
Water and/or sewer	The council is 100% and 89% compliant with the NSW Government's Best Practice Management requirements for water and sewer, respectively. The council is expecting operating surpluses from 2017-18 onwards for its water and sewer functions. These surpluses are expected to increase steadily to around $0.2m by 2019-20, and will be used to fund renewals and improvements for water and sewer infrastructure, which includes $4.2m worth of capital works for the period 2015 to 2020.
Submissions	There were no submissions received in relation to Wellington Council's proposal.

WILLOUGHBY CITY COUNCIL - CIP



	NOT FIT		
Area (km^2)	23	Population 2011	71,150
OLG Group	3	(2031)	90,300
ILGRP Group	Sydney Metro	Merger 2011	286,867
		(2031)	376,150
Operating revenue (2013-14)	$111.4m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options (preference in bold)	**Merge with Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde (part)** (yellow) or combine as a JO.		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Does not satisfy
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although it does not meet the infrastructure and service management, the council satisfies the sustainability and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity - does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 90,300 by 2031 compared with the forecast merger population of 376,150. Our analysis suggests the council does not have sufficient scale to partner effectively with governments compared to the merger option.
- The City of Ryde Council, Hunter's Hill City Council and Lane Cove City Council submitted a business case which showed that a merger of Lane Cove, Hunter's Hill, Mosman, North Sydney, Willoughby and part of Ryde produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $280 million over 20 years (including the Government grant).
- In addition, our independent consultants Ernst and Young estimated net benefits from the merger of around $187m over 20 years using publically available data.
- These analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Willoughby to merge with neighbouring councils.

Sustainability - satisfies

- The council meets the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, own source revenue ratio and building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management – does not satisfy

- The council does not meet the criterion for infrastructure and service management.
- It forecasts improvements in the infrastructure backlog ratio and asset maintenance ratios but does not forecast meeting the respective benchmarks.
- The council's infrastructure backlog was 6.3% in 2014-15 and is forecast to reach 3.2% by 2019-20, which does not meet the benchmark. According to the council, its infrastructure spending has not been sufficient to reduce the infrastructure backlog, estimated at $38m. Nevertheless, the council considers it has improved its understanding of its assets over the last five years and highlights an independent assessment (by Morrison Low) indicating the reported backlog is higher than the actual backlog. However, as the council is reviewing the accuracy of the written down value of its infrastructure, we consider there is a risk the estimated backlog

might increase as a result of this review.

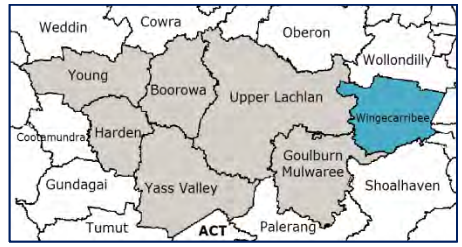
- The asset maintenance ratio was 69.0% in 2014-15 and is forecast to reach 70.0% by 2019-20, which does not meet the benchmark. The council states its asset maintenance expenditure has been below required levels. The council further states its calculation of this ratio is based on an historical methodology. This implies the calculation might not be accurate.
- The debt service ratio was 6.9% in 2014-15 and is forecast to reach 3.0% by 2019-20, which meets the benchmark.

Efficiency - satisfies

- The council meets the criterion for efficiency based on a forecast slight decline in real opex per capita over the outlook period.

Other relevant factors	
Social and community context	A large proportion of survey responses indicate residents consider North Sydney and Willoughby to be similar communities.
Community consultation	Information was provided to the community via media releases, social media, internet and information stalls. The council consulted residents via telephone, online and hard copy survey. Survey results show that 32% of respondents support standing alone, 27% support a merger between Willoughby, North Sydney and Lane Cove and 25% support a merger between Willoughby and North Sydney. The council also established a citizen’s panel to evaluate different options. This panel considers standing alone is the best option due to reasons including concerns about democratic representation, the absence of merger benefits and the council’s financially sound state.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received six submissions relating to Willoughby’s proposal (including 2 early submissions). They focus on: the potential for a loss of local focus and identity, a preference to merge with North Sydney (not Ryde or Hunters Hill), a lack of consultation about the council’s preference to stand-alone, concern that the benefits from NSROC are overstated, the council’s lack of regard for forming a JO, questionable assumptions in the council’s CIP, community support for some form of amalgamation, concerns about the council’s organisational restructure and concerns that the council is not fit for the future and should not increase rates.

WINGECARRIBEE SHIRE COUNCIL – CIP



	FIT		
Area (km^2)	2,689	Population: 2011	46,150
OLG Group	4	(2031)	51,150
ILGRP Group	G		
Operating revenue (2013-14)	$68.0m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP option	Council in Tablelands JO (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- As the ILGRP did not propose another option for Wingecarribee, it was not required to demonstrate how it met each of the elements of scale and capacity. It therefore did not provide information on the other elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on meeting the benchmarks for the operating performance ratio and the own source revenue ratios by 2019-20.
- The council's building and infrastructure asset renewal ratio was 54% in 2014-15 and forecast to improve to 90.1% in 2019-20, which is close to the benchmark
- The council's forecasts rely on a successful application for and adoption of a special variation from 2016-17 of 41.2% cumulative over 4 years (30.8% above the rate peg). The additional funds will be used to meet the benchmark for operating performance and address a current funding gap for maintenance and renewal, which would reduce its backlog.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, and debt service ratios by 2019-20 and forecast improvement in the asset maintenance ratio.
- We note the council's infrastructure backlog improvement follows on from a re-calculation of its backlog using a new method. The council indicated it was previously overstating its backlog.
- The council's asset maintenance ratio is forecast to improve from 84.7% in 2014-15 to 94.1% in 2019-20, which is close to the benchmark.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita to 2019-20.

Other relevant factors	
Social and community context	The council area has significant areas of State Forest, National Park and other protected lands that form part of the Sydney Water catchment area. The Shire is predominantly rural in character with agricultural producing lands separating towns and villages. The council notes it is one of the least disadvantaged shires in NSW based on the ABS SEIFA Index. Wingecarribee is ranked 125 out of 152 LGAs, (a higher rank indicates less disadvantage).
Community consultation	The council engaged with the broader community in relation to Fit for the Future. Four community information sessions were held, two in March and two in April during the preparation of the council's Fit for the Future Proposal. These sessions were to ensure the community was aware of Fit for the Future requirements and the council's progress with its proposal including key improvement strategies. The council did not identify the outcomes of its consultation.
Water and/or sewer	The council achieved 100% compliance for sewer and 90% compliance for water with the Best Practice Management Framework. Council is currently reviewing its pricing strategy to move from 31:69 access charge/user charge ratio to 25:75 ratio. Wingecarribee states this will be implemented in 2016-17 financial year and will achieve 100% compliance with best practice management framework for water. Further, the council currently manages its water and sewerage operations on a break-even basis. The council notes the removal of its water utility status would significantly weaken the council's scale and capacity.
Submissions	We received two submissions relating to Wingecarribee's proposal, with the key views or issues raised including: • expressing satisfaction with the council's performance and its continuing ability to determine its own affairs, and • where a council's FFTF proposal is based on increased rates and other charges these should be disclosed now and ratepayers should be given a direct say whether this is acceptable, or whether a merger may be a better option to avoid these increases.

WOLLONDILLY SHIRE COUNCIL – CIP

	FIT		
Area (km^2)	2,560	Population 2011	44,600
OLG Group	6	(2031)	57,700
ILGRP Group	Sydney Metro		
Operating revenue (2013-14)	$44.2m	TCorp assessment	Weak FSR Neutral Outlook
ILGRP options (preference in bold)	**No change** or combine as a strong JO with Liverpool, Fairfield, Bankstown, Camden, Campbelltown (shaded area) and possible long term merger/s with Camden/ Campbelltown/ Wingecarribee.		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- However, the council meets some of the elements. In particular, it has a robust revenue base and scope to undertake new functions and major projects.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance, own source revenue and building and infrastructure asset renewal ratios by 2019-20.
- The council has an approved special rate variation from 2015-16 of 50.7% cumulative for 4 years (38.8% above the rate peg). This is the primary reason for the improvement in the council's financial performance over time, allowing it to just meet the benchmark for the operating performance ratio by 2019-20.

Infrastructure and service management - satisfies

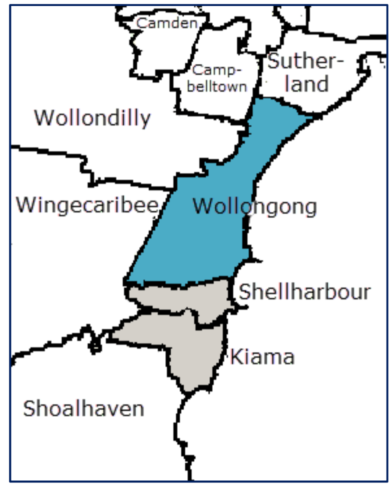
- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the asset maintenance and debt service benchmarks by 2019-20.
- The council has forecast an infrastructure backlog ratio of 11.7% by 2019-20 which does not meet the benchmark.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on declining real operating expenditure per capita.

Other relevant factors	
Social and community context	Wollondilly notes it has a number of challenges including: a large area relative to its small population which results in high infrastructure costs, a large funding deficit of $80m which is expected to be partially addressed through the approved SRV, and significant growth in its population over the next 30 years.
Community consultation	No details of community consultation for the Fit for the Future process were included in the proposal.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received one submission in relation to Wollondilly Council’s proposal. This submission was supportive of a merger with Camden or Campbelltown Councils as considerate states Wollondilly Council is performing poorly in relation to financial management and in progressing planning and development.

WOLLONGONG CITY COUNCIL – CIP



	FIT		
Area (km^2)	684	Population 2011	202,050
OLG Group	5	(2031)	232,450
ILGRP Group	Illawarra		
Operating revenue (2013-14)	$224.3m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP option	Council in Illawarra JO (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management, and efficiency criteria.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's preferred option to stand alone.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- In particular, the council has a robust revenue base, scope to undertake new functions and major projects and has shown effective regional collaboration.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the building and infrastructure asset renewal ratio and the own source revenue ratio by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the asset maintenance and debt service ratios by 2019-20. It does not meet the infrastructure backlog benchmark by 2019-20, but shows improvement over the outlook period.

Efficiency – satisfies

- The council meets the efficiency criterion based on a decrease in real operating expenditure per capita over the period to 2019-20.

Other relevant factors	
Social and community context	The proposal did not provide any details of social and community context.
Community consultation	The proposal did not provide any details of community consultation.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	There were no submissions were received in relation to Wollongong Council's proposal.

WOOLLAHRA MUNICIPAL COUNCIL – CIP

	NOT FIT		
Area (km^2)	12	Population 2011	56,300
OLG Group	2	(2031)	67,250
ILGRP Group	Sydney Metro	Merger 2011	487,600
		(2031)	653,250
Operating revenue (2013-14)	$72.7m	TCorp assessment (Revised)	Moderate FSR Positive Outlook
ILGRP options (preference in bold)	**Merge with Randwick, Waverley, Botany and Sydney** (yellow) or form strong JO with Randwick, Waverley, Botany and Sydney (shaded area).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the merger option. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 67,250 by 2031 compared with the forecast merger population of 653,250. Our analysis indicates the council does not have sufficient scale and capacity to effectively partner with governments compared with the merger option.
- The council did not submit a full merger business case. Instead it undertook its own assessment of the options.
- Randwick City Council submitted a business case which showed a merger with Woollahra Council, Waverley Council, Council of the City of Botany Bay and Council of the City of Sydney produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of $416 million over 20 years (including the government grant).
- In addition, our independent economic consultants Ernst and Young estimated net benefits from the merger of $283m over 20 years using public data.
- These analyses showed large gains to the local community from a merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Woollahra to merge with neighbouring councils.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on declining real opex per capita over the outlook period.

Other relevant factors	
Social and community context	The council is located in Sydney's eastern suburbs and has its population are amongst the most socio-economically advantaged in NSW. The council borders Bondi Junction, a key strategic centre in the eastern suburbs. The council is home to key tourist destinations including Watsons Bay, Vaucluse and key beaches.
Community consultation	The council informed their communities of the FFTF process through focus groups, surveys, their websites, briefings and mailed information packs. Feedback from an online survey and a Micromex telephone survey indicated the majority of respondents opposed a merger. We consider the council did not provide a balanced assessment of the proposed FTFF reforms.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received 27 submissions in relation to Woollahra Municipal Council. These are predominantly concerned with the loss of local focus and identity. The submissions also consider the council to be performing well and that there is no evidence to suggest residents will be better off under a merger. Three submissions support the merger. We also received two late submissions.

WYONG SHIRE COUNCIL – CIP

	NOT FIT		
Area (km^2)	840	Population 2011	154,350
OLG Group	7	(2031)	197,850
ILGRP Group	Central Coast	Merger 2011	322,650
		(2031)	386,900
Operating revenue (2013-14)	$149.7m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP options (no preference)	Wyong (blue) to merge with Gosford (yellow) or form a multi-purpose JO (no separate water corporation until other options properly evaluated).		

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The ILGRP noted that the Central Coast would benefit from strong governance. It stated that "an amalgamation warrants further investigation, but if that option is rejected or deferred indefinitely, then a JO *should* be established and should assume responsibility for water along with other strategic functions" [emphasis added].
- Wyong's proposal is not consistent with the objectives for the Central Coast. The council ruled out both a merger and a multi-purpose Central Coast JO with Gosford. It proposes to stand alone with 'business improvements'. In particular, its proposal not to join a JO does not promote the objectives of strong governance for the Central Coast.
- The council's population is forecast to be 197,850 by 2031 compared to the forecast merger population of 386,900. Our analysis indicates the council does not have sufficient scale and capacity to effectively partner with governments compared to the merger option.
- The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- A merged council is also likely to undertake more integrated planning that will promote better growth in the Greater Sydney region.
- The council submitted a business case from Third Horizon. Based on this model, our analysis suggests the merger produces net benefits of around $101m over 20 years.
- In addition our independent economic consultants Ernst and Young have estimated gains from the merger of $196m over 20 years using publically available data.
- All analyses showed large gains to the local community from a merger. Variances in calculations result from different inputs and underlying methodologies.
- We note a submission from the Mayor of Wyong supported a merger with Gosford.

Sustainability – satisfies

- The council satisfies the sustainability criterion based on its forecast to meet the benchmarks for the operating performance ratio, own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately 0.8 percentage points to -0.7% in 2019-20, which is below the benchmark. However, we consider the council has sufficient scope to adjust its revenue strategy to meet the benchmark.

Infrastructure and service management - satisfies

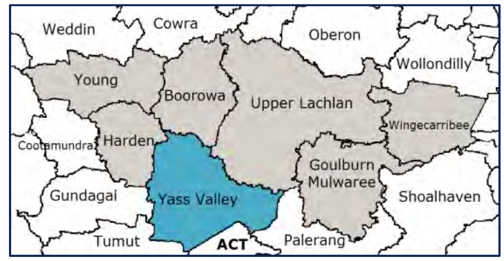
- The council meets the infrastructure and service management criterion based on its forecast to meet the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.
- The debt service ratio will remain around 0.8% throughout the assessment period. While this is quite low, it meets the benchmark. The council noted that it only borrows when Local infrastructure Renewal Scheme (LIRS) funding becomes available.

Efficiency - satisfies

- The council meets the efficiency criterion based on a decrease in real operating expenditure per capita over the outlook period.

Other relevant factors	
Social and community context	The council considers the social and community differences between Wyong and Gosford lead to different strategic and delivery focus for the two councils. It considers greater regional collaboration, as well as investigation of joint service delivery with Gosford can achieve better strategic capacity outcomes.
Community consultation	The council undertook surveys to gauge FFTF understanding and community satisfaction/response to a merger. A phone survey of 2,300 residents and 200 businesses showed the majority of respondents 'strongly opposed' a merger. A third survey of council staff also found the majority (71%) opposed the merger.
Water and/or sewer	The council stated it has the third largest Water Authority in NSW after Sydney and Hunter Water with over $2.3b in assets. We note it runs the Water Authority with Gosford. It stated that it complies with the NSW Government's Best Practice Management of Water Supply and Sewerage Framework as verified by the 2012-13 FY Annual Audit.
Submissions	We received 11 submissions regarding Wyong's proposal. Nine submissions opposed a merger with Gosford. The concerns expressed included that Wyong's financial position would deteriorate through redirecting funds to cover Gosford's operating deficit and asset upgrades. As well, it would disenfranchise Wyong residents and take the 'local' out of local government. There were concerns that Gosford with its larger administration centre would take over Wyong. Two submissions supported a merger including a submission from the Mayor of Wyong. The reasons for support included that it would bring a unified voice, remove duplication, significantly increase strategic capacity and yield better outcomes for the region as a whole. One submission supporting a merger noting the flawed Third Horizon modelling in terms of using different discount rates for the different scenarios. Several submitters did not support the absorption of Wyong into Gosford and Lake Macquarie citing that this would create two distinctly different geographic areas requiring significantly different approaches. One submitter supported dividing Wyong between Gosford and Lake Macquarie.

YASS VALLEY COUNCIL – CIP



NOT FIT

Area (km^2)	3,999	Population 2011	15,600
OLG Group	11	(2031)	21,900
ILGRP Group	G		
Operating revenue (2013-14)	$18.6m	TCorp assessment	Moderate FSR Negative Outlook
ILGRP option	Council in Tablelands JO (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion as a result of its forecast for a negative operating performance ratio by 2024-25.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FFTF) councils should meet, therefore the council is not fit.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP preferred option to stand alone and to collaborate to form the Tablelands JO.
- Given the ILGRP's preferred option, the council was not required to demonstrate how it met each of the elements of scale and capacity.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

Sustainability – does not satisfy

- The council does not meet the sustainability criterion based on its forecast for a negative operating performance ratio by 2024-25 and a building and infrastructure asset renewal ratio below the benchmark by 2019-20.
- The council's FFTF proposal relies on a successful application for and adoption of a special variation from 2016-17 of 50.4% cumulative over 5 years (37.2% above the rate peg).
- In addition, the council has recently informed us it does not intend to proceed with the special variation discussed in its FFTF proposal until after the September 2016 elections due to the receipt of additional Roads to Recovery funding from the Federal Government. This unexpected change in approach by the council to the key improvement strategy suggests the council may not be able to return to the operating balance or surplus in the required timeframe.
- The operating performance ratio is forecast to be -13% without the rate increase, even with a possible 37% real increase in rates, the council does not achieve a surplus, and still leaves the council vulnerable to unanticipated shocks.
- The council has forecast it will meet the benchmark for the own source revenue ratio by 2019-20.
- The council has forecast the building and infrastructure asset renewal ratio will be 73.5% by 2019-20, which is below the benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the asset maintenance ratio and the debt service ratio by 2019-20.
- The council has forecast a reduction in its infrastructure backlog to 4.5% by 2019-20.
- The council is prioritising maintenance requirements over asset renewal, although it projects increased expenditure on renewals, to stabilise its infrastructure backlog including using debt in the short-term.

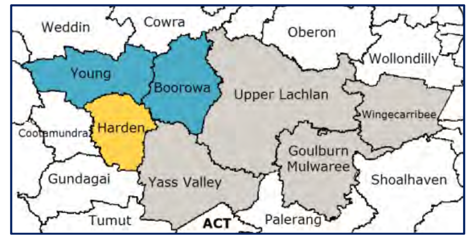
- The council's proposal notes the infrastructure backlog ratio stabilises from 2019-20 before slowly reducing from 2023-24 onwards.

Efficiency - satisfies

- The council meets the efficiency criterion based on its forecast for a decrease in real operating expenditure per capita over the outlook period to 2019-20.

Other relevant factors	
Social and community context	Yass Valley Council's proposal indicates its proximity to Canberra is seen as both a strength (eg, services, employment and growth) and weakness (eg, resident expectations for services and infrastructure).
Community consultation	The council consulted with its community on its Action Plan to become FFTF. The council developed the proposal by collaborating with a specially formed FFTF Community Working Group of 40 members (plus Councillors) to assist in framing and assessing various options to fund future services. The results of the council's consultation process appear to be inconclusive. Yass Council consulted on the basis of no rate increase and two SV scenarios, its proposal is a combination of the two SRV scenarios. Based on submissions provided by Yass Valley in its FFTF proposal the issue of whether rate increases are required to become Fit for the Future is a key issue for the community. Further, as noted in submissions, some members of the community are questioning the need for rises without the consideration of improvements to efficiency.
Water and/or sewer	Yass Valley achieved 100% compliance for sewer and water with the best practice management framework. Yass Valley does not have an infrastructure backlog for both water and sewer. Further, the council operates it water and sewer operations on a break-even basis. However, the council has not been paid a dividend from its water and sewer businesses as at June 2014.
Submissions	We received eight submissions in relation to Yass Valley Council's submission during the submission period. The submissions received had a common theme of dissatisfaction with the performance of the council, and one submission was in favour of mergers even though the ILGRP did not recommend this option for Yass Valley. For example: • A number of submissions consider the council is poorly run including its financial management, governance and strategic management. • One submission considers the decision to 'go it alone' ignores the interest of ratepayers, and considers smaller councils have high overheads. • Two anonymous submissions consider Yass Valley is not Fit for the Future based on how the council has prioritised (incorrectly) spending on land acquisition compared to infrastructure maintenance, and the use rate increases to maintain or improve infrastructure. • Three submissions raised the issue of limited consultation with a perceived bias. • A submission was also received about potential boundary changes for towns in Upper Lachlan and Palerang in the event of amalgamations for these respective councils. We also received two late submissions. One submission is directly related to the FFTF process: • The council's FFTF proposal and public consultation, in particular identifying the rate increases and associated works program is now contradicted by council resolution (ie, to not proceed with the proposed SV). The submission considers the council's FFTF proposal should be scrutinized and given it does not meet the FFTF benchmarks should be deemed unfit. The second submission discusses matters outside the scope for consideration.

YOUNG SHIRE COUNCIL AND BOOROWA COUNCIL – MERGER PROPOSAL



FIT IF COUNCILS RESOLVE TO MERGE

	Young Shire Council:	Boorowa Council:
Area (km^2)	2,693	2,578
OLG Group	11	9
Population 2011	12,699	2,558
(2031)	12,900	2,450
Proposed merger 2011	15,100	15,100
(2031)	15,350	15,350
ILGRP merger 2011	18,800	18,800
(2031)	18,550	18,550
Operating revenue (2013-14)	$16.4m	$8.6m
TCorp assessment	Sound FSR Negative Outlook	Moderate FSR Negative Outlook
ILGRP options (preference in bold)	**Merge with Boorowa/Harden** or council in Tablelands JO (all shaded).	**Merge with Harden and Young** or Rural Council in Tablelands JO (all shaded).

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Satisfies overall**
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The merger proposal for Young Shire Council (Young) and Boorowa Council (Boorowa) meets the criterion for scale and capacity.
- The councils' merger proposal also meets the criteria for sustainability, infrastructure and service management and efficiency.
- Young and Boorowa Shire Council's merger proposal is contingent on the inclusion of Harden Shire Council. Further, Boorowa Council has resolved to not support a two-way merger with Young Shire Council.
- Therefore, our assessment of **fit** is dependent on Young and Boorowa resolving to merge in the absence of Harden.
- In the event agreement cannot be reached, we find the councils are **deemed not fit**, as they have not demonstrated scale and capacity as stand-alone councils. In addition, the councils' business case shows ongoing operational deficits, which indicates they would become unsustainable as stand-alone councils without corrective action.

Scale and capacity – satisfies

- The merger is better than the stand-alone option, and is the best available option for these councils given neighbouring councils did not elect to join the merger proposal. It improves scale and capacity for Young and Boorowa.
- The proposal brings together councils with existing functional relationships and two of the three councils within the 'Hilltops' food and wine region.
- We calculate a merger between Young and Boorowa Shire Councils could produce net benefits of $31m over 20 years (NPV), based on LKS Quaero's business case for the councils.
- Young and Boorowa submitted a business case on a three-way 'Hilltops' merger with Harden, prepared by LKS Quaero.

- Young has indicated it supports a four-way merger between Young, Boorowa, Harden and Cootamundra, as a second preference. However, Cootamundra has rejected this option on the basis that it changes the focus of Cootamundra and the southern half of Harden away from the Riverina region.
- Our analysis of this “Hilltops’ business case suggests adding Harden and Cootamundra to the merged Young-Boorowa will produce significant additional net benefits to the four local council areas. In particular, our analysis suggests merging the four councils could produce further benefits of $42 million to the local communities over 20 years. These benefits are in addition to the benefits from completing the current two merger proposals.

Sustainability - satisfies

- A merger between Young and Boorowa councils satisfies the criterion for sustainability.
- Our assessment is based on the available information on operating performance for all three Hilltops councils and our estimate of the expected merger benefits from a merger of two councils only.
- The merger business case estimates on-going merger savings of about $5.5m per annum for the three councils.
- Without Harden, we estimate 44% or about $2.4m per year of the estimated efficiency savings should still accrue to the two councils, which can be directed to improving the ratios, and in effect provide infrastructure and services desired by their communities.

Infrastructure and service management - satisfies

- The proposed merger satisfies the criterion for infrastructure and service management.
- The merged council meets the infrastructure backlog benchmark, based on LKS Quaero's analysis that on-going positive cash balances as a result of merger efficiencies can be directed towards improving the infrastructure backlog by 2025.

Efficiency - satisfies

- The proposed merger meets the criterion for efficiency based on declining real opex per capita over time.
- We find merger savings should further decrease real opex per capita, but at a lower level without Harden. Young and Boorowa, as at 2013-14, meet this criterion. Based on these factors, it is likely a merger between Young and Boorowa would continue to meet this criterion.
- Real opex per capita for the three councils, including Harden, was $2,570 in 2014-15 and is forecast to be $2,350 in 2019-20. In the absence of Harden, our analysis indicates real opex per capita should continue to decline, but occur by at a lower rate.

Other relevant factors	
Social and community context	The Hilltops councils have much in common. The consultant, LKS Quaero, notes the geographic proximity and economies are all dominated by the agricultural sector, the demographic profile is similar and the communities largely “play together” through shared facilities. Further, the councils face similar challenges including a lack of an integrated transport network, and the impact on the population from the retraction of agriculture as a large employer.
Community consultation	Both Young and Boorowa have undertaken extensive consultation over an extended period of time, with public forums on multiple occasions, community kiosks, and released the merger business case along with other material explaining the options considered. Young notes the community has conveyed its support of Council in leading the merger option and has urged Council to be an active partner in growing regional scale and capacity through pursuit of merger partners. Further, it notes the primary concerns of the community were the exposure to loss of services, the financial positions of potential partners, impacts on rates and charges and loss of staff. Boorowa in its proposal notes it received two submissions during the exhibition period relating to the proposed merger of Boorowa, Harden and Young Councils with both submissions being highly supportive of the merger.
Water and/or sewer	The councils’ merger proposal did not address this factor. The OLG’s Merger Proposal Template does not require this information to be provided.
Submissions	There were no submissions received in relation to Young and Boorowa councils’ merger proposal.